

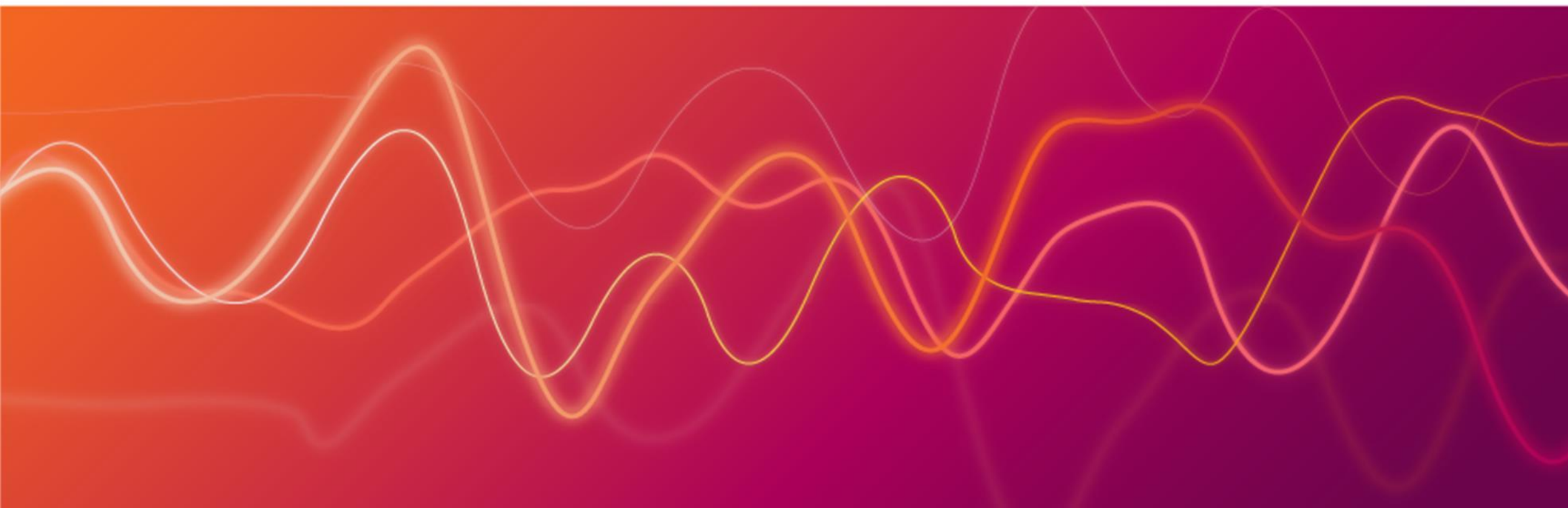
Morgan Stanley

INVESTMENT MANAGEMENT

# Agency MBS & Housing Market Monitor

Mortgage & Securitized Team

Q3 2025



## Important Information and Disclosure

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Data provided is for informational use only. See end of report for important additional information.

# Performance Review

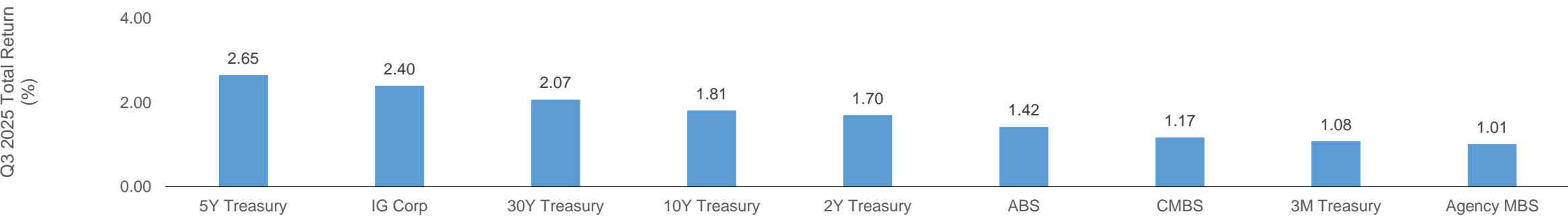


PERFORMANCE REVIEW

Agency MBS Performance

U.S. Treasury yields fell and the yield curve steepened in the third quarter of 2025. The 2-year yield fell by 11 bps while the 10-year and 30-year Treasury yields were down 8 bps and 4 bps, respectively. At its September meeting the U.S. Federal Reserve cut the Fed Funds Rate by 0.25% to a current target rate of 4.00 – 4.25%.

| ICE BofA U.S. Mortgage-Backed Securities Index | Q3 2025 | YTD  | 1-Year | Annualized |        |         |
|--|---------|------|--------|------------|--------|---------|
|  |         |      |        | 3-Year     | 5-Year | 10-Year |
| Total Return (%)                               | 2.40    | 6.64 | 3.26   | 5.03       | -0.18  | 1.42    |
| Price Return (%)                               | 1.20    | 2.98 | -1.45  | 0.38       | -3.44  | -1.48   |
| Income Return (%)                              | 0.98    | 2.98 | 3.82   | 3.60       | 3.18   | 3.35    |
| Paydown Return (%)                             | 0.22    | 0.68 | 0.89   | 1.02       | 0.08   | -0.45   |



|                    |      |      |       |      |      |      |      |      |      |
|--------------------|------|------|-------|------|------|------|------|------|------|
| Yield to Worst (%) | 4.82 | 4.79 | 4.73  | 4.15 | 5.00 | 4.64 | 3.74 | 3.90 | 3.61 |
| Duration (Years)   | 6.65 | 5.50 | 15.99 | 8.05 | 3.63 | 2.14 | 4.54 | 0.23 | 1.91 |

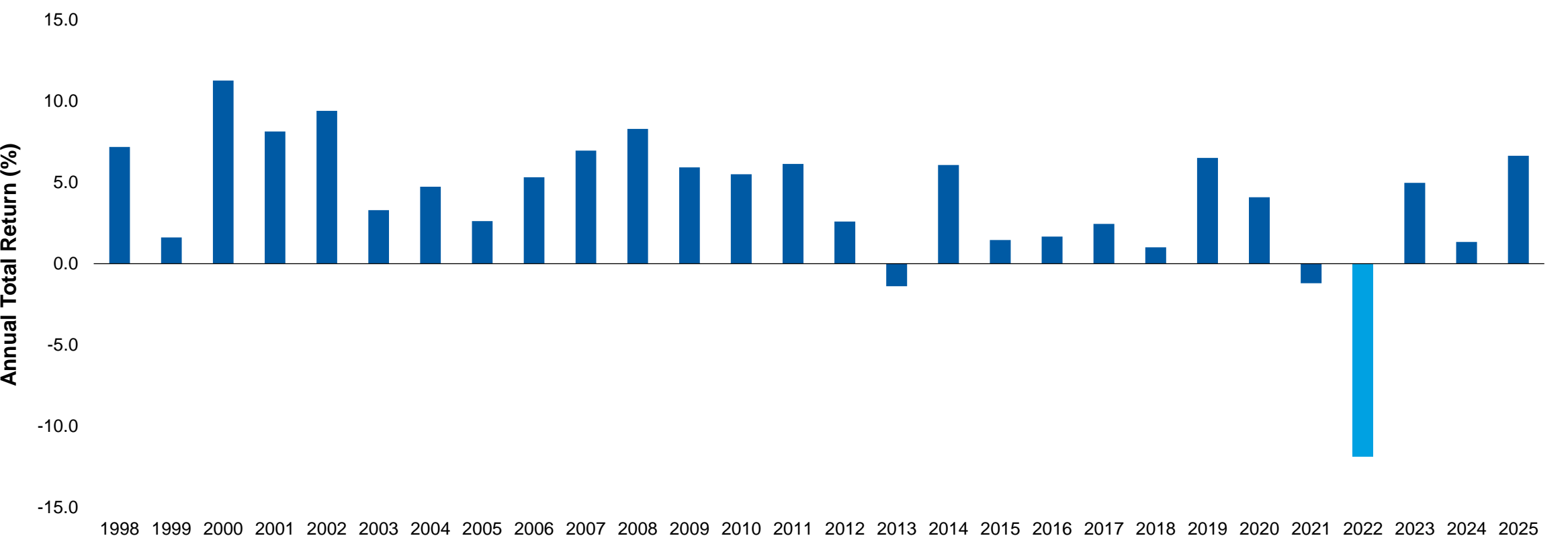
Source: Bloomberg, ICE Data Indices, LLC, as of 9/30/25. Agency MBS represented by ICE BofA US MBS Index. ABS represented by ICE BofA U.S. Fixed-Rate ABS Index. CMBS represented by ICE BofA U.S. Fixed-Rate CMBS Index. IG Corporate represented by ICE BofA US Corporate Index. 3-Month Treasury represented by ICE BofA U.S. 3-Month Treasury Bill Index. 2-Year Treasury represented by ICE BofA Current U.S. 2-Year Treasury Index. 5-Year Treasury represented by ICE BofA Current U.S. 5-Year Treasury Index. 10-Year Treasury represented by ICE BofA Current U.S. 10-Year Treasury Index. 30-Year Treasury represented by ICE BofA Current U.S. 30-Year Treasury Index. **Past performance is not a reliable indicator of future results.** Data provided is for informational use only. It is not possible to invest directly in an Index. See end of material for important additional information and disclosures.

