

Elevated Rates Complicate Commercial Mortgage Refi

This report is excerpted from the [Fourth Quarter 2026 Fixed-Income Sector Views](#).

We favor senior CMBS with conservatively sized capital structures amid persistently high mortgage rates.

Spreads for top-tier, investment-grade CMBS generally tightened 5–10 basis points quarter-over-quarter due to persistent demand from yield-focused investors. While market technicals remain constructive, the higher interest rate backdrop creates headwinds for commercial real estate given the financing-sensitive nature of the asset class. We continue to favor senior, credit-enhanced exposure in commercial real estate (CRE) CLOs and single asset/single borrower deals backed by institutional sponsors and diversified collateral pools.

Sector Commentary

- Record fixed-annuity sales (\$317 billion in 2025) and investment-grade inflows (over \$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. Non-Agency CMBS supply expectations of \$180 billion set post-Global Financial Crisis (GFC) highs as bond buyers continue to buy new production at tighter spreads.
- Arguably the greatest limitation on further non-Agency CMBS growth is higher Treasury yields, which disincentivize commercial property owners from acquiring or refinancing buildings, creating fewer commercial mortgages to finance.
- Higher rates are changing the collateral composition of the CMBS market. As the curve steepens, floating rate mortgages (which have a lower all-in cost today, but an uncertain cost in the future) have become more common than fixed rate mortgages in newly securitized CMBS pools.
- The backlog of specially serviced loans continues to build as resolution timelines have extended, underscoring the need for active surveillance.

Investment Themes

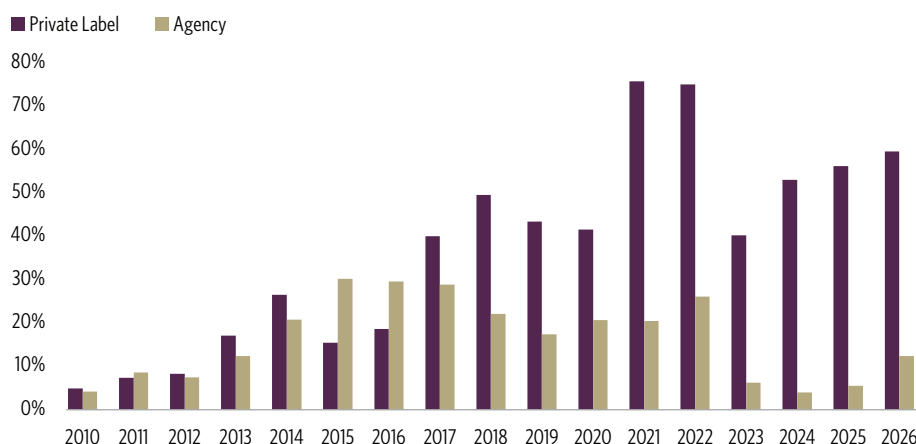
- Credit dispersion is evident in the CMBS market, where losses on investment-grade bonds (including those originally rated AAA) have been realized in recent years. Careful security selection and active portfolio management remain critical.
- Credit issues continue to plague corners of the CRE market, 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.
- Elevated rates should continue to serve as a headwind for already muted refinancings and have the potential to marginally increase serious delinquencies as more loans within the CMBS universe suffer maturity defaults.
- Unlike the run-up in rates in 2022 and 2023, we do not anticipate higher mortgage rates—which have nearly doubled since 2021—will trigger another wholesale repricing of commercial real estate. Mortgage rates should increase more modestly as continued strong demand supports ongoing spread compression.

By Tom Nash, Hongli Yang, and Zach Johnson

Since 2021, private label CMBS issuance has been dominated by floating-rate paper. Only recently has the percentage of floating-rate Agency CMBS started to increase. As rates remain elevated, we anticipate the strong demand for shorter term, floating-rate financing to continue.

Floating-Rate Transactions Dominate Private Label Issuance

U.S. CMBS floating % of total originations by origination year



Source: Guggenheim Investments, J.P. Morgan, Trepp, 1010data. Data as of 9.18.2026.



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