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Macro Markets Podcast Episode 76: Why and Where (and How) to Invest in Asset-Backed Finance

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Jay Diamond: Hi everybody, and welcome to Macro Markets with Guggenheim Investments, where we invite leaders from our investment team to offer their analysis of the investment landscape and the economic outlook. I'm Jay Diamond, head of thought leadership for Guggenheim Investments, and I'll be hosting today. Now, as expected, the Fed cut its policy rate this week by another 25 basis points, noting that the balance of risks to the labor market outweigh the risks to inflation. But with key economic data delayed by the government shutdown, the economic outlook is a little murky. Now in times of uncertainty, we lean into high quality structured credit, which are backed by a diversified pool of cash flow generating assets which can provide potential resilience in economic downturns. Now here to talk about the structured credit market and asset-backed finance and walk us through how he approaches investing in this sector, is Karthik Narayanan head of our structured credit team. Thanks for taking the time to chat with us today, Karthik.

Karthik Narayanan: Hi Jay, glad to be here.

Jay Diamond: So let's dive right in and start with some basics. Now we recently updated our white paper on the structured credit market with you as the principal author. But we changed the name from the ABCs of ABS, or asset-backed securities, to the ABCs of asset-backed finance, or ABF. So why the change? And what exactly is the difference between ABS and ABF?

Karthik Narayanan: Sure. So the purpose of this publication, which is available on our website—shameless plug—it's always been to cut through jargon, misconceptions, and frankly, some amount of spin that's out there and lay out a framework and baseline facts about the markets for

our listeners and our readers. And we've evolved our areas of discussion as market opportunities and risks evolve. And what we've seen since the financial crisis back in 2008 and 2009 is the curtailment or retrenchment of credit extension by banks, who are the classic credit intermediaries. And instead, we've seen growing intermediation by the buy side and by investment managers. So as that change has happened, and as that credit intermediation has shifted away from the banking sector and towards the buy side, we've seen the need to broaden our discussion to talk about ABS, which really reflects the tradable bond part of the market, and also asset-backed finance, which is a broader umbrella term. Now the second part of your question, what is the difference between these acronyms? It's very important. I think it's good to level set here. All these things get thrown around a lot and it's important to set that baseline. So first off, the broadest term is asset-backed finance, or ABF. And that refers to a broad and more general class of debt financing that is secured by operating assets or financial assets and associated cash flows that are not a direct corporate obligation like you'd get in the corporate bond market. Now, these could be in loan form, that could be in bond form as a security or not, just to give a few examples. All of the following would fall under the asset-backed finance umbrella. What if you extend a warehouse facility to a consumer finance company to fund and aggregate consumer loans? That would be an ABF example. You could also make a loan on a portfolio of commercial real estate. You could invest in a bond backed by royalties on published music. You could invest in a senior tranche of a pool of aircraft leases and associated airplanes. These are all asset-backed finance transactions. They are not corporate transactions. Now, since a lot of that market is private with limited published information, there is some estimation around how big this market is. But we would say this broader asset-backed finance market that's agnostic to the form of the debt instrument is roughly a $25 trillion market. About $19 trillion of that is in real estate, and the remaining 6 trillion is ex-real estate—what we'd say is specialty finance. Now, drilling down further, if we just want to look at the tradable bond portion of this broader ABF market, which is going to be relevant for the vast majority of our readers and listeners, because this is the most directly actionable part of the market, we go from this broad $25 trillion market down to a still large, but not quite as large, $3.1 trillion market that we typically called structured credit. So structured credit is referring to the tradable bond portion of the ABF asset-backed finance market. So that's an easy way to remember that. Now what is this $3.1 trillion? Let's drill into that a little more to provide some context for our listeners. That $1 trillion of structured credit, which is the tradable bond portion of asset finance, includes real estate related investments and bond forms. So that could be RMBS or CMBS that our listeners are familiar with, or it could be non-real estate related specialty finance. So those are both roughly a half of those $3.1 trillion. So $1.5 or so of real estate and $1.5 or so of non-real estate. And so the non-real estate portion of that tradable bond market is typically called asset-backed securities. So the key term being the term “securities” there. So it's speaking specifically about the form of the investment. Now this is obviously smaller than the headline ABF number, but it's much more relevant for the vast majority of investors who want access to a tradable and visibly priceable form of asset-backed risk. So hopefully that helps lay out the landscape.