PERFORMANCE REVIEW

Agency MBS Annual Returns

The agency MBS market posted its best quarterly return in the last year during Q3 2025, and it is now up more than 6.6% YTD. The sector has benefited from a combination of higher coupon income and falling interest rates in recent months.

ICE BofA US MBS Index – Annual Returns

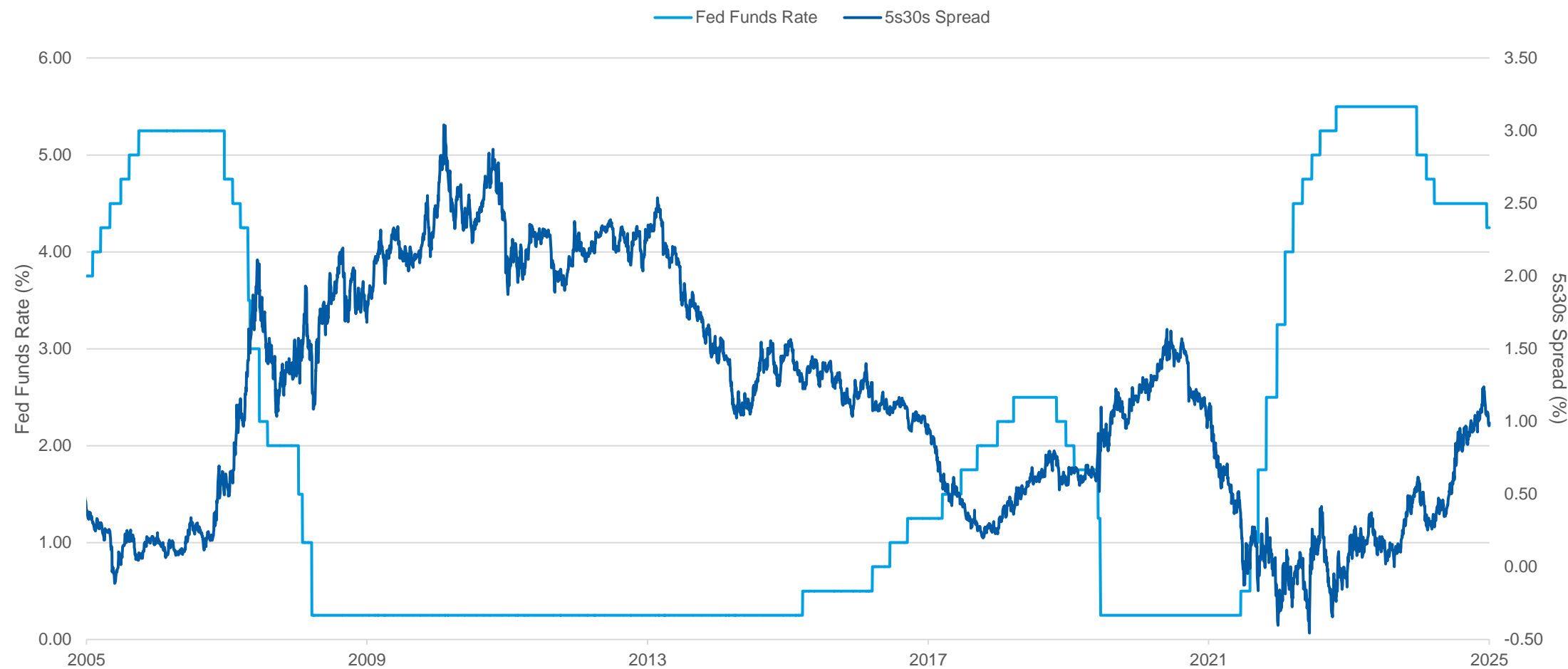


Source: Bloomberg, as of 9/30/25. Agency MBS represented by ICE BofA US MBS Index. **Past performance is not a reliable indicator of future results.** Data provided is for informational use only. It is not possible to invest directly in an Index. See end of material for important additional information and disclosures.

PERFORMANCE REVIEW

Treasury Yield Curve and Federal Funds Rate

Over the course of the last several months, the market began pricing in a higher likelihood of the Fed resuming its rate-cutting cycle, and this was reflected in the steepening of the yield curve, in which short-term yields fell while long-end yields modestly increased. As previously noted, the Fed delivered, cutting rates by 25 basis points at its September meeting.



Source: Bloomberg. As of 9/30/2025. Past performance is not a reliable indicator of future results.

# Housing Market Update





HOUSING MARKET UPDATE

Mortgage Rates

Mortgage rates remain well-above long-term averages due in large part to stubbornly high long-end Treasury yields. While expectations for a more accommodative Federal Reserve in the coming quarters have persisted for several quarters, mortgage rates only just began to meaningfully decrease, ending the quarter nearly 40 basis points lower at 6.34%.

