

Stable Credit Fundamentals and Income Potential

This report is excerpted from the *Second Quarter 2025 Fixed-Income Sector Views*.

Non-Agency RMBS well-positioned amid favorable credit and income conditions.

Senior securities in the non-Agency RMBS sector offer excess investment income potential compared to investment-grade alternatives. Favorable conditions for mortgage credit performance include tight lending standards, significant home equity gains, and a stable labor market. Furthermore, high mortgage rates and low housing turnover are anticipated to suppress prepayment activity, which should benefit higher coupon, income-producing securities, offering investors an attractive opportunity in the current market environment.

Sector Commentary

- New issuance was \$39 billion in the first quarter, a 40 percent increase from the same period last year. Despite slight widening at quarter-end, credit spreads were near 2024 year-end levels.
- The January 2025 Case-Shiller Index showed a 4.1 percent year-over-year home price increase, marking the third consecutive month of growth.
- Mortgage credit performance is expected to benefit from favorable housing supply-demand dynamics, stable homeowner credit, and a record high amount of home equity.
- Mortgage loan pools backing closed-end, second lien (CES) transactions have a 90-day-plus delinquency rate below 0.5 percent, slightly lower than government-sponsored enterprise loans. This comparable performance reflects similar borrower profiles, as these loans were originated primarily by lenders with large conforming, first-lien mortgage servicing portfolios.

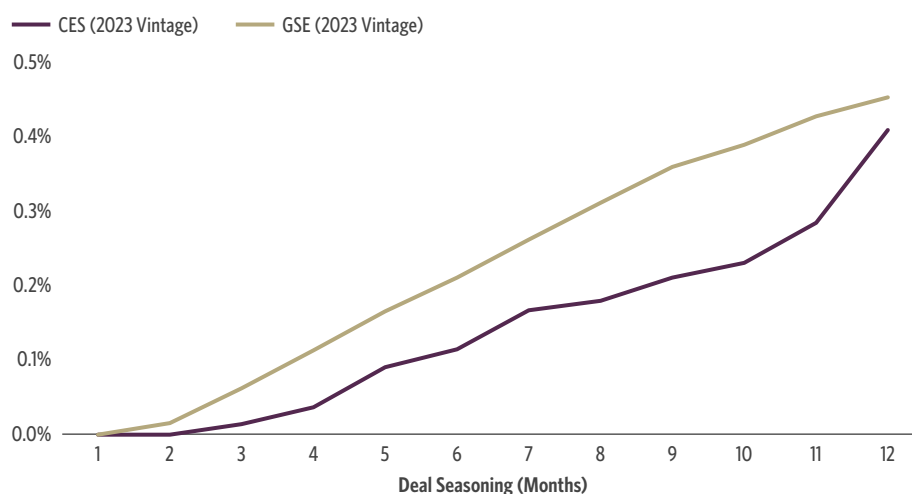
Investment Themes

- Amid uncertain macroeconomic conditions, senior non-Agency RMBS provide both income and stable credit profiles. With low prepayment expectations, high coupon securities offering wider spreads and higher yields are poised to benefit.
- We prefer transactions that provide solid carry income with structures designed to limit extension risk and withstand a wide range of credit stresses.
- Opportunities include investment-grade securities from non-qualified mortgage (non-QM) transactions and senior securities from CES and home equity line of credit (HELOC) transactions, which present attractive valuations relative to their credit risks.

By Karthik Narayanan and Roy Park

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Loans 90+ Days Delinquent Represent Less than 0.5% of CES Transactions



Source: Guggenheim Investments, Nomura, CoreLogic, Freddie Mac, Intex. Data as of 2.28.2025.

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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.

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