Accrued Interest

CMLS mortgage fund

May 2026

cmls asset management

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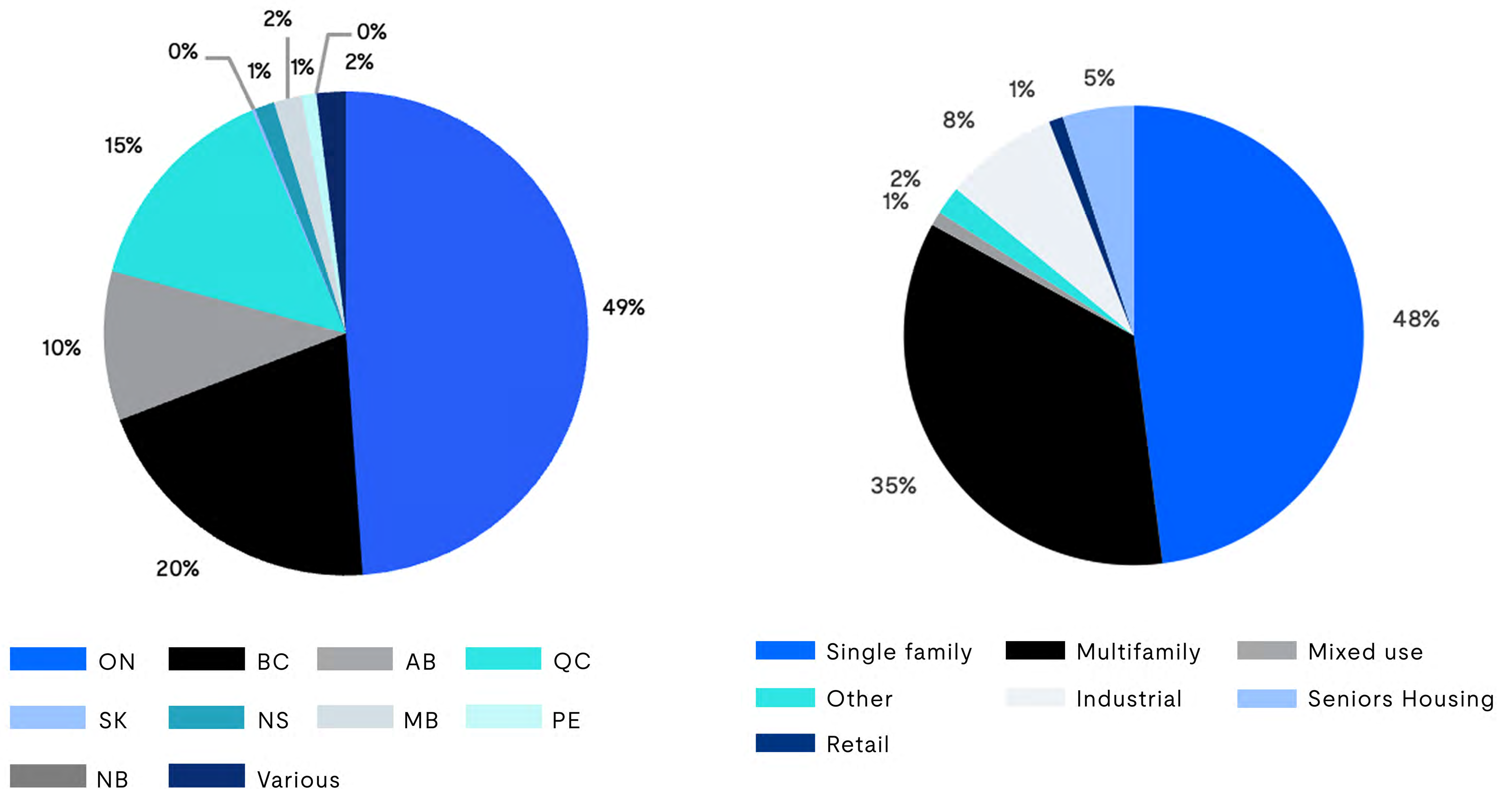
Thank you for reading the May edition of **Accrued Interest**. In April, the CMLS Mortgage Fund delivered a monthly return of 0.57%, or 7.16% annualized. Our weighted average coupon is 7.78% and our weighted average loan-to-value ratio is 63%.

Our portfolio is composed as follows:



More detailed and up-to-date portfolio information can be found in our monthly Fund Facts, available on our website here.

When the pandemic struck Ryan and I were not yet with CMLS Asset Management. We were managing institutional investor relationships for CMLS Financial. I remember one of the last days before entering mandatory hibernation. We were jumping between my office, watching case counts increasing rapidly on the impressive Johns Hopkins web tracker, and my colleague's, calling our clients together to strategize what we would do with existing investments in their pipeline. Would we, for example, trigger the material adverse change clause on committed deals, or would we stand behind the commitment and fund.

Anything uncommitted had to be pulled. The prevailing environment was incomparable to anything we had experienced before. No one was prepared to put client money at risk by taking an optimistic view of what this meant for real estate. There was already talk of shelter-in-place directives that would make much of the physical world irrelevant.