Jay Diamond: Very helpful background. And again, for people who might have lost track of the numbers as you were reciting them, it can all be found in the ABCs of asset backed finance on our website. Now, just to level set a little bit more, Karthik, you and I speak regularly about this market, both on this podcast and elsewhere. So if you could please run through quickly the attractive characteristics that make asset-backed finance and more specifically structured credit such an important sector in our portfolio allocations.

Karthik Narayanan: Yes, and indeed has been an important sector for us over time. Now, we're a multi-sector manager. The attractiveness of any sector is going to ebb and flow over time. We really strive to minimize bias in our decision making. So our views are subject to change over time. But what we can say is that structured credit has been an important focus area for us through multiple cycles. And there's really four reasons for why this has been an area of focus and why we think this is an interesting arrow in the quiver of credit investing in fixed income. First is that there's been a persistent opportunity in this market. There's been an opportunity to earn excess yield per unit of risk. What we have observed is structured credit has carried a higher yield and a lower historical default rate for a given rating relative to liquid credit comparables. So over time, we've seen that structured credit not only offers higher yields, yields are what you see on your analytics screen when you buy a bond, but what you earn over time you have to net out default-related losses against that yield. So both a higher yield for a given level of risk and lower default rate for a given rating both move the ledger in the positive direction for structured credit. So if we look at the high grade corporate index, the yield there on the intermediate corporate index is about 4.5 percent, which is about 0.9 percent above the comparable duration U.S. Treasury. Similarly, if we look at the AA–BBB asset-backed securities index, that's yielding 5.4 percent. So the credit spread on the ABS index, which has a similar average rating, is almost two times the credit spread of the corporate index. So there's a pretty meaningful difference right now. Why is there two times the credit spread? Is there two times the risk? We don't think so. Historical default rates on ABS have been actually quite low, and lower than historical default rates on investment-grade corporate bonds. We believe that's really a complexity premium. Now that's the first point, there's a persistent opportunity. Second point: credit diversity. We talk about structured credit as being one sector. But really, it's a secured financing vehicle that has assets that are drawn from the four corners of the economy. So if you just back up and think about all the different types of securities that exist in this, it's like a Noah's ark of asset types. So you can have residential mortgages, mortgage on commercial real estate, the examples I gave earlier, you could have specialty consumer loans, you could have aircraft leases, you could have music royalties. I mean, these things are not all very correlated to each other. The third point: scalability. This is a big market. The asset-backed finance market estimates plus or minus roughly $25 trillion. And then even if we look at the tradable bond portion of this market, this is over $3 trillion market. It's large and fragmented, but scalable at an institutional scale. And finally, one of the aspects of approaching the structured credit market and tapping into these excess yields that are available has to do with our process

and the consistency that that offers. The only way to approach this market was a catch as catch can, where you are altering your investment focus based on issuance patterns and what deals are issuing at a given point in time, and sort of taking this sector-based coverage model, where it works perfectly fine in the corporate bond market, where you have regular issuance in every sector by a number of issuers, it wouldn't work very well in the structured credit market. So consistency is very important in being able to cast a wide net and monetize the excess yields that are available. And we think we've been able to do that and really lean into that to the benefit of our clients. So the consistency and process, having an approach that emphasizes what we believe to be the right way to invest in credit, structural guardrails, diligence requirements, all of those things that we've really worked hard to institutionalize here, becomes an important part of how we approach the market.

Jay Diamond: This has been a very helpful preamble for the rest of our conversation. Karthik, where I want to go over two primary lines of questions with you. First, what do you see in the market today that's attractive and what are you staying away from? And second, how do you do it? What does the fundamental research and surveillance process look like for structured credit? So let's start with that first set of questions. So to begin walk us through what you're seeing in terms of market dynamics and relative value across the spectrum of structure credit.

