

# Value in Senior Securities Amid a Slowing Housing Market

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

## Despite the slowdown in home-price appreciation, credit fundamentals remain strong for non-Agency RMBS.

Opportunities for robust investment income persist within the non-Agency residential mortgage-backed securities (RMBS) sector, even as home price appreciation decelerates in 2025. We expect mortgage credit performance to remain stable, supported by tight lending standards, substantial home equity gains, and a resilient, albeit slowing, labor market. Elevated mortgage rates are likely to curtail prepayment activity, thereby favoring higher coupon, income-oriented securities. This environment presents a favorable backdrop for investors seeking income opportunities in the RMBS sector.

### Sector Commentary

- New issue non-Agency MBS volume reached \$35 billion for the second quarter of 2025, marking a 5 percent increase over the same period in 2024. Spreads have normalized following the initial widening after the April tariff announcement.
- At 6.77 percent, average mortgage rates, remain historically high, though nearly 100 basis points below the October 2023 peak. These elevated rates have significantly reduced housing affordability and demand.
- Home price growth in 2025 has consistently lagged previous years. Although prices have risen monthly, each increase has been below the pre-pandemic average, reflecting a deceleration in the housing market.

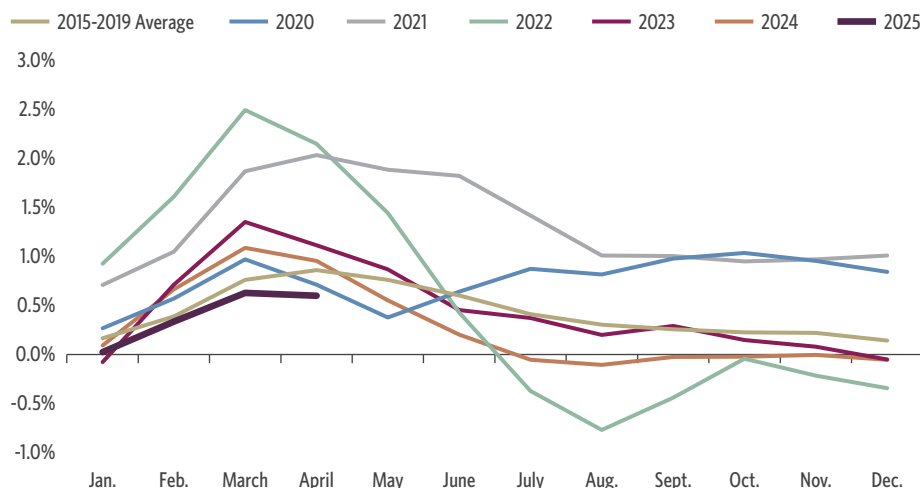
### Investment Themes

- Amid moderate headwinds to home price growth, we prefer senior securities with solid carry income. These securities are structured to help limit extension risk and withstand diverse credit stresses, offering potential for resilience in uncertain markets.
- Investment-grade securities from non-qualified mortgage (non-QM) transactions and senior securities from closed-end second (CES) lien and home equity line of credit (HELOC) transactions present attractive income and valuations, and in our view represent compelling investment opportunities.

By Karthik Narayanan and Roy Park

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**Home Price Growth in 2025 Has Consistently Lagged Previous Years**  
Monthly Home Price Change by Calendar Month



Source: Guggenheim Investments, Bank of America, CoreLogic. Data as of 4.30.2025.

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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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