COMMERCIAL MORTGAGE-BACKED SECURITIES

Firm Bid, Softer Underwriting

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

We favor senior CMBS amid loosening underwriting standards.

Strong non-Agency CMBS performance in the second quarter was driven by senior floating-rate paper, including single asset-single borrower (SASB) and commercial real estate (CRE) CLOs. While market technicals remain constructive, we are seeing a clear loosening in new issue credit metrics: SASB leverage has risen sharply from a year ago, and CRE CLO business plans have skewed increasingly toward lease-up strategies. We continue to favor senior, credit-enhanced exposure in CRE CLOs and SASB, backed by institutional sponsors and diversified collateral pools.

Sector Commentary

- Non-Agency CMBS issuance is tracking at a post-Global Financial Crisis (GFC) high with over $97 billion year to date, on pace to exceed our full year forecast of $180 billion. Issuance continues to be led by floating-rate SASB transactions ($36 billion), followed closely by CRE CLO transactions ($27 billion).
- Record fixed-annuity sales ($317 billion in 2025) and investment-grade inflows of $300 billion year to date—the most in seven years—should support strong demand for higher-quality CMBS, which continues to offer attractive all-in yields.
- Legacy credit continues to weigh on investor sentiment: only 57 percent of conduit loans scheduled to mature thus far this year have paid off, well below historical norms of 75 percent. Meanwhile, only 28 percent of the roughly $85 billion SASB maturing balance had been refinanced.
- The backlog of specially serviced loans continues to build as resolution timelines have extended, underscoring the need for active surveillance.

Investment Themes

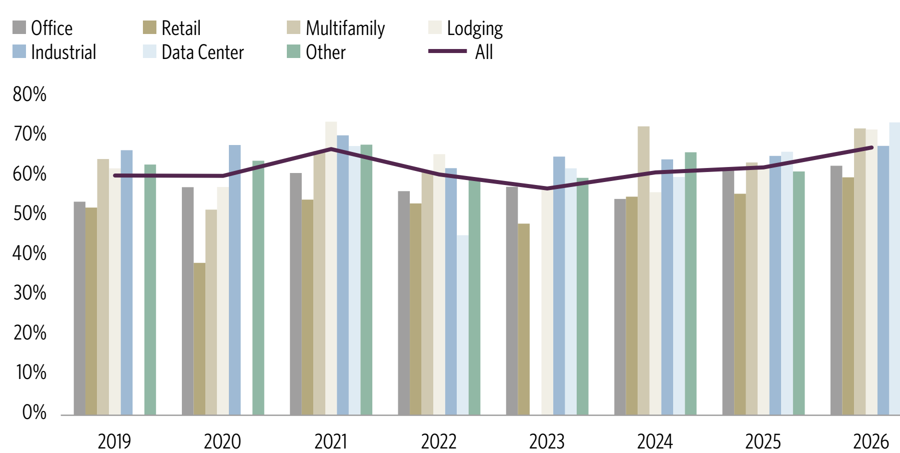
- Credit dispersion is evident in the CMBS market, where losses on investment-grade bonds (including those originally rated AAA) have been realized in recent years. Careful security selection and active portfolio management remain critical.
- Credit issues continue to plague corners of the CRE market,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

By Tom Nash, Hongli Yang, and Zach Johnson

Aggregate SASB leverage rose more than four points year over year, with the largest step-ups appearing in lodging and multifamily collateral. Rising origination loan to value (LTV) ratios, even while legacy loans remain unresolved, is characteristic of late-cycle underwriting behavior, and reinforces the case for concentrating exposure in senior, credit-enhanced structures.

SASB Leverage Has Stepped Up Sharply in 2026

Weighted Average LTV by Origination Year and Property Type



Source: Guggenheim Investments, J.P. Morgan. Data as of 6.30.2026.

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