Karthik Narayanan: Sure. So if you take a look at the market overall, we are at a point where credit spreads have narrowed from flaring out in the post Liberation Day April time period, but they are still somewhat elevated relative to their historical ranges and on the wider side of average, when you compare structured credit spreads to the spreads you get in liquid credit in the corporate indices. So I want to acknowledge that we're not in a high spread environment. We're in a lower spread environment where the spreads between more risky and less risky investments, which we typically call the credit curve, is somewhat flat, although we like the overall level of spreads that are available relative to a lot of alternatives out there, especially when you consider the risk. So we like the sectors. When it comes to security selection, because there is less differentiation between stronger credits and weaker credits, it behooves us as investors to really put an emphasis and double down on our belief that basic diligence, stress testing, the blocking and tackling of credit research is really important, and that's what's going to allow us to earn these yields and not have them eroded by credit losses over time. So with that, as I mentioned, there's four major food groups in structured credit, and I'll go through all of them and speak about what we're watching, what we like, and areas that we're cautious on or concerned about. So first, asset-backed securities. So this is sort of the specialty finance category of the tradable bond structured credit world. There we're seeing issuance that's higher than it was last year but certainly not gangbusters. We're seeing growth in issuance in digital infrastructure-related deals, growth in royalty financing, some, and whole business financing, music and publishing royalties. We're

seeing one off issuance in insurance related assets. Aircraft-backed lease deals, there is a smattering of things once you get away from the digital infrastructure, and those are all areas that we find attractive right now. And just to put in context, these are investment grade, typically A or BBB-rated investment opportunities that are trading in the mid 5 percent yield area on a five year average maturity. And so compared to the 4.5 percent yield you're earning on a similar rating and maturity in the corporate bond market, we think this is pretty attractive. When you get into some of the non-syndicated deals that are still investment grade rated, those yields are 6–6.5 percent, 6.75 percent. So those kinds of opportunities that they're on a more one off basis that we're certainly following. So that we think that in commercial ABS the growth in digital infrastructure is creating some opportunities. Obviously, there are some security selection concerns that we are projecting onto what we're doing there. So because the credit spread difference between stronger credits, weaker credits are small, we can afford to do that and really upgrade for very little opportunity cost.

Jay Diamond: So Karthik, tell us about what's going on in the non-Agency residential mortgage backed securities market.

Karthik Narayanan: This is one of our higher conviction trades right now as a result of stricter underwriting and tighter rating agency criteria post-financial crisis, this market is actually quite small if you step back and look at the broader credit markets and compare them from where they are today versus where they were before the GFC, so the RMBS market now is about $730 billion outstanding today versus $2.1 trillion in 2007 right before the GFC. So it's about a third the size of what it was pre-GFC. Now let's just look at what other credit markets are doing or have done. The IG corporate market is roughly two times its size over that same time horizon. The leveraged loan market, so this is the senior secured bank loan market, non-investment grade, is three times the size over that time period. And then if we look at residential real estate, which is the assets that back RMBS ultimately through the form of mortgage liens that are placed on them, the U.S. residential market is roughly two times the value it was in 2007 before the bubble popped. So all these markets have grown, and at the same time, the RMBS market has shrank 2.3 times its prior size. So really you can see the net effect of tight credit availability and really just under leveraging the underlying asset. It's pretty stark. Now despite the small size, this is quite an investable market. There's a steady calendar of issuance going on and when you combine that with a stable outlook for the homeowner segment of households in the U.S., the prudent underwriting that's being done on these loans and favorable bond valuations, which I'll speak more about in a moment. This is one of the more interesting areas in structured credit right now. So in terms of valuation, a A-rated non-Agency RMBS right now the yields are roughly 5.5 percent. This is on a very short maturity three-year average maturity. So there's not necessarily a lot of marked market volatility that you would expect on something like this relative to longer duration fixed-income assets. These are

