

# Attractive Relative Value in Agency MBS

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

## Agency RMBS remains one of our favorite sectors given cheap valuations and constructive market backdrop.

Relatively wide spreads, elevated rate volatility and a rangebound yield environment drive our investment thesis in the sector. Limited supply, potential Fed easing, reduced rate volatility, and relaxed bank regulations should support carry and potential spread tightening. The sector remains susceptible to bouts of spread widening from investor flows, which we would see as an opportunity to add exposure. The Bloomberg Agency Mortgage-Backed Securities (MBS) Index recorded total and excess second quarter returns of 1.15 percent and 0.17 percent. Although it underperformed other spread products after the April tariff announcement, its excess returns align with both IG and the broader Agg.

### Sector Commentary

- Premium coupon Agency MBS—6 percent and above—have outperformed due to a steeper Treasury curve, stable rate environment, and strong demand for collateralized mortgage obligations (CMOs). As interest rates decline, we favor par-priced, 5.5 percent coupons for their attractive yield, spread, and reduced prepayment risk.
- In early April's risk-off environment, mortgages faced selling pressure due to their strong liquidity and year-to-date outperformance versus the Bloomberg Investment Grade Corporate Index. Lower coupons, comprising much of the Agency MBS Index, were disproportionately affected.
- Agency MBS performance rebounded in June as equities reached all-time highs, causing passive investors to reallocate capital to fixed income—a trend we expect to persist if equity markets continue to rise.

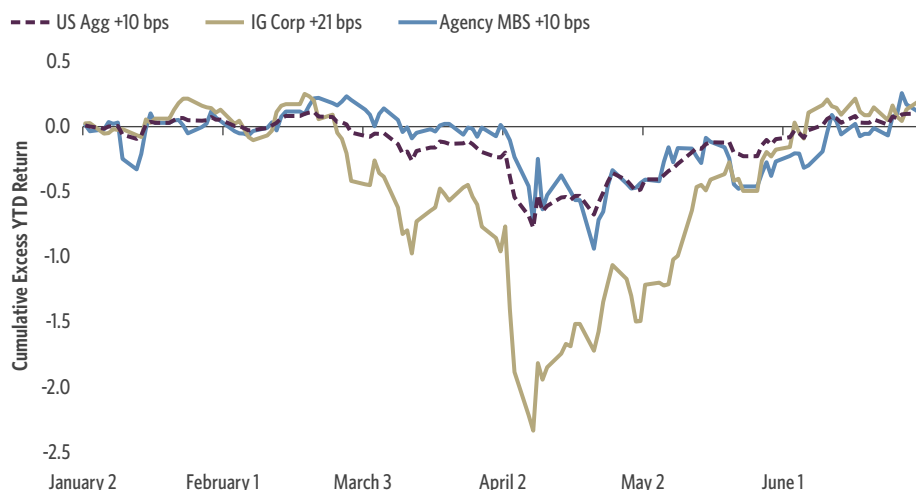
### Investment Themes

- Banks must resume Agency MBS buying in earnest to sustain spread tightening. Regulatory progress includes proposed relaxation of Supplementary Leverage Ratio (SLR) rules and lifting the Wells Fargo asset cap, though the Basel III resolution is pending. Still, deposit growth is needed for banks to increase capital deployment into securities, with coupon income driving total returns.
- President Trump's comments have alleviated concerns of full privatization for government-sponsored enterprises (GSEs). His support for maintaining an implicit government guarantee suggests a potential public offering while retaining government involvement. The profits generated by GSEs may be challenging to forgo in a fiscally constrained environment, removing a downside tail risk from the market.

By Louis Pacilio

The Bloomberg Agency MBS Index recorded total and excess returns of 1.15 percent and 0.17 percent, respectively, in the second quarter. Although it underperformed other spread products after the April tariff announcement, its year-to-date excess returns align with both the Bloomberg Investment-Grade Corporate Index and the broader U.S. Aggregate Index.

**Year-to-Date Agency MBS Excess Returns Align with IG, Agg**  
Cumulative Excess YTD Returns



Source: Guggenheim Investments, Bloomberg. Data as of 6.30.2025.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

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

This material contains opinions of the authors, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

**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.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Private Investments, LLC.

Not FDIC insured. Not bank guaranteed. May lose value.

© 2025, Guggenheim Partners, LLC. All Rights Reserved. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Guggenheim Partners, LLC. GPIM 65520