Non-Agency Residential Mortgage-Backed Securities

Gross Issuance to Remain Tepid

Market conditions set the stage for steady mortgage credit performance.

We remain constructive on the non-Agency RMBS sector amid its limited new issue volume and positive credit fundamentals. Despite the year-to-date decline in mortgage rates, new origination volume and home sales activity are expected to remain muted as borrowers remain locked-in to their existing low mortgage rates, although existing home supply is ticking up slightly. Tight lending standards, accumulated home equity, and a stable labor market provide favorable conditions for mortgage credit performance.

Sector Commentary

- New issue volume through October 2024 of $100 billion is exceeding the full-year 2023 total of $78 billion. Nevertheless, the projected total for 2024 is still expected to be near the lowest level since 2020 due to low overall home purchase activity.
- Housing market fundamentals continue to benefit from limited supply. The most recent Case-Shiller Index reading, July 2024, showed 5.9 percent year-over-year price growth. Combined with a stable consumer credit profile, these conditions lay the foundation for steady mortgage credit performance.

Investment Themes

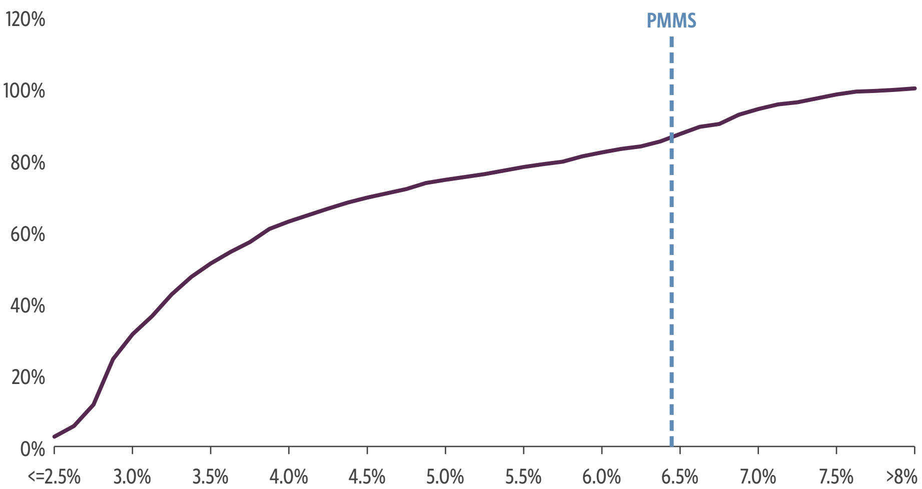
- We continue to favor transactions with structures that limit extension risk and can withstand a deterioration of credit performance that would reflect severe economic conditions.
- Opportunities include investment-grade securities from non-qualified mortgage (non-QM) transactions and senior securities 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

While the average 30-year fixed mortgage rate declined 78 basis points from its peak in May, only 15 percent of borrowers have an economic incentive to refinance. Therefore, the recent rate move is not expected to significantly increase refinance activity or new issue volume.

Just 15% of Mortgages Have Interest Rates Above the Current 30-Year Fixed Rate

Cumulative Percentage of Outstanding Balance



Source: Guggenheim Investments, eMBS, Freddie Mac, and Goldman Sachs Global Investment Research. Data as of 10.17.2024. PMMS = Freddie Mac's Primary Mortgage Market Survey.

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