offering a credit spread of approximately 1.8 percent over a duration-matched U.S. Treasury. And so again, this is double the spread you'd get on the intermediate corporate index right now. So pretty compelling from that standpoint. Now looking ahead, we think this elevated supply will continue. The 2026 issuance will be even higher than 2025 as these loan types and their market penetration continue to increase and provide a mechanism for in place homeowners with low mortgage rates, high credit scores, and low LTVs to cash out a fraction of their built up equity, and that it will also see a lot of non-QM deals that were issued in the 2021–2022 time frame start to get refinance. So the deal issuance calendar will probably stay heavy and that will continue to weigh on spreads. So we think the income potential is pretty good here but we're not banking on price appreciation from spread narrowing anytime soon.

Jay Diamond: That's great. How about in CLOs?

Karthik Narayanan: The CLO market with elevated volatility in the bank loan market, the effect of tariffs, some softening consumer resilience in certain pockets of the market. You know, it is creating a bit of fundamental pressure in the bank loan sector and the market is pricing that in. The fundamentals in aggregate remain sound in that market and especially with the prospect of lower short-term rates as the Fed continues to ease. But despite the aggregate soundness of fundamentals, there's elevated idiosyncratic risk appearing in that market. And so therefore, when we pivot to look more at CLOs, we want to tread carefully in selecting our opportunities. And really where that has led us is to the A–AA rated part of the CLO capital structure, which are not the most senior bonds, but they're just below the most senior bonds in terms of seniority. We view these as more defensive and with a lower spread duration than BBB-rated or non-investment grade junior CLO tranches. Now, if we think of the parts where we're favoring the A or AA part of the CLO market, whether that's CLOs backed by broadly syndicated bank loans or private credit loans, these have credit enhancement or the percent of principal that's below these tranches varies from 18–30 percent. And so what that means is 18–30 percent of the principal of the pool under these deals would need to be eroded before there is any erosion of par of these bonds that we're focusing on. Translating that onto the underlying CLO pool using historical average recovery rates, that would imply that you'd need between 45–75 percent of these diversified pool of corporate obligors to default before you're eroding principal on A-rated or AA-rated CLOs. So that's something that's, you know, a very unprecedented scenario that certainly we don't expect in any kind of elevated credit pressure environment that we're seeing now or expect in the near term. For these tranches we're seeing yields in the 5.5–6.5 percent area. So that's a credit spread of 150–250 basis points over three months SOFR, which again is significantly higher than what you would earn on corporate bonds in that same five or six year average maturity.

Jay Diamond: Okay. Finally, Karthik, what are you seeing in commercial mortgage-backed securities or CMBS?

Karthik Narayanan: In the CMBS market, here we continue to tread lightly in picking our opportunities. One area that we are favorable on is in CRE CLOs. So these are applying the CLO technology to commercial real estate loans, primarily in the multifamily sector that are undergoing a light amount of transition. And we think these structures are very well enhanced to absorb bumps in the road. And oftentimes, in almost all cases, are being managed and executed by experienced lenders in that space that have significant underwriting and workout capabilities to sort of manage those properties as they move through their transition process into a stabilized state. So that part of the market is interesting. But in aggregate, in commercial real estate, we are a little cautious right now.

Jay Diamond: So as a follow up, Karthik, we've seen investor anxiety start to rise over credit quality, particularly as it relates to concerns about some large regional banks as well as the corporate bankruptcies at Tricolor and First Brands, which has grabbed headlines. How do these events impact structured credit?