Fast forward two years and apart from widespread apprehension around office property fundamentals, real estate debt markets were remarkably healthy. Spreads were tight, liquidity was abundant, and any payment holidays provided by lenders through the depths of the pandemic were long caught up.

Just as signs were emerging that liquidity was in fact too abundant and price inflation was on the horizon, news broke of Russia's invasion of Ukraine. Pandemic-related supply chain disruptions and heavy fiscal stimulus, enacted by governments globally to counteract the pressure the pandemic was placing on their economies, meant folks had much more to spend on goods than goods available at the current price. The war simply added energy to the products of which supply was squeezed. Headline inflation numbers rose in response. The rational path of central banks in many developed economies was to increase interest rates to levels not seen since the early 2000s.

The behaviour of house prices through this period reveals just how sensitive home buyers are to interest rates. The peak of the MLS® HPI Composite Index coincided with the first increase of the Bank of Canada overnight rate in March of 2022. Drifting up from 0.25%, the overnight rate peaked at 5% before the first cut in June 2024. By that time the Index had fallen 15%. Today it is a further 6% lower.[1]

We have written and spoken extensively about how our portfolio responded to lower home prices. Lower home values make it more difficult to renew or refinance existing mortgages and make it much less attractive to sell the property. As a result, single family residential arrears increased in the CMLS Mortgage Fund and hovered around 2% of the portfolio for approximately three years, before trending downward through 2025 and early 2026.

Parallels can be made today to the geopolitical environment emerging in 2022. We face an oil supply shock that will no doubt drive price inflation. Central banks are now forced to factor in the halting of nearly one-fifth of global oil supply through the Strait of Hormuz into their models as they ponder rate movements. In April, Canadian CPI jumped the most annually (2.8%) since May 2024.[2] Strip out energy, however, and the pace of increase was a more comforting 1.8%.[3] At its most recent meeting on April 29th, the Bank of Canada maintained its policy rate at 2.25%.

When we consider the impacts on our portfolio, it is important we zoom out to examine other factors at play. Accommodative fiscal policy was prevalent during the pandemic as it is now, although now to a lesser extent – the deficit reached a record $327 billion in 2020-2021, reduced to $36 billion in 2024-2025 and is projected to increase to $67 billion this year. Interest rates are higher, prevailing home prices and transaction activity much lower, and broad-based indicators of consumer financial well-being are signaling greater distress. Supply chains beyond energy are less impacted.

From this baseline, in our view, the risk of either supportive fiscal or monetary policy overheating the Canadian economy and stoking runaway inflation is less severe. Just as we responded with drastic measures in 2020, ceasing new mortgage investments altogether, the government responded with similar brute force in support of the economy. In hindsight we both overshot and we are not facing anything close to the uncertainty of a global pandemic today.

[1] The Canadian Real Estate Association

[2] Statistics Canada. Table 18-10-0004-13 Consumer Price Index by product group, monthly, percentage change, not seasonally adjusted, Canada, provinces, Whitehorse, Yellowknife and Iqaluit

[3] Ibid. Food prices are also affected by closing of the Strait. Excluding both food and energy, Statistics Canada reported a CPI inflation rate of 1.5%.

Oil-driven inflation may, however, *restrict* the Bank of Canada from implementing monetary policy levers to counteract recessionary forces. We should therefore be more concerned about the future employment, income and general financial capacity of our borrowers than we are the prices of their homes in response to interest rates. Canadian unemployment hit an all-time low in December 2022 of 4.5%, peaked at 8.0% in August 2025 and returned to 7.1% in April.[4]

Since the peak in August last year, our single family residential arrears rate declined to 0.6% from 1.6% of our portfolio, signaling tighter underwriting standards and improved credit quality. The weighted average credit score of our single family residential borrowers remained above 750, though declined to 753 from 758. Credit scores account for many factors including the borrower's repayment history and utilization of existing credit capacity. When we consider a potential loan opportunity, we add our own evaluation of how the proposed financing fits within that credit profile. Is it consistent with their prior behaviour? Do they have the capacity to maintain the debt and pursue the applicable repayment strategy? Our process remains consistent, but the macroeconomic environment adds scrutiny and conservatism to the decisions we make throughout.

A final note on values: short duration not only protects against interest rate fluctuations but allows you to adapt your investment approach to the current market environment. 95% of our single family residential loans were either funded or renewed – with a revaluation of the subject property – in 2025 or 2026, a period of home price stability relative to the period between 2022 and 2024.

It is still time for a conservative approach to underwriting. Questions remain around the spillover of distress in development projects to stabilized commercial and multi-residential properties, the persistence of inflationary pressures and the direction of unemployment in the near term. Our intent with this edition of Accrued Interest is to compare and contrast the current market environment to that of 2022. We believe upside risk to interest rates is lower, but the "ceiling" is restricting growth as well. This puts greater pressure on credit performance and we are underwriting our investments accordingly.

[4] Statistics Canada. Table 14-10-0017-01 Labour force characteristics by gender and detailed age group, monthly, unadjusted for seasonality