30-Year Fixed-Rate Mortgage Average

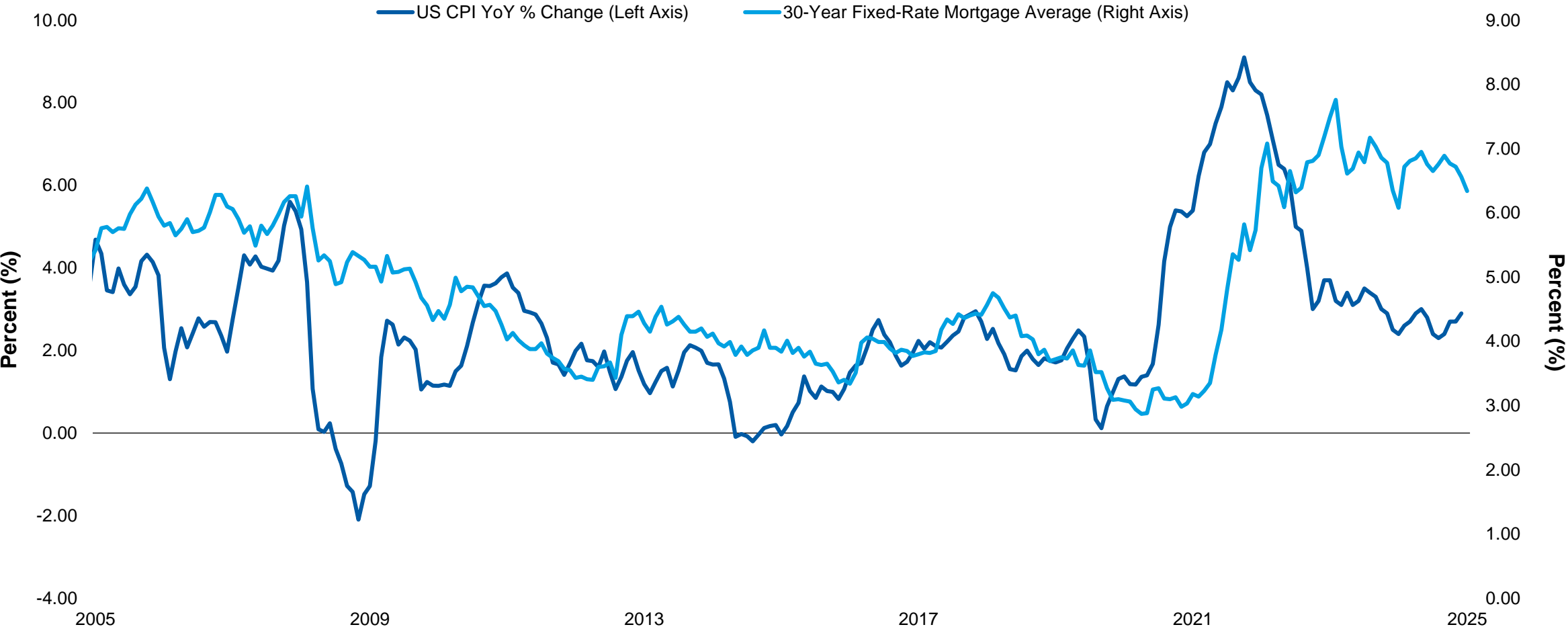


Source: Federal Reserve Economic Data. As of 10/2/25. **Past performance is not a reliable indicator of future results.** See end of material for important additional information and disclosures.

HOUSING MARKET UPDATE

US Inflation and 30-Year Mortgage Rates

Falling inflation typically coincides with lower mortgage rates, yet that historically trend has not played out in recent quarters. US CPI has cooled dramatically since peaking a few years ago, while mortgage rates remain extremely high relative to history.



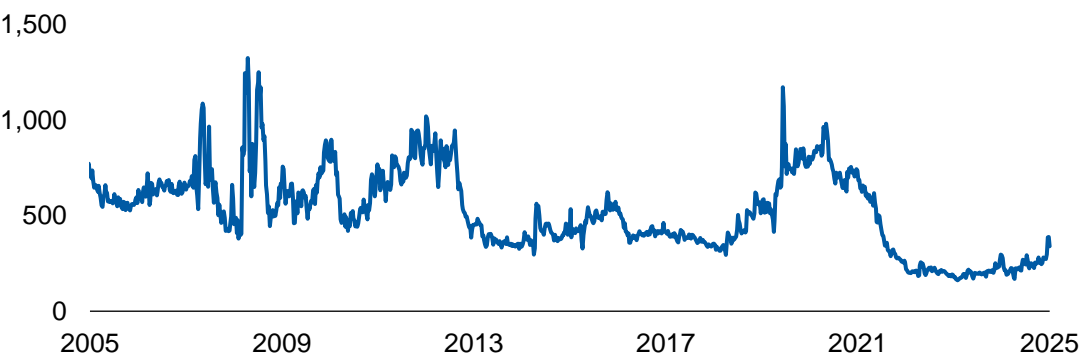
Source: Federal Reserve. As of 9/30/25. CPI represents consumer price index, or inflation. Bloomberg

HOUSING MARKET UPDATE

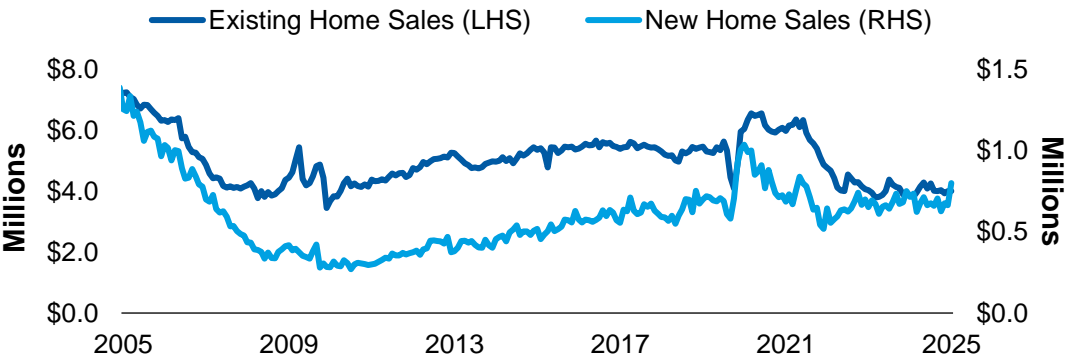
Home Sales

Home sale activity remains extremely depressed relative to history. However, while new and existing home sales remain below-trend, mortgage applications have begun to inflect higher.

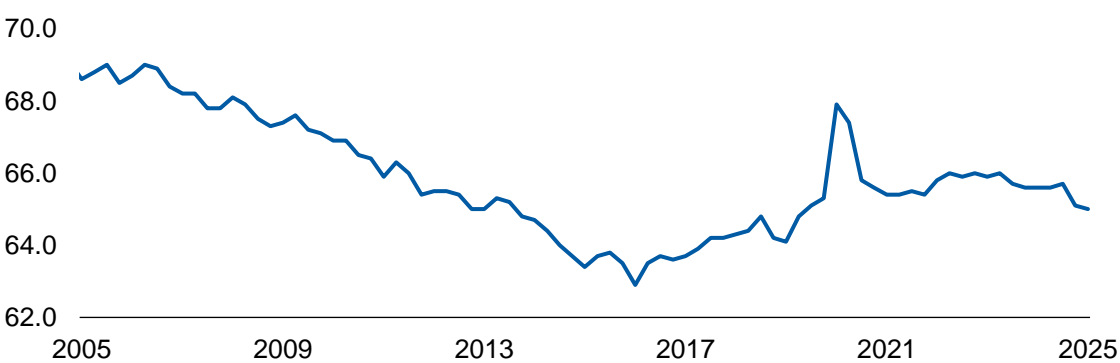
MBA Weekly Mortgage Applications Index <sup>1</sup>



New & Existing Home Sales<sup>2</sup>



U.S. Homeownership Rate (%)<sup>3</sup>



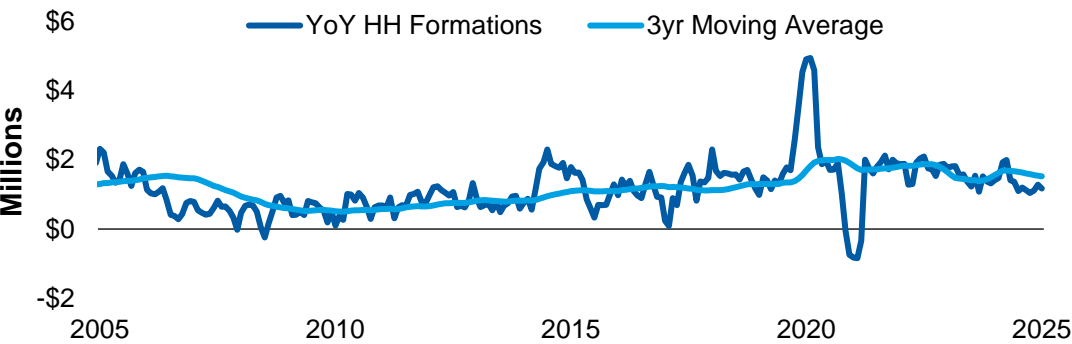
Source: FactSet, Bloomberg. <sup>1</sup>As of 9/26/25. <sup>2</sup>As of 8/31/25. Seasonally adjusted annual rate. <sup>3</sup>As of 6/30/25.