Karthik Narayanan: Certainly, market participants are paying close attention to those situations, and market conversation is around investors rethinking due diligence standards and key disclosures in offering memoranda or credit agreements. It's really early in the postmortem, so the facts and understanding will undoubtedly change over time. But there are some unique factors in play with these situations. But what I would say is just bringing this all back to structured credit, what we've seen is some modest, contained credit spread widening in narrow pockets of the subordinated consumer ABS market. So auto ABS specifically and unsecured consumer ABS, some of the junior, very small junior bonds that we've seen, I would classify as kind of modest and transitory credit widening and to a lesser extent also in double B or junior CLO tranches. And these markets are pretty orderly. There's not a lot of trading there. I wouldn't classify it as panic, but that's been sort of the reaction. But just because the market reaction is sanguine, that doesn't mean that there's nothing to worry about. I think the real takeaway tying into some of the earlier comments about where we are in the cycle overall is really to remain vigilant for complacency or excessive risk taking in the market, either as part of the broader ecosystem or in individual deals that we're considering.

Jay Diamond: We've talked about why and where to invest in structured credit right now, but let's now talk about how to do that. So, this is the second line of questioning, Karthik. So even the least experienced investor I think understands the kind of analysis that is involved in corporate credit or

stock investing, things like basic financial statement analysis, which can be derived from audited quarterly and annual reports, competitive reviews of the landscape, if you meet the management team and talk to them and then doing your valuation work. So my question for you is to begin, how does it work in structured credit? Let's start with the kind of information that's available. What is it? Where does it come from?

Karthik Narayanan: Sure. And thanks Jay, this is a this is a great question because it's under the hood of where we live and what we do every day in service of our client mandate. So a great, great opportunity to talk about this. So appreciate it. So just taking a step back what is asset backed finance? It's secured lending on contractual cash flows and related assets. So all the analysis we are going to do is going to revolve around three things: the secured lending part, the cash flow part, and the related asset part. So first, to understand the assets we will want to understand the operating KPIs of the business, business financial performance, historical valuations of the assets , these may be provided as part of a collateral package for marketing a new transaction data package. We will rely in addition on our industry knowledge and our peers on the corporate credit side, as well as our general industry research to understand what these assets are, how are they created, how do they cycle in terms of valuation, what are their unit economics? And this really builds a mosaic of how the industry works and how the collateral is derived from that commercial context into the assets that are serving as the collateral for this deal. And that'll lead us to understanding economic sensitivities, competitive forces, regulation, etc. So still revolving around that collateral point. If we're taking an example and we want to look at an aircraft ABS deal, we will evaluate the lessees, their financial wherewithal, we'll look at the individual planes, their values through an appraisal, whether those planes are trading in the market. Yes, there is a market for planes, for midlife or younger or older planes of different types. How widely are those planes used in service? Is it a kind of limited run or end of life kind of situation where production is long done and there's not a lot of these around? Or is it a very liquid situation where there's lots of potential users of that plane? What types of engines are on the plane where there's service records and reliability records? What are the lease rates that are present in the leases, their end of life payments? What are the lease tenors? What are the maintenance schedules on the plane? Useful remaining life? So all of that is just one example of how we would look at the collateral piece of the puzzle. Now next we're talk about the lending terms of the structure. For this, we're reviewing a many hundred page long indenture or credit agreement or offering memo for a long list of key constructs that we have identified over the years. That list is constantly evolving, but we want to understand how the collateral is secured. We want to understand the rights, responsibilities, and succession potential for key parties, bondholder rights, asset quality safeguards, the big one is payment priorities or a.k.a. the waterfall, and as well as reporting and governance constructs. So to give an example here, not to be too abstract, if we're looking at a deal backed by residential mortgage loans, we would want to see how the loan origination documents were conveyed and stored, what diligence was done to review appraisals, consumer disclosures. We want to know

