

Non-Agency Residential Mortgage-Backed Securities

Value in NA RMBS Senior Securities

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

Maintain senior positioning in a slowing housing market.

Persistent affordability challenges will keep housing activity subdued and growth in home prices modest. Despite these headwinds, tight lending standards, substantial home equity cushions, and labor market strength underpin stable mortgage credit performance. Limited housing activity should constrain prepayment speeds, which makes senior NA RMBS securities particularly attractive and an overweight for us for income-focused mandates seeking income over price appreciation.

Sector Commentary

- New-issue volume rose 33 percent to \$217 billion in 2025—the highest total since the GFC. Despite the substantial increase in volume, spreads remained resilient, ending the year unchanged from the previous year as investor demand remained supportive.
- Although the average 30-year fixed mortgage rate declined approximately 70 basis points year over year, housing affordability remains challenging. The housing affordability index sits near its historical low, pushing home sales to record lows.
- Consensus forecasts for home price growth in 2026 range from 0–3 percent, underscoring tepid demand in the housing market. We don't expect demand to improve materially in 2026, as mortgage rates would need to decline by roughly 100 basis points to improve affordability by a modest 10 percent.

Investment Themes

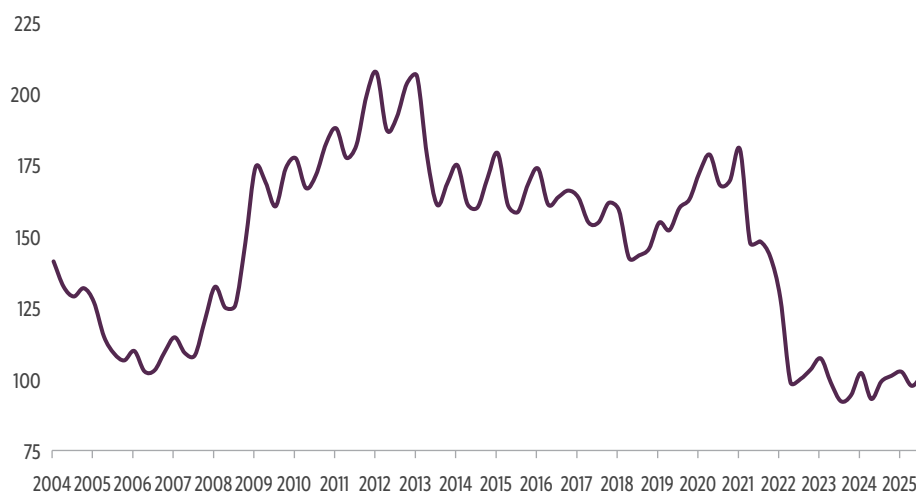
- Moderate headwinds to home price growth reinforce our preference for senior securities, which offer attractive income relative to even lower-rated and longer duration corporate bond indexes, combined with structures designed to mitigate extension risk. These securities are structured to withstand a broad range of credit stress scenarios, making them attractive for investors seeking stability and income.
- Investment-grade securities from non-QM transactions and senior securities from closed-end second lien and home equity line of credit transactions offer yields of 5.0–5.5 percent for AAA to A-rated tranches, with three- to four-year expected average maturities providing both income and maturity advantages relative to A-rated corporate bond indexes. Their credit profiles and structural features limit both credit and extension risk.

By Karthik Narayanan and Roy Park

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Persistent Affordability Challenges Will Keep Housing Activity Subdued

Housing Affordability Composite Index



Source: Guggenheim Investments, National Association of Realtors, Bloomberg. 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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