

MONTHLY COMMENTARY

March 2018

Consumer ABS Update

DAVID DOAN | APRIL 6, 2018

Primary

- New issuance activity picked up in March with \$26B in deals pricing, bringing the YTD total in deals to \$65B. A combination of higher volume, market volatility, and weakness in other sectors of the market – in particular, short corporates – put pressure on front-end spreads, while bonds further down the capital structure fared better as investors were more keen on picking up incremental yield.
- A few highlights include:
 - Verizon launched a \$1.2B deal backed by payment plans on wireless devices. The 2.5yr fixed rate AAA bonds priced at 26/n, yielding 2.84%
 - JG Wentworth priced a \$201M deal collateralized by structured settlements. The 12yr AAA issued at 85/n to yield 3.78% and the subordinate bond issued at 180/n to yield 4.75%
 - Triton Container priced a \$450M deal with the 5yr seniors pricing at 120/n to yield 3.99%, while the subordinates priced at 205/n to yield 4.84%. The deal is collateralized by shipping containers
 - Sapphire Aviation brought to market a \$768M aircraft deal. The senior A rated tranche was issued with a 4.30% yield, approximately 160/n while the BB tranche was launched with a 7.50% yield, roughly 490/n. The deal is backed by 41 aircraft with an average age of 12yrs and will be serviced by Avolon
 - Lending Club, an originator of marketplace unsecured consumer loans, priced a \$302M deal. The 0.4yr A rated senior priced at 72/e, yielding 3.11% while the BB subordinate priced at 220/e, yielding 4.79%
 - Sprint Spectrum launched a \$3.9B deal with the 3yr bond pricing at T+213 to yield 4.73% and the 5yr at T+240 to yield 5.15%. The deal is backed by wireless spectrum



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Mr. Doan joined TCW in 2010 and is currently an Analyst specializing in asset-backed securities. Prior to attending business school, he was a CDO Analyst at Metropolitan West Asset Management (MetWest) where he was responsible for modeling and analyzing CDO transactions. Mr. Doan holds a BA in Business Administration from California State University, Fullerton, and an MBA in Finance and Economics from Columbia Business School.

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Secondary

- Secondary trading was very active throughout the month and on one particular day early in March, TRACE reported nearly \$6B in volume on that day alone. Similar to the theme in new issue, spreads on shorter spread duration bonds were softer – widening out 2-5 bps and are now at YTD wides. Contributing to the softness in ABS was the widening in short corporates, which led investors to search for relative value away from ABS. Trading in FFELP student loans ramped up with multiple \$100M+ BWICs becoming the norm. While bonds mostly ended up in investors' hands, the volume along with broader market weakness caused FFELP to widen 5-10 bps. ■

Spreads

FIXED

	Benchmark	Credit Cards	Prime Auto	Subprime Auto
1-yr AAA	EDSF	9	9	23
2-yr AAA	Swaps	13	13	28
3-yr AAA	Swaps	17	19	35

FLOATING

	Benchmark	Credit Cards	Student Loans FFELP	Student Private Loans
1-yr AAA	Libor	11	27	-
2-yr AAA	Libor	17	32	-
3-yr AAA	Libor	22	40	42
5-yr AAA	Libor	32	53	57
7-yr AAA	Libor	49	65	82

Source: BofA Merrill Lynch Global Research

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