how the servicer is getting paid, what their responsibilities are for advancing delinquent principal or interest to the trust. We want to understand how the servicers are paid and reimbursed in the waterfall, whether loans can be sold from the trust. If so, under what conditions and valuation safeguards? What are the sponsors? Incentives are aligned through tests and triggers that would cut off their returns and accelerate the senior debt if the collateral performs poorly. We want to know if the trust can put back loans that go bad early to the sponsor. We want to see the order in which collections are paid to the tranches or the payment priority, and whether, for example, interest on junior bonds can be paid before principal on senior bonds and create some soft subordination that that we would not want to see under duress. So that would be an example of the structural part of this, and this is relying on documents related to that specific deal, as well as long checklist of deals we've looked at in the past and things we typically want to see in construction language we want to see. Now, the last piece to take all of that to evaluate cash flows. So we've talked about structure. We've talked about assets. And then as cash flows. This often involves building financial models. And what the model is really doing is taking the data from the collateral data package and the deal waterfall and turning all those words into numbers, really, and turning those explanations into math so we can understand how the economics of the collateral are split up through the financing structure, and ultimately, how the structure would hold up under a wide variety of collateral performance, as well as sponsor, service, or behavioral scenarios, especially the exigencies like a recessionary underperformance of the collateral or a bankruptcy event of some corporate entity that a service provider to the trust or an interested party. So this can be a huge exercise, but it generally follows the steps of first modeling the assets, then the contractual cash flows, then all of the accounts that are in the lending arrangement, then the debt instruments starting from the senior down to the junior, modeling the associated tests and triggers, and finally the equity or the residual cash flow so that the sponsor holds. So this is not the same as a three statement modeling exercise you get in corporate finance or M&A world, because there's a huge component that comes from modeling the payment priorities. But there are some similarities there.

Jay Diamond: Then you are actually getting readouts, remittance reports, whatever you call it, with the actual cash flows from the pool of assets that are, you know, driven by this security on a regular basis. And I assume that's what you're plugging into your model, right?

Karthik Narayanan: Yeah. So once it's built, then it sort of shifts gears from the initial underwrite to the ongoing surveillance. So first off, the information will come through collateral manager and trustee reports that are posted privately every quarter or month. And from those reports key information is extracted about how the collateral is performing the status of these bond holder, protective tests and triggers, how cash is disbursed to the deal, and updates to any status of the collateral or detailed report. So all that information is available in very fragmented and

nonstandard formats. And it's our job to sort of cull through that and aggregate the pertinent credit metrics that we want to track to monitor the health of these deals, whether they're performing as expected or better than expected or worse than expected. And if they're in compliance with all the tests and triggers and requirements that were laid out upfront.

Jay Diamond: This leads to my next question. So as an investor in the asset backed securities or the lender, if you will, with whom do you communicate? And if there is a breach of an investor protection that triggers a redirection of interest or principal, what do you do from there?

Karthik Narayanan: Yeah. So to two parts to that Jay. I mean, in terms of communication, it's very multi-dimensional in terms of evaluating and diligencing a deal upfront. So as I mentioned before, that's a wide range of folks in the industry side in corporate credit research under our roof. Here, our peers over on that side, bankers with sponsors with other participants in the market, rating agencies, Wall Street banks, research departments, all of that is part of the upfront communication. The second part of your question, if something goes wrong, you trigger breach, what happens there? How do we find out what we find out through these quarterly or monthly reports that are published? Every deal will have a reporting package that's stipulated in the governing documents, what reports are published, who publishes them, if they're issued monthly or quarterly, etc. you know, those will define the performance of the collateral, cash flow, collections and disbursements through the structure, as well as a status voice test and triggers. Now these calculations are done mechanically, typically by an independent third party trustee or calculation agent, whose named in the governing docs and was paid an ongoing fee from the ABS deal to do this work. Nine times out of 10, if a trigger is breached, the remedies are mechanical and specific and are baked into the documents. The trustee knows that the payment parries are supposed to change in a certain way that's spelled out in the documents, and we'll check those results and the disbursements to make sure that they align with our read of the document and our understanding of the intention of how the deal is supposed to work. And in almost every case, that's going to be how that plays out. Now, in the one out of 10 or one out of 100 times when something is awry and very rare edge cases, we may have to take a more proactive approach. Sometimes bondholders will, you know, if things get really bad, bondholders may have to declare an event of default or take other strategic loss mitigation action as circumstances warrant. But it is intended to begin the remedies to a very, very large extent into how the deal works in the first place. And those safeguards are sort of spelled out upfront, and the rules of the road are sort of defined up front in almost every case.

