

**COMMERCIAL MORTGAGE-BACKED SECURITIES**

# Supportive Technicals with Persistent Credit Stress

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

Careful security selection and active portfolio management are critical.

CMBS excess returns outperformed investment grade in the first quarter, driven by supportive technicals, continued investor demand, and emerging sector-specific risks in other credit markets. However, the sector continues to contend with persistent legacy credit issues and remains exposed to interest rate volatility. Targeted deployment into higher quality pockets of the broader CMBS asset class—notably commercial real estate (CRE) CLOs—remains our focus for durable yield. Dispersion in outcomes for maturing legacy conduit and single asset/single borrower (SASB) transactions remains elevated—highlighting the importance of active management.

## Sector Commentary

- Non-Agency U.S. CMBS issuance is robust at over \$48 billion year to date, on pace to meet or exceed last year’s volume. Floating-rate SASB transactions lead issuance at \$19 billion, followed closely by CRE CLO transactions at \$15 billion.
- Record fixed annuity sales of \$317 billion in 2025 and persistent investment-grade inflows should sustain strong demand for higher quality CMBS, given attractive all-in yields relative to liquid credit alternatives.
- Legacy credit remains a drag on investor sentiment: only 49 percent of conduit loans scheduled to mature thus far this year have paid off, down from 72 percent in 2025.
- The backlog of specially serviced loans has grown further as resolution timelines have extended.

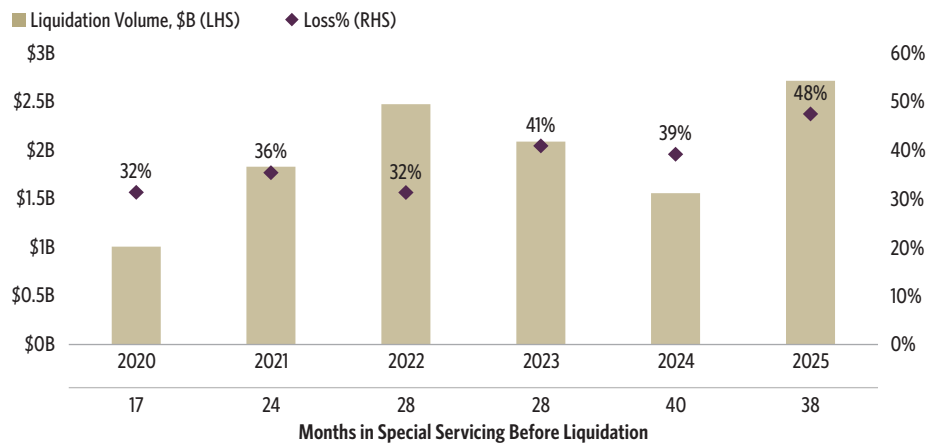
## Investment Themes

- Credit dispersion is evident in the CMBS market, where losses on investment-grade bonds (including those originally rated AAA) have been realized in recent years. Careful security selection and active portfolio management are critical.
- Credit issues persist in corners of the CRE market, including various office submarkets and poorly positioned lodging properties. Lower quality CMBS—including many conduit mezzanine bonds and other higher beta names—remain at risk of meaningful underperformance.
- Traditional credit structuring and underwriting remain our focus across markets and property types. We prefer credit-enhanced CMBS securities collateralized by high quality and/or diverse collateral and supported by capable sponsors, especially in the CRE CLO and SASB markets. We also favor multifamily CMBS credit.

*By Tom Nash, Hongli Yang, and Zach Johnson*

Workouts are taking longer, with the average number of months spent in special servicing prior to liquidation increasing to 38 months in 2025 from the 2020 low of just 17 months. Longer resolution timelines generally correlate with deeper losses as carrying costs accrue and collateral values tend to deteriorate during extended workout periods.

### Loan Workouts Are Taking Longer and Exhibiting Higher Loss Severities



Source: Guggenheim Investments, Deutsche Bank Research, Data as of 12.31.2025.

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