HOUSING MARKET UPDATE

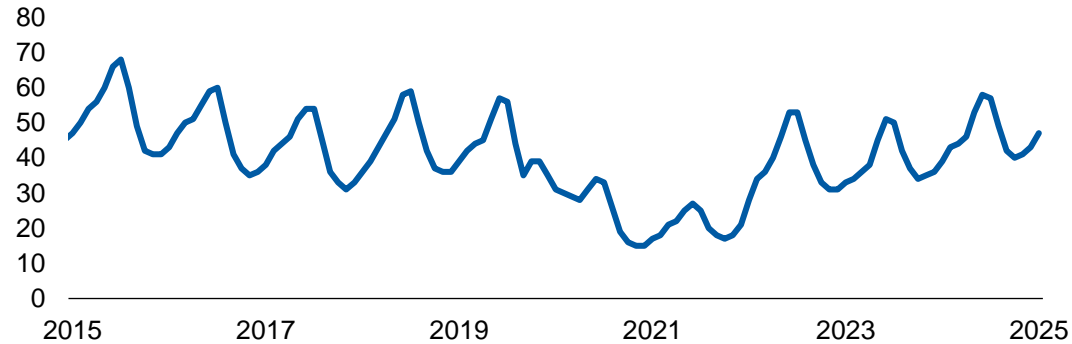
Home Sales (continued)

Housing supply also remains quite low, but contrary to home sales activity, the tightness in supply appears to be easing. The number of single-family homes available for sale has been increasing, as have the months of supply of single-family homes.

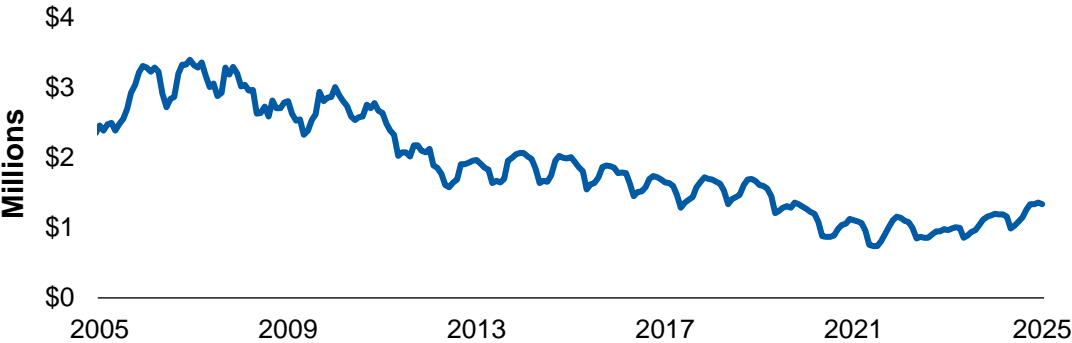
Year-over-Year Change in Household Formations<sup>1</sup>



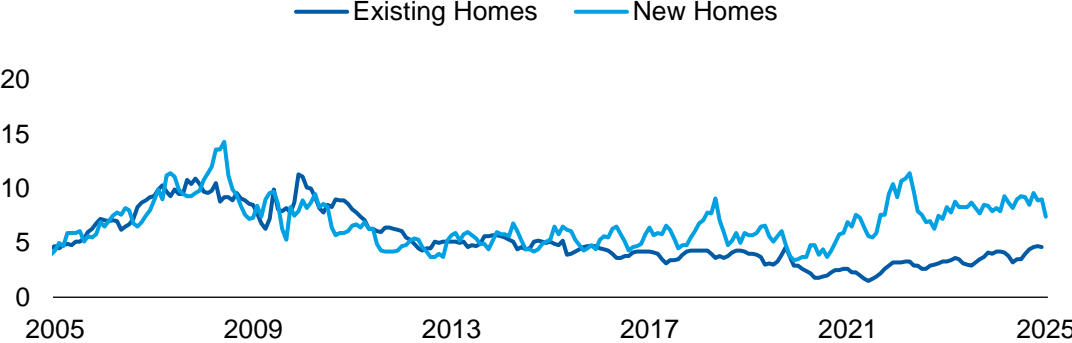
Median Days on Market – National Average<sup>2</sup>



Single Family Homes Available for Sale<sup>2</sup>



Months of Supply of Single Family Homes<sup>2</sup>



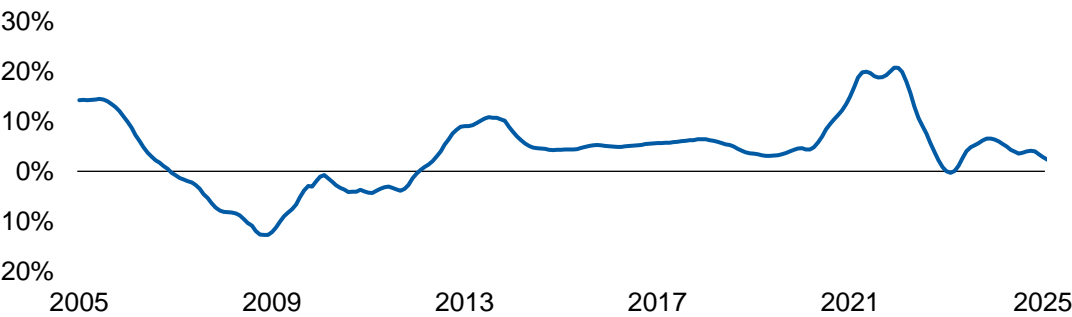
Source: Factset, Bloomberg, Redfin. <sup>1</sup>As of 6/30/25. <sup>2</sup>As of 8/31/25.

HOUSING MARKET UPDATE

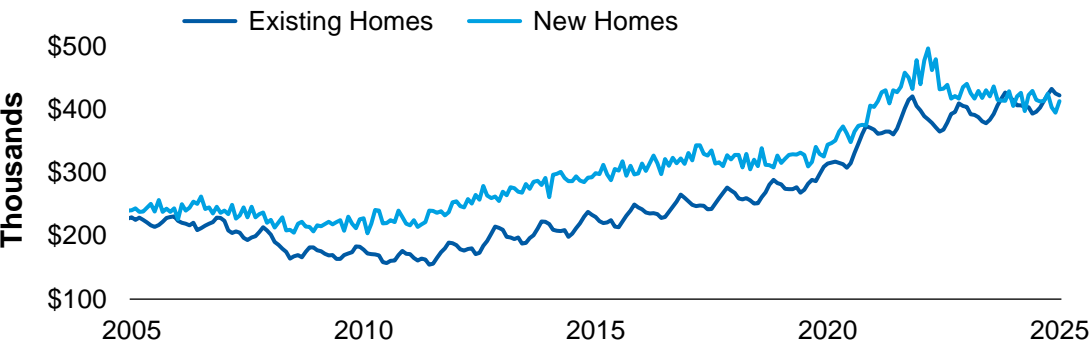
Home Prices

Home prices have continued to rise, but that pace of growth has slowed as more supply has hit the market. The low level of housing affordability may also be impacting demand, which may put further pressure on home prices nationally.

