

## Non-Agency Residential Mortgage-Backed Securities

# Low Transaction Volume Should Benefit RMBS

### Fundamental and technical tailwinds support mortgage credit performance.

We remain constructive on the non-Agency RMBS sector due to the combination of positive credit fundamentals and tailwinds from low transaction volume, which should benefit RMBS valuations. Accumulated home price appreciation, tight lending standards, and sound consumer credit profiles provide favorable conditions for mortgage credit performance. New issue volume is expected to be limited due to low home sales activity and the lock-in effect of outstanding low interest rate mortgages.

### Sector Commentary

- The housing market is benefiting from low supply and healthy demand as the most recent Case-Shiller Index reading showed 6.0 percent year-over-year growth. Combined with a strong labor market, these conditions provide the foundation for stable mortgage credit performance.
- New issue volume is 50 percent higher year over year compared to the same period in 2023, and total annual volume for 2024 is forecast to be 20–25 percent higher than 2023 totals. Nevertheless, other than 2023, the estimated issuance volume for 2024 would be the lowest level since 2017.
- Despite positive net issuance due to the limited runoff of outstanding securities, strong demand is expected to limit any significant spread widening in the near term.
- Further spread changes are expected to follow the movement in the larger Agency market.

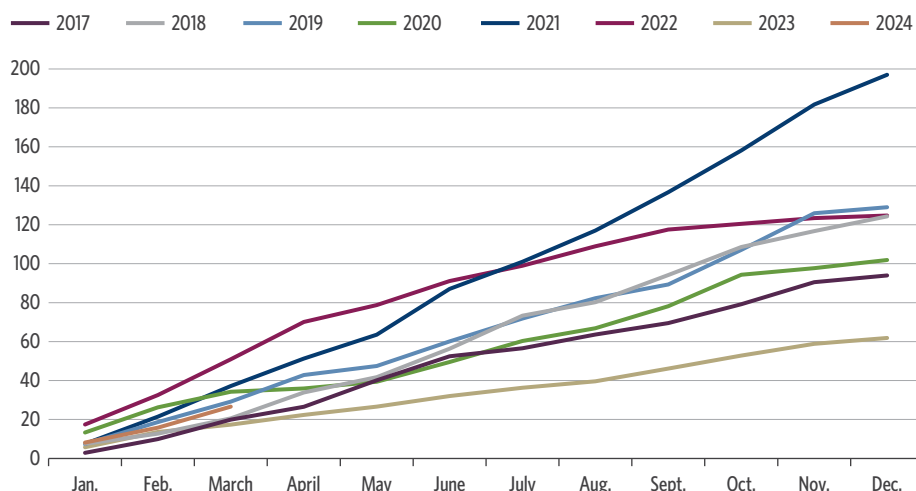
### Investment Themes

- We continue to favor investment-grade securities from non-qualified mortgage (non-QM) transactions, as well as senior securities from pre-GFC RMBS 1.0 transactions, which are backed by seasoned loans with built up home equity.
- Non-QM AAA to single-A rated bonds offer attractive yields and have the structural protections to mitigate extension risk and withstand deteriorating credit performance similar to that experienced in severe recessions. Additionally, low spread duration can limit price declines in a spread widening scenario.
- RMBS 1.0 spreads remain wide relative to BBB corporate bonds. The loan pools that back these deals are expected to exhibit stable credit performance due to the loans' low loan to values and seasoning. Also, due to their low discount, dollar prices, there is upside potential should prepaids pick up in a rate rally, resulting in earlier than expected principal distributions.

By Karthik Narayanan and Roy Park

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### 2024 Non-Agency RMBS Issuance Should Exceed 2023, the Lowest Since 2017



Source: Guggenheim Investments, Bank of America Global Research, Intex, Bloomberg. Data as of 3.31.2024.

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