Jay Diamond: Well, great. This helps explain what the complexity premium is referring to. Now. Karthik, just if you will, to kind of wrap this up, walk us through a day, a week, a month in the life of one of your analysts to who you've tasked to do this work for you.

Karthik Narayanan: Sure. So just one preface. We're in structured finance. The new issuance market really dwarfs secondary trading. And so that tends to attract a lot of the focus and attention, because that is where a lot of the capital deployment is actually happening as bonds mature or we have investors coming on board or we have rebalancing of sectors across our funds. So it can be quite variable. But an analyst would come in in the morning, review the new deal pipeline in their sector. They may be on the phone with bankers and the syndicate teams discussing timelines for those deals and coordinating with our traders. There would be screening for new issues in the pipeline that we like or are looking to add, or coordinating internally on credit work that needs to happen on ongoing deals. Many hours may be spent reading documents, building financial models, speaking with rating agencies, bankers on a variety of sponsors, specific or deal specific or constructs. Those meetings could be sprinkled out throughout the day and then and part of the time is spent, you know, reviewing these quarterly or monthly updates, collateral manager reports, industry research, Wall Street research, understanding the performance of the sector, individual deals, preparing credit memos and credit surveillance notes, credit updates for our team. We do a call every morning where we go around and discuss developments in each of the sectors. We have an investment committee meeting that we have every day, where more significant credit developments and new deal proposals are made. And all of that can be just one day in in the life of an analyst in structured credit. So it's quite diverse. A lot of it is understanding the commercial context for different deals. A lot of it is getting into the details of financial modeling and document terms, modeling out collateral, how different investor mechanisms and safeguards work, making presentations to our portfolio managers, to our senior investment professionals. And that will ebb and flow with the new deal flow, or with the evolution of credit developments in individual sectors.

Jay Diamond: Karthik, thank you so much for your time and your experience. We've covered a lot in this deep dive into asset-backed finance. Before I let you go, what final takeaway would you like to leave with our audience as we sum up here?

Karthik Narayanan: Sure. So I think right now where we are in the credit cycle is at a point where there are still elevated risk premiums in structured credit, which I think is interesting from an investment standpoint and the ability to take good risks and get paid very close to what you would if you took more speculative risk. So I think it's a good time to be up and quality in structured credit, and that the yields and credit spreads offered in this market are still quite attractive, in our opinion, relative to some of the more widely followed sectors. Thank you for having me back on the show, and for all our listeners to allow us to speak about these markets that we think are really interesting and try to cut through some of the noise and misconceptions and highlight some of the areas that we think are interesting.

Jay Diamond: Terrific. Thank you so much again for your time. Karthik. I hope you'll come back and visit with us again soon. And thanks to all of you who have joined us for our podcast. If you like what you're hearing, please rate us five stars. That's how people find us. And if you have any questions for Karthik or any of our other podcast guests, please send them to MacroMarkets@GuggenheimInvestments.com and we will do our best to answer them on a future episode or offline. In the meantime, you can download the ABCs of Asset Backed Finance, our comprehensive overview of the space on our website, or you can find it in the show notes. I'm Jay Diamond. We look forward to gathering again for the next episode of Macro Markets with Guggenheim Investments. In the meantime, for more of our thought leadership, visit us at GuggenheimInvestments.com/perspectives. So long.

Investing involves risk, including the possible loss of principal.

Structured credit, including asset-backed securities (ABS), mortgage-backed securities, and CLOs, are complex investments and not suitable for all investors. Investing in fixed-income instruments is subject to the possibility that interest rates could rise, causing their values to decline. Investors in structured credit generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some structured credit investments may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, including credit risk, interest rate risk, counterparty risk and prepayment risk. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

Stock markets can be volatile. Investments in securities of small and medium capitalization companies may involve greater risk of loss and more abrupt fluctuations in market price than investments in larger companies. The market value of fixed income securities will change in response to interest rate changes and market conditions among other things. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their value to decline. High yield securities present more liquidity and credit risk than investment grade bonds and may be subject to greater volatility.

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