

Commercial Mortgage-Backed Securities

Carry On, Wayward Son

This report is excerpted from the *First Quarter 2026 Fixed-Income Sector Views*.

Demand for quality income from CMBS adds technical tailwinds while fundamentals remain mixed.

CMBS outperformed the broader bond market in 2025 but lagged investment grade corporate bonds. We expect CMBS relative return performance to be mixed in the first quarter. Higher quality CMBS—notably commercial real estate (CRE) CLOs financing top tier lenders and single asset/single borrower deals backed by premium buildings and sponsors—are positioned to outperform: modest economic growth should support CRE fundamentals in aggregate, and capital markets conditions remain constructive on top-tier fixed income. However, lower quality CMBS performance dispersion is a meaningful risk, and active management remains key.

Sector Commentary

- Non-Agency U.S. CMBS issuance is expected to hit a post-Global Financial Crisis (GFC) high. Leading bank researchers forecast \$160 billion or more of volume this year, up from \$145 billion in 2025 and well above the \$45 billion trough seen in the correction of 2023.
- All else being equal, investor demand should overwhelm supply. The number of firms participating in the CMBS markets set a new post-GFC record in 2025 as investors increasingly seek out high quality fixed income across all sectors.
- Legacy credit remains a drag on both sentiment and investor capacity. JPMorgan forecasts that only two-thirds of CMBS loans maturing next year will refinance as scheduled; the balance will require loan extensions or workouts to resolve.
- Credit standards have been slipping in recent and new issue CMBS, with leverage closer to pre-COVID levels, potentially creating future performance issues.

Investment Themes

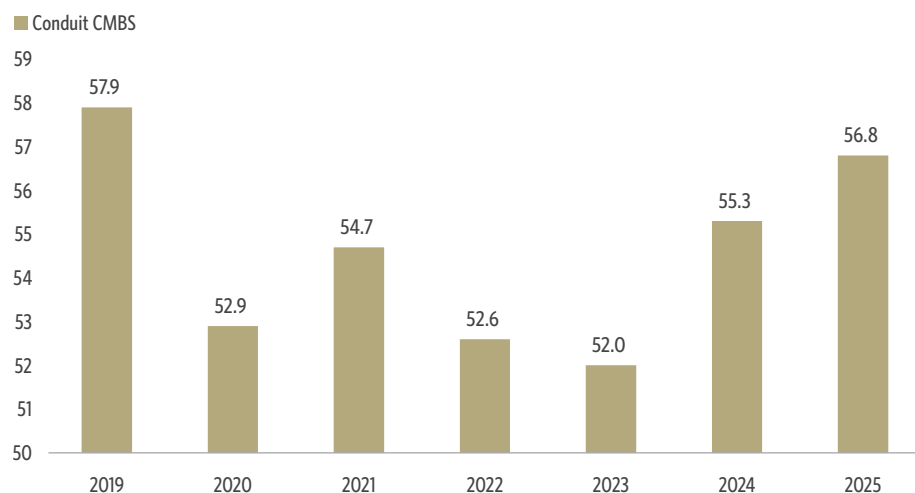
- Credit dispersion is apparent in the CMBS market, where losses on investment-grade bonds—including in those originally rated AAA—have been realized in recent years. Careful security selection and active portfolio management remain critical.
- Credit issues continue to plague corners of the CRE market, including various office submarkets and poorly positioned lodging properties. Lower quality CMBS, including many conduit mezzanine bonds and other “higher beta” names, are at risk of meaningful underperformance.
- Traditional credit structuring and underwriting remain our focus across markets and property types. We prefer credit-enhanced CMBS securities collateralized by high quality and/or diverse collateral and supported by capable sponsors, especially in CRE CLO and SASB markets. We also favor multifamily-related CMBS credit.

By Tom Nash and Hongli Yang

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Loan to Value Ratio of Conduit CMBS Is Approaching Pre-COVID Levels

Loan-to-Value Ratio of Conduit CMBS by Vintage



Source: Guggenheim Investments, Barclays Research. Data as of 12.31.2025.

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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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