NON-AGENCY RESIDENTIAL MORTGAGE-BACKED SECURITIES

Resilient Through Volatility, Vigilant on Risk

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

Senior positioning favored in an uncertain macroeconomic backdrop.

Geopolitical tensions in the Middle East and their ripple effects on oil prices reignited inflation concerns, pushing rates higher and spreads wider. The RMBS market weathered the initial volatility. Continued activity and issuance are a testament to the sector's stable conditions, supported by tight lending standards, substantial home equity cushions, and labor market strength—all of which reinforce steady mortgage credit performance. However, the possibility of Middle East tensions re-escalating remains a risk for rates and broader markets.

Sector Commentary

- The 30-year fixed mortgage rate briefly dipped below 6 percent for the first time since September 2022 before climbing to 6.53 percent on global tensions. The rate ended the quarter at 6.43 percent.
- Spreads widened before recovering to near year-end 2025 levels. Non-qualified mortgage (non-QM) AAA spreads widened from 130 basis points at year-end 2025 to 140 basis points before tightening back to 130 basis points by quarter end.
- Second quarter new-issue volume eased to $60 billion from the first quarter but remained 20 percent above the prior year's level. Issuance for 2026 is expected to exceed 2025's total and remain on pace for a post-GFC record despite elevated rates and periodic spread widening.

Investment Themes

- Current market conditions reinforce our conviction to stay senior in the RMBS capital structure. Senior tranches benefit from structural subordination and short two- to four-year average maturities, offering a defensive profile against both credit and market risk.
- Non-Agency mortgages further complement this positioning, carrying lower prepayment risk than Agency MBS with structural features that limit credit and extension risk, while potentially offering stable return profiles and attractive carry income.
- We continue to see opportunities in investment-grade tranches (rated AAA–A) from non-QM transactions and senior securities from closed-end second lien and home equity line of credit transactions. Yields of 5.35–5.90 percent and expected average maturities of three to four years offer a more compelling risk-adjusted profile than A-rated corporate bonds in today's tight spread environment.

By Karthik Narayanan and Roy Park

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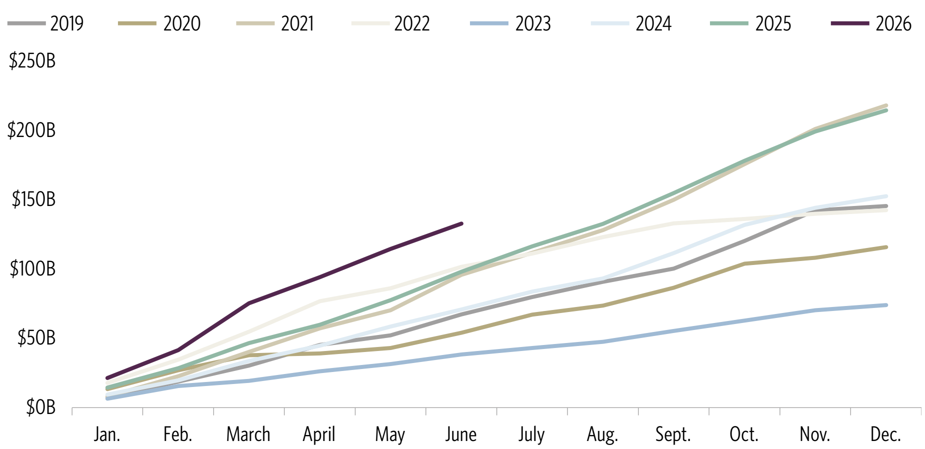
Issuance in 2026 Continues at a Post-GFC Record Pace

NA RMBS Gross Issuance in $B by Year (2019–2026)



Source: Guggenheim Investments, Bank of America Global Research. Data as of 7. 2.2026.

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