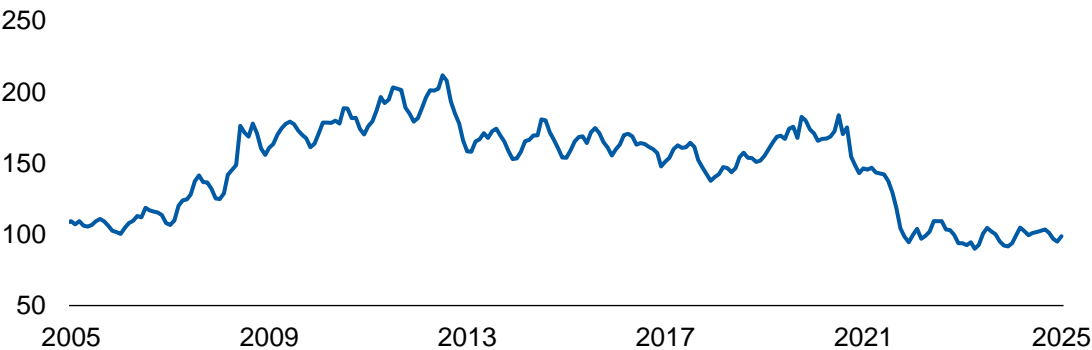
S&P/Case-Schiller U.S. National Home Price Index<sup>1</sup>  
Year-over-Year % Change



Median Home Prices – New & Existing Homes<sup>2</sup>



NAR Housing Affordability Index<sup>3</sup>



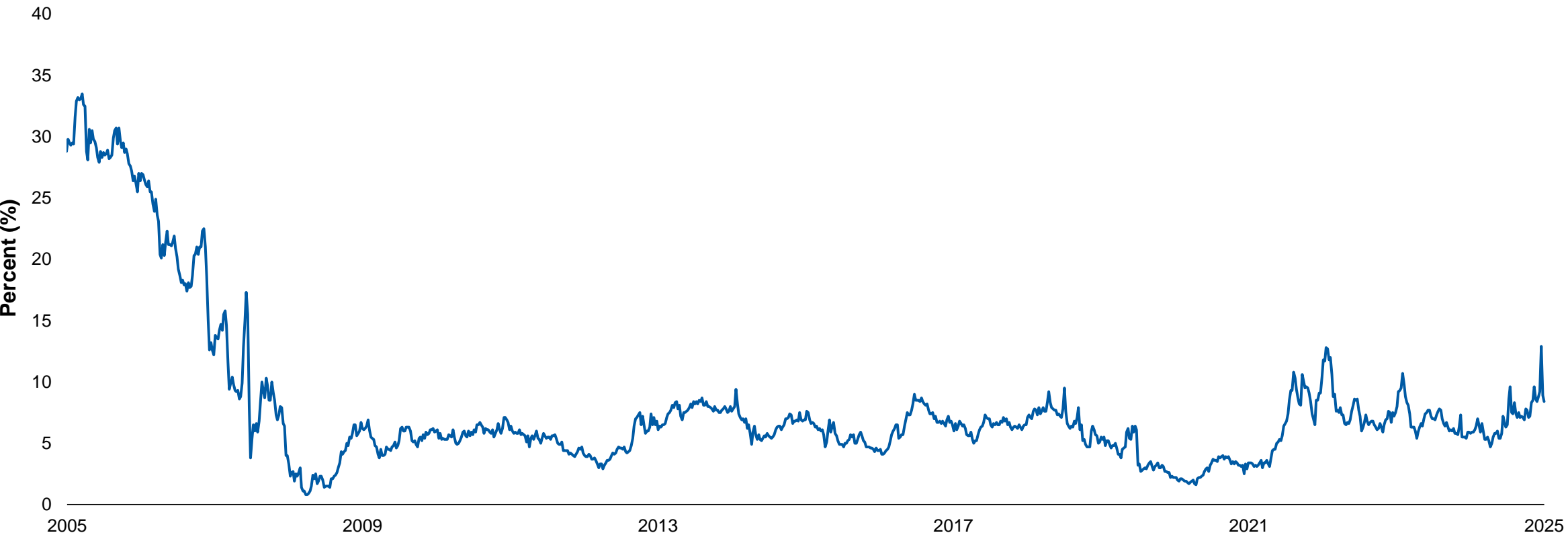
Source: FactSet, Bloomberg. <sup>1</sup>As of 7/31/25. <sup>2</sup>As of 8/31/25. <sup>3</sup>As of 7/31/25

HOUSING MARKET UPDATE

Adjustable-Rate Mortgages (ARM) Share of Origination

As housing has become less affordable, an increasing number of homebuyers are turning to adjustable-rate mortgages, as rates on those products are (for a period of time) lower. While this figure has increased in recent quarters, briefly touching its post-Financial Crisis high, it remains well-below the levels seen pre-Financial Crisis.

Adjustable-Rate Mortgages - Share of Origination (%)



Source: Bloomberg as of 9/26/25. Data provided is for informational use only. See end of material for important additional information and disclosures.

HOUSING MARKET UPDATE

Refinancing Activity

The MBA Refinance Index had been extremely depressed for the last several years, but it recently began surging higher in response to the rally in mortgage rates.

MBA Refinance Index



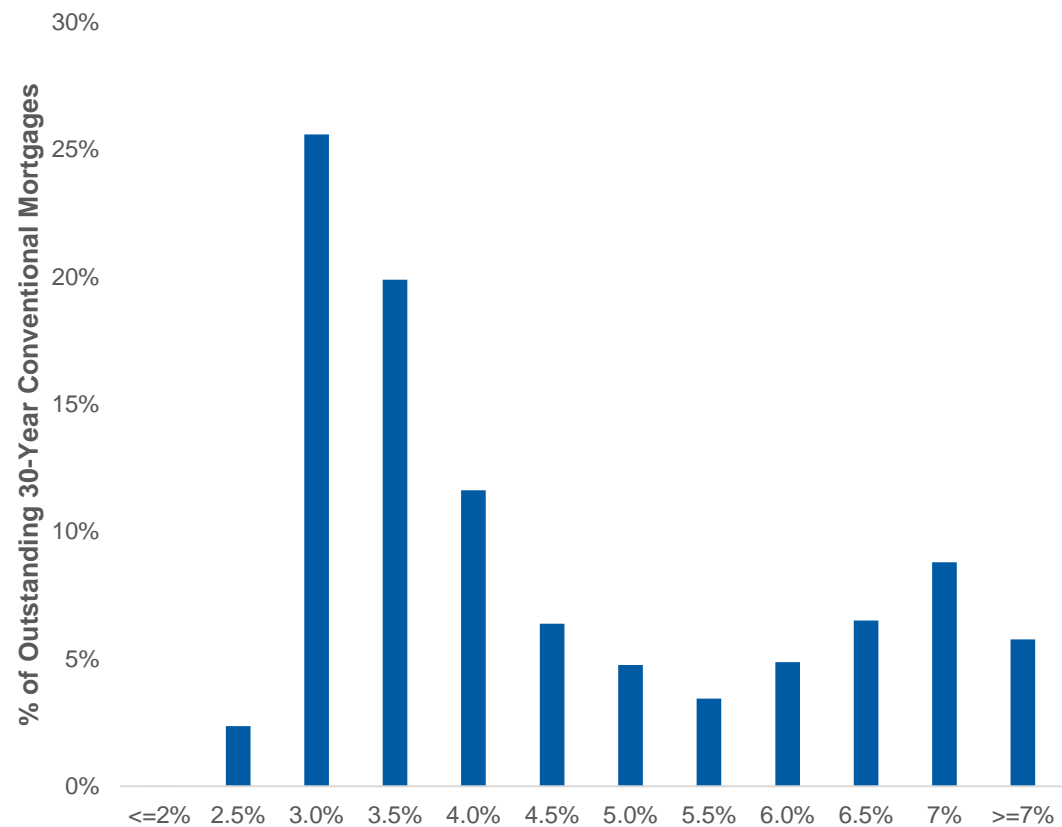
Source: Bloomberg as of 9/26/25. Data provided is for informational use only. See end of material for important additional information and disclosures.

HOUSING MARKET UPDATE

Future Refinancing Potential

The fall in refi activity has likely caught few people off guard given how uneconomical it is for most homeowners to refinance their mortgages. The average 30-year fixed-rate mortgage is still higher than nearly 20% of all outstanding conventional mortgages.

Outstanding Mortgage Borrower Interest Rate



Percentage of Refinanceable Mortgages



Source: RiskSpan. As of 9/30/25.

