



# Chart of the Week

Weekly market analysis on key market indexes

July 17, 2023

## Headwinds for commercial mortgage-backed securities



Sources: Wells Fargo Investment Institute and Bloomberg as of June 30, 2023. Commercial Mortgage-Backed Securities spreads are represented by the Bloomberg Commercial Mortgage-Backed Securities Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

### Commercial mortgage-backed securities (CMBS) spreads remain elevated

Headwinds in commercial real estate (CRE) are widely known, and our belief is that conditions will likely continue to deteriorate. On June 13, 2023, we downgraded CMBS from neutral to unfavorable.

Not surprisingly, spreads on CMBS have widened notably over the past year. (Widening spreads can indicate that markets are concerned about the future.) We also see the market starting to differentiate among the various credits. While triple-A (AAA) and double-A (AA) spreads have declined slightly since May, the spreads on triple-B (BBB) remain elevated. Rating agencies have started to downgrade credit ratings and are applying renewed scrutiny to CMBS in reaction to concerns about cash flows, the demand for CRE space, and property valuations.

#### What it may mean for investors

For investors willing and able to bear the risk, we prefer higher-quality and short-to-intermediate duration (a measure of interest-rate sensitivity) in the AAA CMBS sectors. CMBS represent less than 2% of the Bloomberg U.S. Aggregate Bond Index; hence, investors should be aware that these investments can be illiquid.

**Luis Alvarado**, Global Investment Strategist

This chart was excerpted from the *Investment Strategy* report dated July 10, 2023

**Investment and Insurance Products: ► NOT FDIC Insured ► NO Bank Guarantee ► MAY Lose Value**

### **Risk Considerations**

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Commercial Mortgage-Backed Securities (CMBS)** are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

### **Definitions**

Bloomberg Commercial Mortgage-Backed Securities Index measures the market of US Agency and US Non-Agency conduit and fusion CMBS.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

An index is unmanaged and not available for direct investment.

### **General Disclosures**

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-01142025-5809997.1.1