

# Managing Mortgage Market Risk Becomes More Complex

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Executive Summary:



The current U.S. investment environment is characterized by very high interest rates, inflation and unpredictable market volatility. As a consequence, products within the fixed-income asset class have become more complex as duration and other types of risk are top-of-mind for buy-side managers. More specifically, nuances in the mortgage market, including prepayment speeds and pool characteristics, have created challenges not seen in well over a decade, and calls for more-robust trading, portfolio management and risk tools are at a pivotal level. Using a combination of studies aimed at both buy-side and sellside professionals, Coalition Greenwich connects with market participants to unearth trends in the mortgage-backed securities (MBS) market in this report. Several factors influencing investment behavior in mortgages are explained in detail and supported by our study. Additionally, the risk management of MBS portfolios are explored through the lens of today's technology. Finally, the impacts of regulation, such as the shift from Libor to SOFR, are considered. Taken in tandem, data that underscores analysis and workflows is the key to successfully navigating today's markets and will be an area of focus with the anticipated increase in MBS investment in 2024.

## Methodology:

As part of its annual fixed-income review, Coalition Greenwich reached out to 95 global fixed-income market professionals on the buy side to gather their views of trends in respective markets where they invest. Additionally, we used a recent Coalition Greenwich Voice of Client Study of 59 North American buy- and sell-side MBS market participants to gain further insights. The majority of study participants concentrate on the agency MBS market, including Fannie Mae, Freddie Mac and Ginnie Mae collateral.

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