

Opportunities in an Elevated Rate Environment

Higher rates for an extended period should benefit securities that offer income potential.

We find the non-agency RMBS sector attractive due to its positive credit fundamentals and potential to provide robust investment income. Tight lending standards, significant home equity gains, and a stable labor market provide favorable conditions for mortgage credit performance. The reversal in mortgage rates makes a refinance wave and pickup in prepayment activity unlikely in the near future. Additionally, higher-for-longer interest rates should benefit higher coupon, income-producing securities.

Sector Commentary

- New issue volume for 2024 was \$155 billion—almost double 2023’s \$80 billion—and the second highest since 2007, according to JP Morgan. Spread performance was strong, with most subsectors ending the year at or near their tightest levels of the year.
- The most recent Case-Shiller Index reading in October 2024 showed 3.6 percent year-over-year home price growth, continuing a slowing trend since March. Favorable demand and supply dynamics, however, combined with stable consumer credit should support steady mortgage credit performance.
- The average 30-year fixed mortgage rate declined to 6.1 percent in September, 1.2 percentage points off its May 2024 peak, before rising nearly 0.8 percentage points by year end. The backup in rates raised concerns that interest rates will remain high longer than expected and limit prepayment activity even for mortgages originated in 2023 and 2024.

Investment Themes

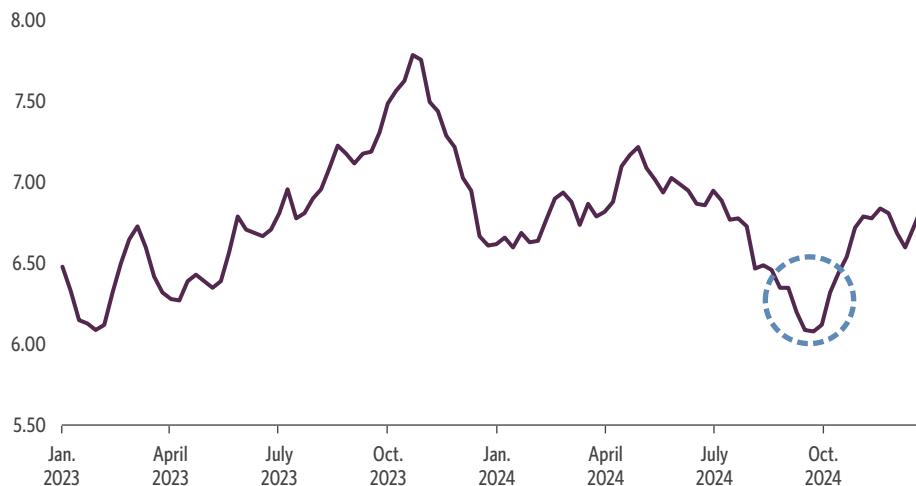
- Should rates remain elevated for an extended period, income is expected to take precedence over price movement. High coupon securities that offer wider spreads and higher yields should benefit in an elevated rate environment with low prepayment expectations.
- We favor those transactions that offer solid carry income with structures that limit extension risk and can withstand a wide range of credit stresses.
- Opportunities include investment-grade securities from non-qualified mortgage (non-QM) transactions and senior securities from closed-end second (CES) lien and home equity line of credit (HELOC) transactions, which offer attractive valuations relative to their credit risks.

By Karthik Narayanan and Roy Park

The average 30-year fixed mortgage rate declined to 6.1 percent in September, 1.2 percentage points off its May 2024 peak, before reversing course and rising nearly 0.8 percentage points by year end, tempering expectations of a refinance wave.

Average 30-Year Fixed Mortgage Rate Closed 77 Basis Points Higher in 2024 Than Its Year Low

Cumulative Percentage of Outstanding Balance



Source: Guggenheim Investments, J.P. Morgan, Freddie Mac, and Bloomberg. Data as of 12.31.2024.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the authors, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

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.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Private Investments, LLC.

© 2025, Guggenheim Partners, LLC. All Rights Reserved. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Guggenheim Partners, LLC. GPIM 63649