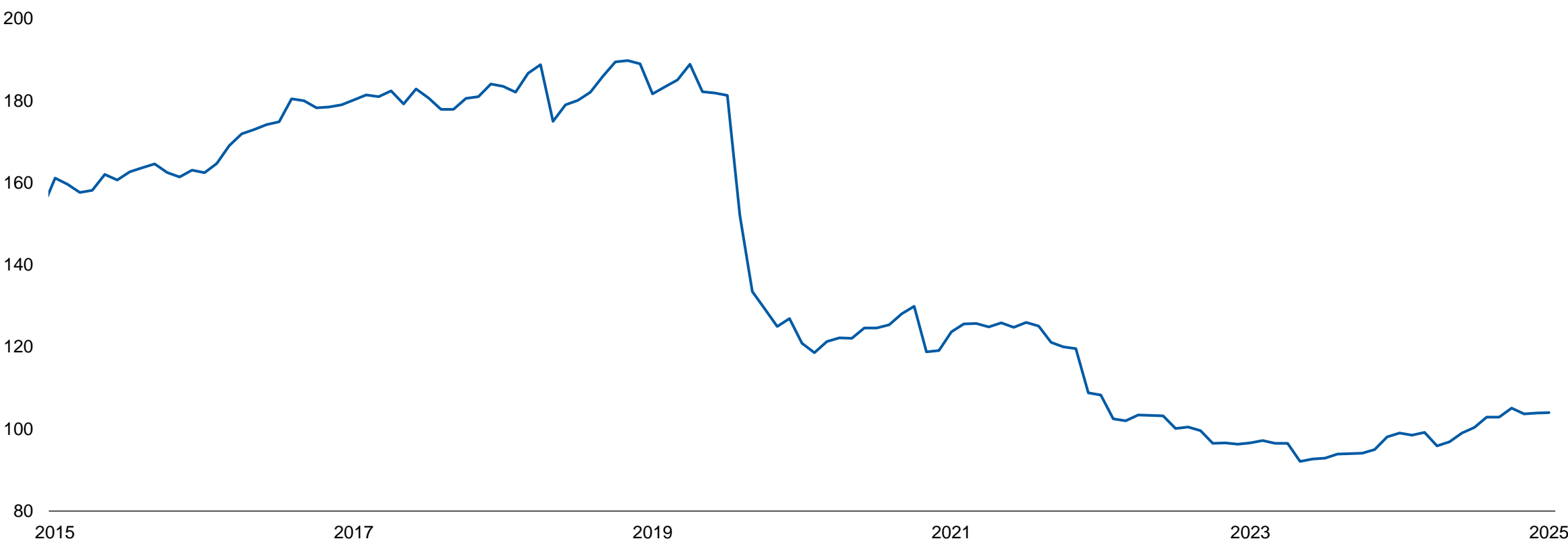


HOUSING MARKET UPDATE

Credit Availability

Mortgage credit availability has increased in recent quarters but remains near 10-year lows, as higher mortgage rates have negatively impacted the overall mortgage credit landscape. Higher rates also led to falling cash-out refinance activity, which had previously been on the rise due to higher home prices and growing levels of home equity.

MBA Mortgage Credit Availability Index



Source: Mortgage Bankers' Association, Bloomberg, Freddie Mac. As of 8/31/25.

# Agency MBS Market Update

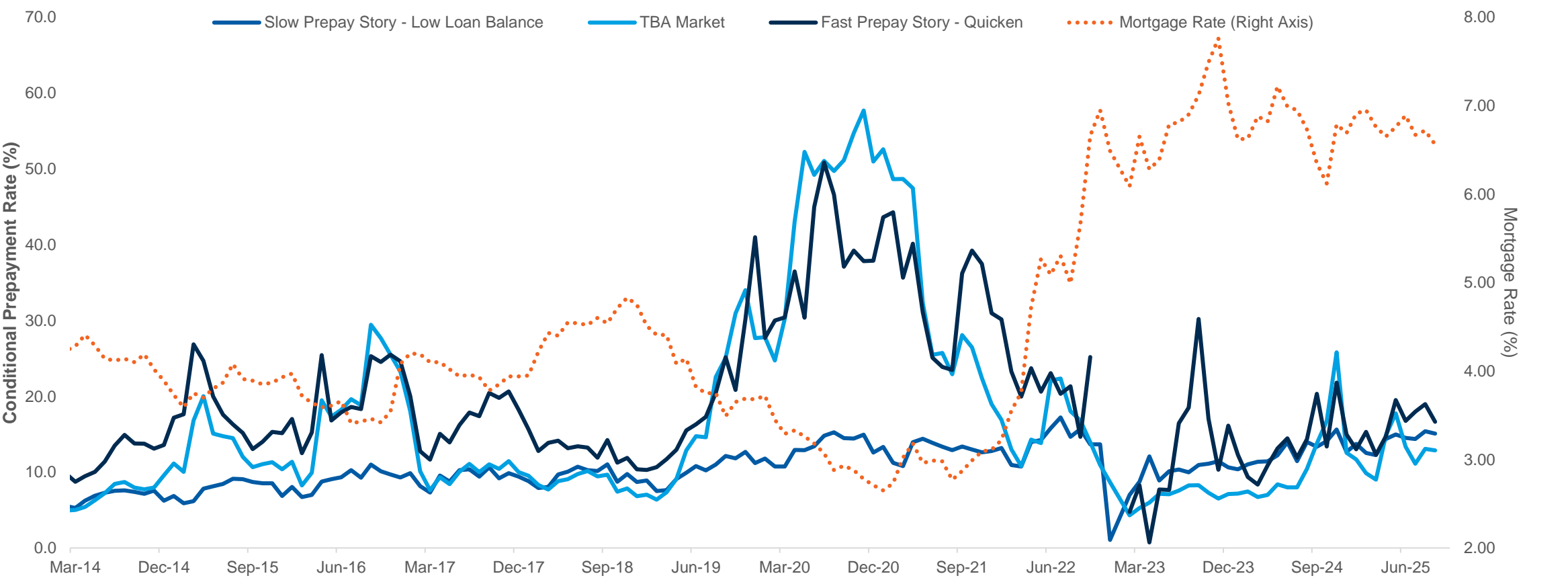


AGENCY MBS MARKET UPDATE

Prepayment Speeds

MBS prepayment speeds have picked up recently, but they remain incredibly slow following the rise in mortgage rates in 2021 and 2022. Importantly, there are noticeable differences depending on the underlying collateral.

