

Defensive Income Opportunity in Non-Agency RMBS

This report is excerpted from the *Second Quarter 2026 Fixed-Income Sector Views*.

Current market dynamics strengthen the case for senior positioning.

Geopolitical tensions in the Middle East and the ripple effects on oil prices have reignited inflation concerns, causing an increase in Treasury yields and primary mortgage rates. Rising rates should further limit housing demand, providing a headwind for home price growth. However, tight lending standards, substantial home equity cushions, and labor market strength underpin stable mortgage credit performance. Favorable credit fundamentals, reduced interest-rate sensitivity, and appealing valuations reinforce our preference for senior non-Agency RMBS securities, which remain attractive for investors prioritizing income.

Sector Commentary

- New-issue volume in the first quarter reached \$60 billion, up 20 percent year over year. Credit spreads narrowed to start the year after the announcement to raise government-sponsored enterprise (GSE) investment caps but have since widened as the initial momentum of the announcement waned and geopolitical tensions drove market uncertainty. Non-qualified mortgage (QM) AAA spreads, which ended 2025 at 130 basis points, tightened to a low of 105 basis points before widening to 140 basis points by quarter end.
- Elevated oil prices raised concerns that inflation would accelerate, pushing interest rates higher. As a result, the average 30-year fixed mortgage rate increased to 6.38 percent after dipping below 6 percent for the first time since September 2022.
- Rising rates compound affordability concerns, keeping home sales at historically low levels. Home prices, which have declined every month since June 2025, are expected to remain under pressure.

Investment Themes

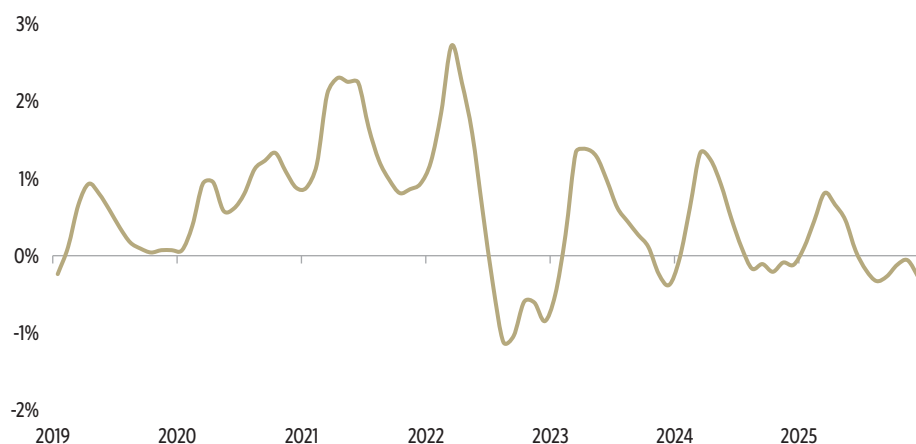
- Current market conditions underscore our conviction to remain positioned in the senior part of the capital structure within RMBS credit. Senior tranches offer enhanced credit protection and structural subordination along with short two- to four-year average maturities, providing a defensive credit and market risk profile.
- Investment-grade tranches (rated AAA–A) from non-QM transactions and senior securities from closed-end second (CES) lien and home equity line of credit (HELOC) transactions offered yields of 5.25–5.70 percent with expected average maturities of three to four years. This combination provides both income and maturity advantages relative to A-rated corporate bond indexes. In addition, non-Agency mortgages generally carry lower prepayment risk than traditional Agency MBS and contain structural features that help limit both credit and extension risk.

By Karthik Narayanan and Roy Park

Rising rates compound affordability concerns, keeping home sales at historically low levels. Home prices, which have declined every month since June 2025, are expected to remain under pressure.

Home Prices Have Declined Every Month since June 2025

S&P Cotality Case-Shiller US National Home Price Index MoM%



Source: Guggenheim Investments, CoreLogic, Bloomberg. Data as of 12.31.2025.

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Carry is the difference between the cost of financing an asset and the interest received on that asset.

Investing involves risk, including the possible loss of principal. In general, the value of a fixed-income security falls when interest rates rise and rises when interest rates fall. Longer term bonds are more sensitive to interest rate changes and subject to greater volatility than those with shorter maturities. During periods of declining rates, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as comparable fixed rate securities. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations ("CLOs"), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities 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, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate. S&P bond ratings are measured on a scale that ranges from **AAA** (highest) to **D** (lowest). Bonds rated **BBB-** and above are considered investment-grade while bonds rated **BB+** and below are considered speculative grade.

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