

# Opportunities in non-Agency RMBS Subsectors

**Closed-End Second (CES) lien and Home Equity Lines of Credit (HELOC) transactions offer attractive valuations relative to their credit risks.**

Positive credit fundamentals and technical tailwinds reinforce our favorable view of the non-Agency RMBS sector. Built-up home equity, the supply/demand imbalance for housing, and improved consumer credit provide a positive backdrop for mortgage credit performance. Despite increased new issue volume relative to 2023, RMBS valuations should benefit from limited supply due to low home sales activity and the effect of homeowners locking in historically low interest-rate mortgages.

## Sector Commentary

- Housing market fundamentals continue to benefit from limited supply. The April Case-Shiller Index reading showed year-over-year growth in home prices of 6.3 percent. Combined with a resilient labor market, these conditions lay the foundation for stable mortgage credit performance.
- While new issue volume is 50 percent higher year over year versus the same period in 2023, overall issuance for 2024 is forecasted to be near the lowest level since 2017.
- Areas for growth for Non-Agency RMBS have been the CES and HELOC subsectors. These products allow consumers to tap the record levels of built-up home equity. However, this subsector represents only 10 percent of this year’s volume and is unlikely to significantly affect new issue levels for 2024. Consequently, spread movement is expected to follow the movement in the larger Agency market.

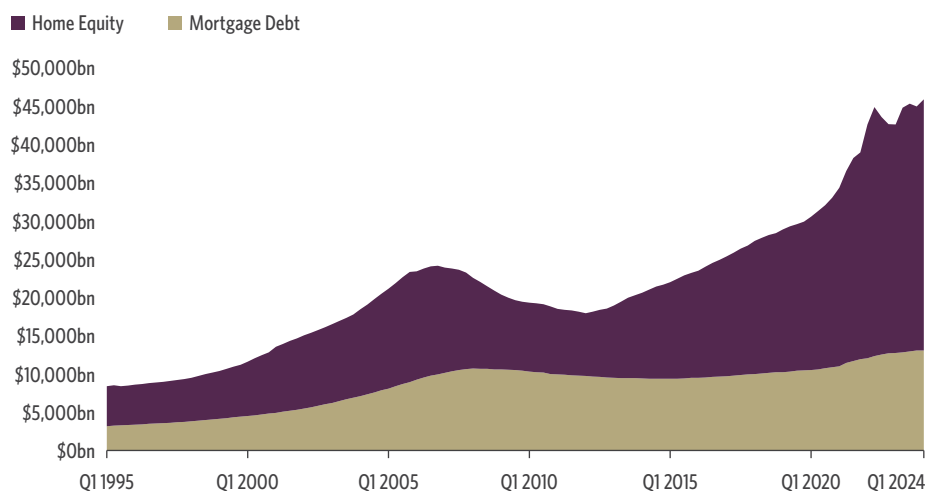
## Investment Themes

- We favor transactions with structures that limit extension risk and can withstand deterioration of credit performance from severe economic conditions. Such opportunities include investment-grade securities from non-qualified mortgage (non-QM) transactions and senior securities from CES lien and HELOC transactions, which offer attractive valuations relative to their credit risks.

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Areas for growth for Non-Agency RMBS have been the CES and HELOC subsectors. Senior securities from CES lien and HELOC transactions offer attractive valuations relative to their credit risks.

### Rising Home Equity Creates a Growth Opportunity for CES Loans and HELOCs in the Non-Agency RMBS Sector



Source: Guggenheim Investments, Bloomberg, and Federal Reserve. Data as of March 2024.

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