Mortgage Rates and Prepayment Speeds



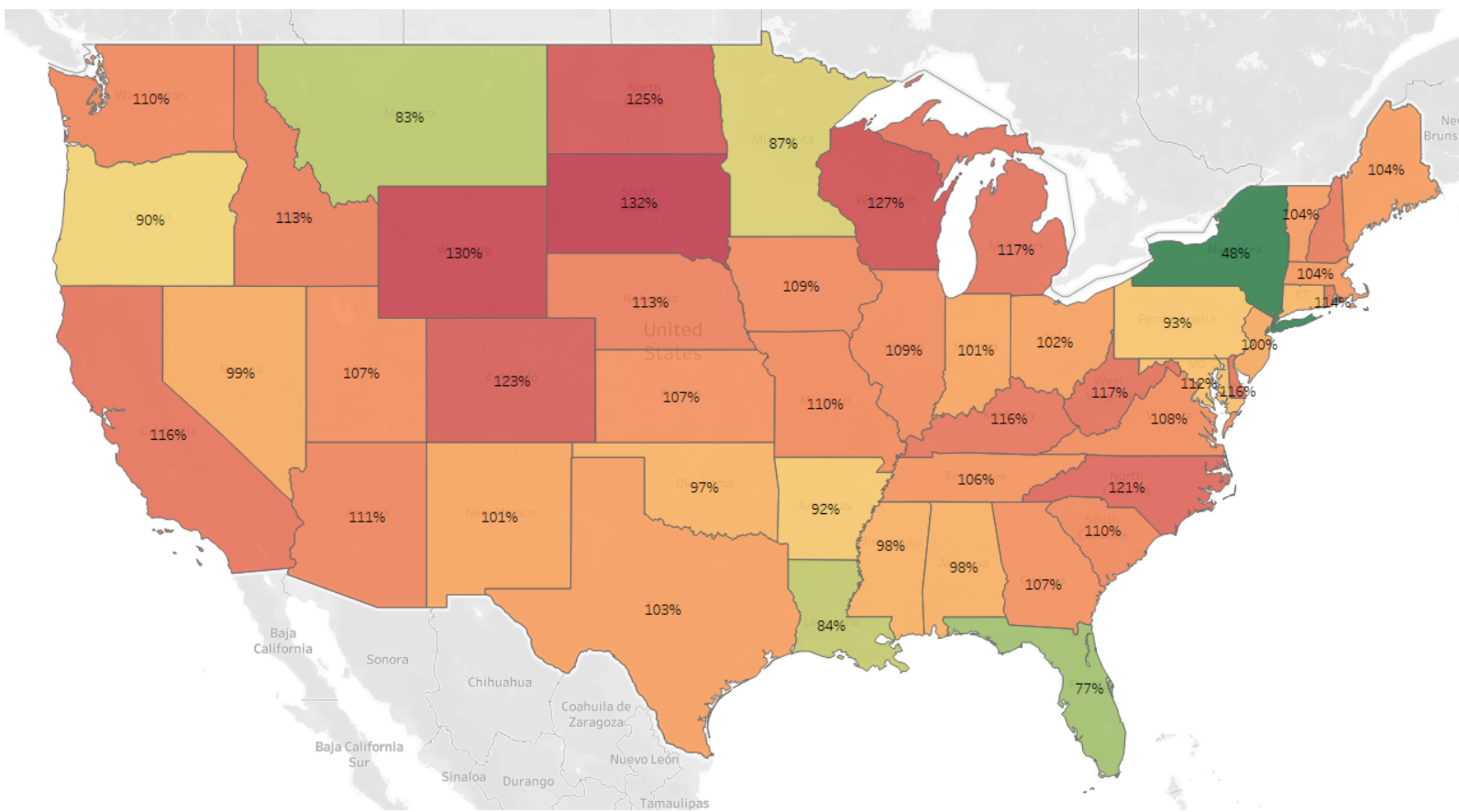
Source: Eaton Vance, RiskSpan. As of 9/30/25. Slow Prepay Story – Low Loan Balance represents an MBS pool in which the underlying mortgages have a low outstanding principal balance. TBA Market represents the generic agency MBS market. Fast Prepay Story – Quicken represents an MBS pool in which the underlying mortgages are serviced by Quicken Loans.

AGENCY MBS MARKET UPDATE

Prepayment Speeds

Prepayment speeds also often vary by geography, as some states may experience greater refinancing or home purchase activity depending on regional housing trends or even state and local regulations. Interestingly, the cooling of the housing market has caused prepaes to dramatically slow in many of the states that had historically had some of the fastest prepayment speeds.

3-month CPRs as % of cohort speed



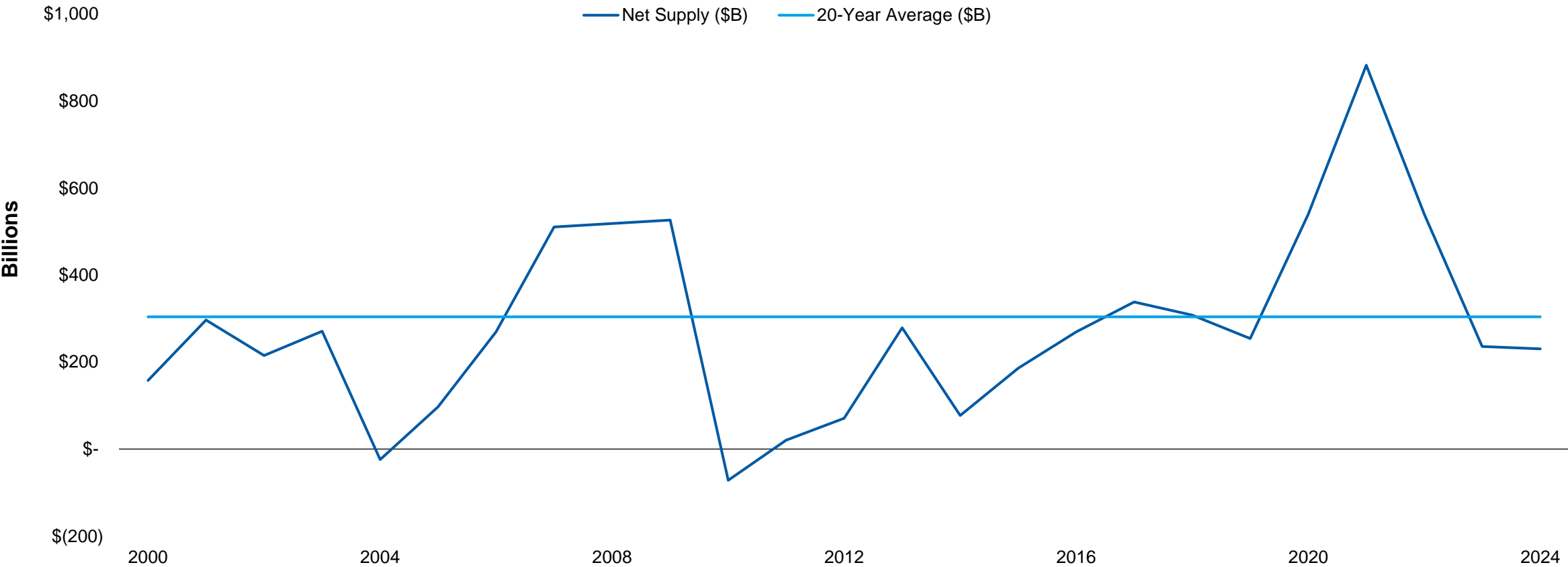
Source: RiskSpan. As of 9/30/25. Percentages reflect aggregate state prepayment speeds across all coupons relative to the aggregate universe prepayment speed across all coupons.

AGENCY MBS MARKET UPDATE

Agency MBS Supply

After hitting a record high in net issuance in 2021, Agency MBS supply fell dramatically in 2022 as higher mortgage rates dampened refinancing activity and cooled the U.S. housing market. Issuance has been below the 20-year average for several years now.

Agency MBS Net Issuance



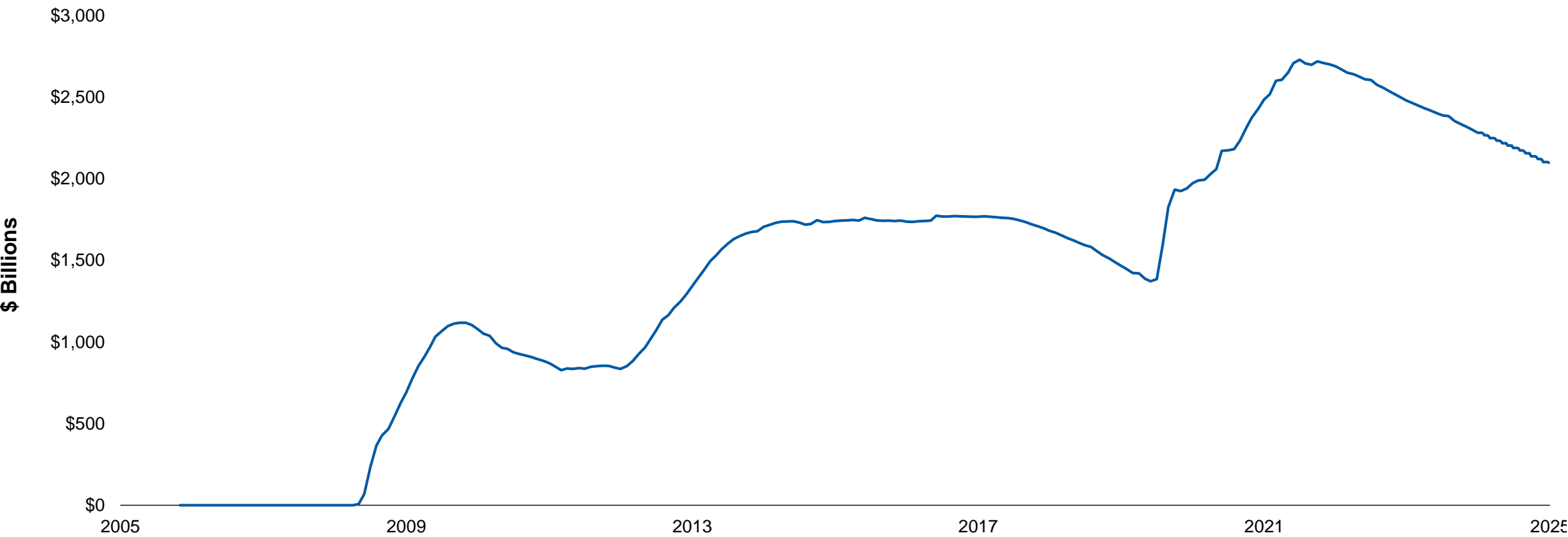
Source: JP Morgan. As of 12/31/24. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

