

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.

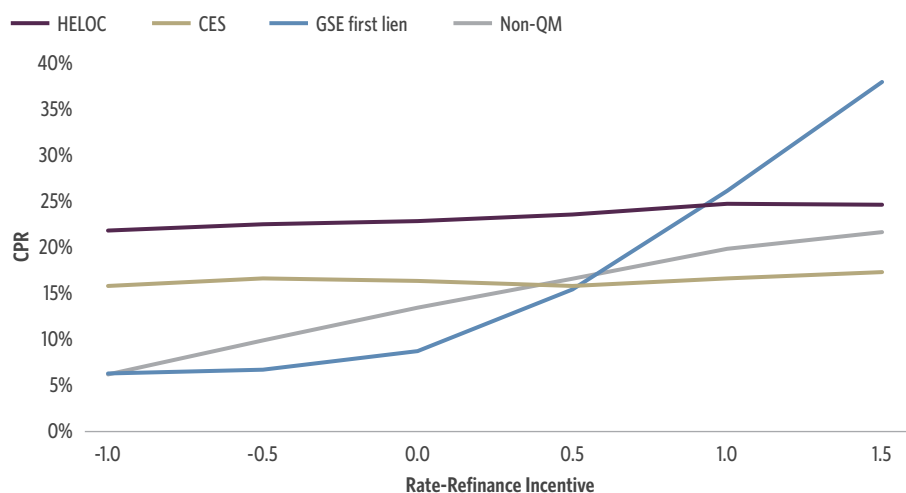
Investment Themes

- 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

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.

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.

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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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