Non-Agency Residential Mortgage-Backed Securities

NA RMBS Opportunities in a Rate Rally

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

Recent rate moves place greater focus on securities that offer prepayment protection.

Recent declines in mortgage rates have raised concerns about refinancing activity for outstanding mortgages. This environment underscores the appeal of subsectors such as closed-end second (CES) liens, home equity lines of credit (HELOCs), and non-qualified mortgages (non-QMs), which exhibit favorable convexity profiles. Tight lending standards, substantial home equity gains, and a resilient labor market support stable mortgage credit performance. However, as prepayments rise, investors are likely to focus on collateral types that mitigate prepayment volatility.

Sector Commentary

- Spreads tightened in the third quarter, nearing the year's lows, despite a 30 percent year-over-year jump in new issue volume in the third quarter of 2025 to $42 billion.
- The average mortgage rate declined to 6.30 percent, approximately 50 basis points lower than late June levels. We expect this decline will support higher issuance volumes as refinancing activity and originations increase, creating a more favorable environment for issuers.
- CES liens, HELOCs, and non-QM transactions offer attractive convexity profiles and prepayment protection. CES and HELOC loans benefit from low loan balances, while non-QM pools have a high concentration of investor loans with call protection, reducing prepayment sensitivity to rate changes.

Investment Themes

- Senior securities with favorable convexity profiles remain our preferred choice, offering solid carry income alongside structural features designed to mitigate extension risk. These securities are well-positioned to withstand a broad spectrum of credit stress scenarios, making them attractive for investors seeking stability and income generation.
- Investment-grade securities from non-QM transactions and senior securities from CES liens and HELOC transactions, provide compelling opportunities. Due to the combination of their credit profiles and structural features, these instruments offer attractive income and valuations while effectively limiting both credit and extension risk.

By Karthik Narayanan and Roy Park

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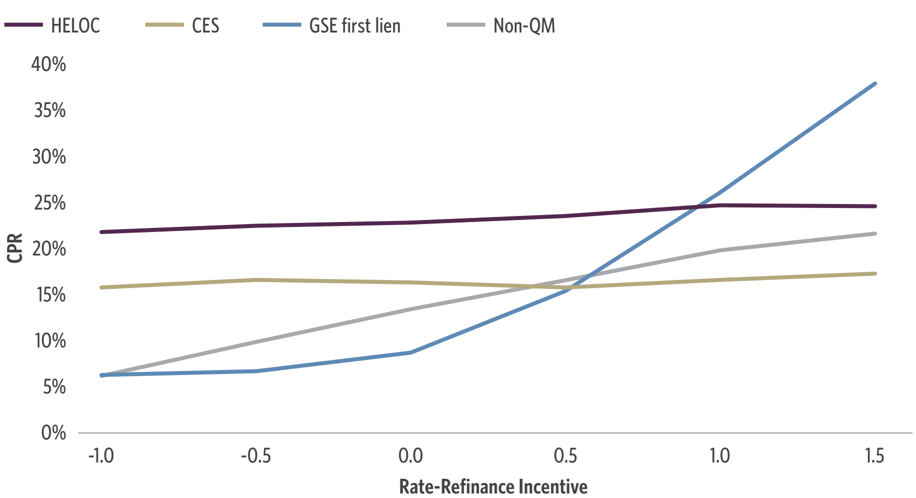
CES, HELOC, and Non-QM Loans Offer More Stable Prepay Profiles Across Various Rate Environments



Source: Guggenheim Investments, Nomura, CoreLogic, Freddie Mac, and Intex. Data as of 9.30.2025.

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