

# Defensive Positioning and Attractive Carry

*This report is excerpted from the [Second Quarter 2026 Fixed-Income Sector Views](#).*

Elevated primary rates dampen refinancing activity.

Agency MBS delivered marginal total and excess first quarter returns of 0.43 percent and 0.16 percent, respectively. On a relative basis, mortgages have bested investment-grade corporate excess returns year to date by 0.65 percent. Initial gains were driven by the announcement of a \$200 billion GSE purchase program but have since faded as geopolitical risk spiked and Fed rate cuts were priced out. Spreads have reset to fourth quarter 2025 levels, offering attractive income potential.

## Sector Commentary

- Following the early January announcement of a \$200 billion GSE purchase program, spreads reached their tightest levels since 2022. The size—on par with annual Fed portfolio runoff—suggests a roundabout way for the administration to influence monetary policy.
- Spreads have widened since then, driven by macroeconomic factors such as interest rate volatility and Fed policy rather than technical flows. Money managers remain heavily overweight Agency MBS. In a true risk-off scenario, we would expect the sector to be a source of liquidity and likely maintain favorable performance relative to credit-sensitive alternatives.
- Higher rates and wider spreads now place the 30-year par coupon MBS at 5.5 percent. Investors concerned about downside macroeconomic tail risks can earn healthy income with support from GSE portfolios, regulatory tailwinds, and limited supply as elevated primary rates dampen refinancing activity.

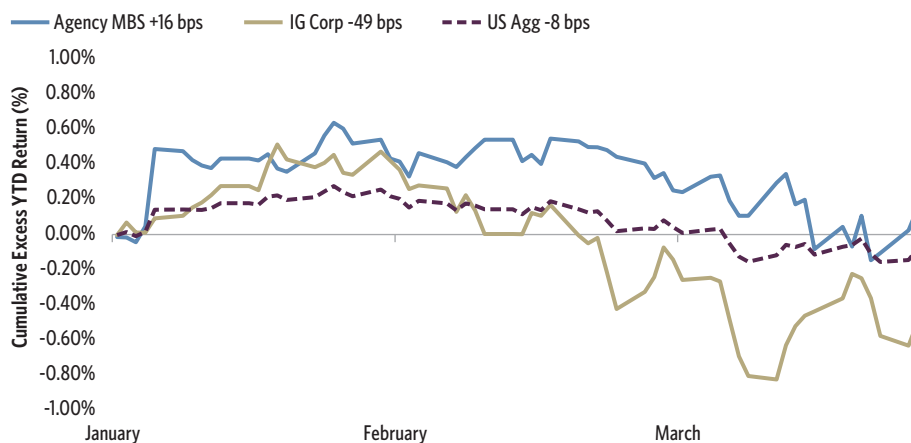
## Investment Themes

- Federal banking regulators have issued updated Basel III proposals with a 90-day comment window and potential 2027 implementation. At a high level, the framework frees up bank capital, removes regulatory uncertainty, and potentially decreases Agency MBS supply as risk weightings were lowered for most retained loans—all of which should provide tailwinds to the sector.
- Fed policy remains a primary driver of market sentiment, with the pricing out of rate cuts dampening positioning for long-term carry trades. However, this has been somewhat offset by higher all-in yields as the long end of the curve moves higher.
- Refinance risk was briefly a hot topic as primary mortgage rates breached 6 percent. Since then, higher interest rates and wider spreads have pushed primary rates back into the mid-6 percent range, putting call risk on the back burner. Our favored positioning remains in 30-year 5–5.5 percent coupons.

*By Louis Pacilio*

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**Agency MBS Excess Returns Outperformed Investment Grade in 1Q**



Source: Guggenheim Investments, Bloomberg. Data as of 3.30.2026.

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One **basis point** is equal to 0.01%.

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