AGENCY MBS MARKET UPDATE

Federal Reserve MBS Holdings

The Fed continued its balance sheet reduction in the first quarter, reducing its MBS holdings by nearly \$45 billion. With the Fed now easing monetary policy through cuts to the Fed Funds rate, many market participants are wondering how much longer the Fed’s balance sheet runoff will continue.

Fed MBS Holdings



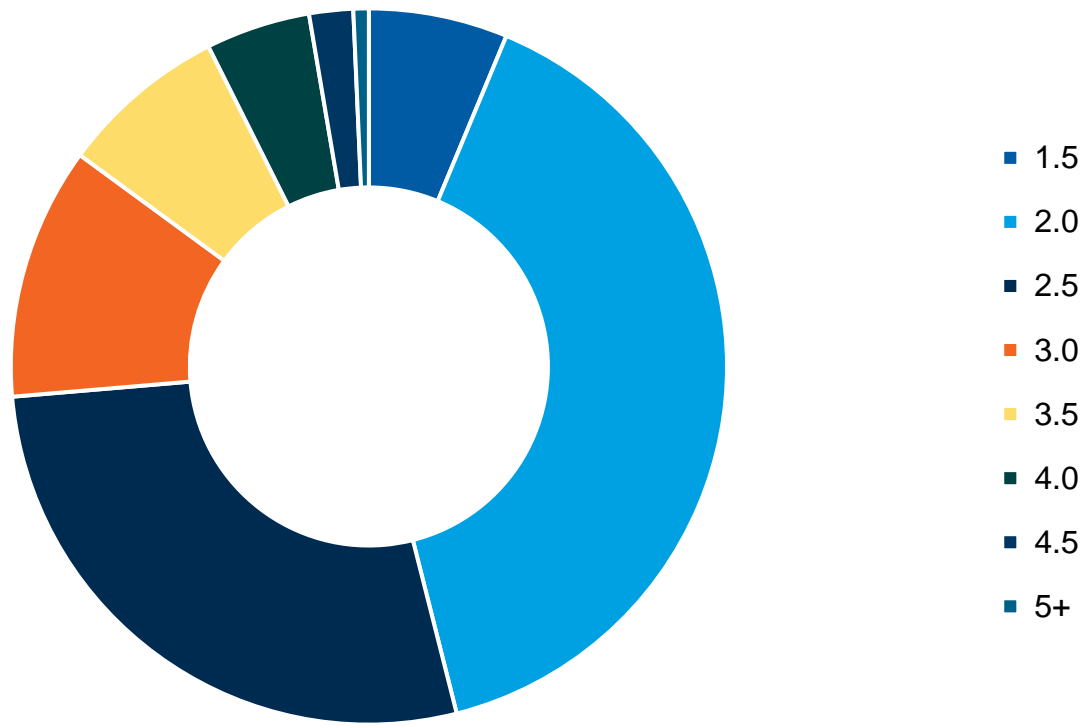
Source: Federal Reserve. As of 9/24/25.

AGENCY MBS MARKET UPDATE

Federal Reserve MBS Holdings (continued)

As the Fed generally focused its quantitative easing (QE) purchases on the coupons where origination was the highest, its MBS portfolio is still dominated by 2% and 2.5% coupon MBS.

Fed MBS Holdings by Coupon (\$B)



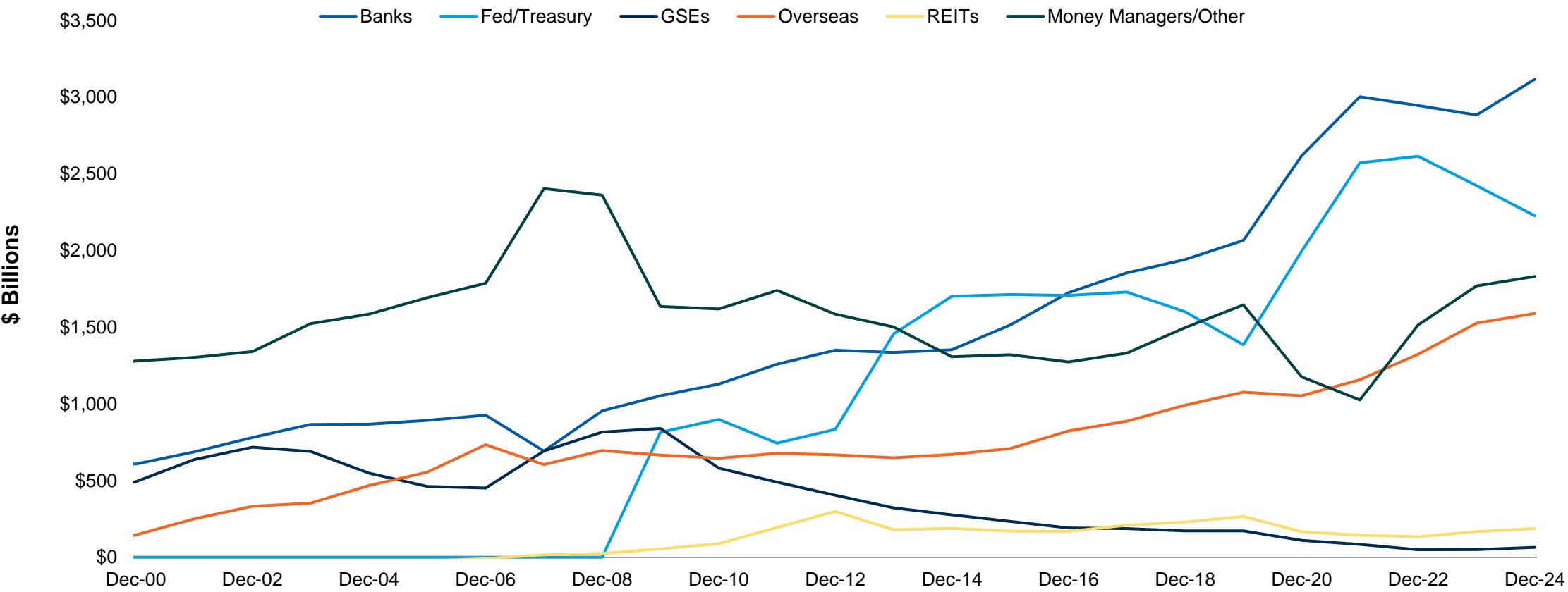
Source: Federal Reserve. As of 9/24/25.

AGENCY MBS MARKET UPDATE

Agency MBS Ownership

The Agency MBS market has an extremely diverse investor base. While the Fed is decreasing the size of its MBS portfolio, money managers have picked up some of that slack. In addition, bank holdings, which had been muted for much of the last few years, are beginning to increase as well.

Agency MBS Holdings (\$B)



Source: Morgan Stanley. As of 12/31/24.

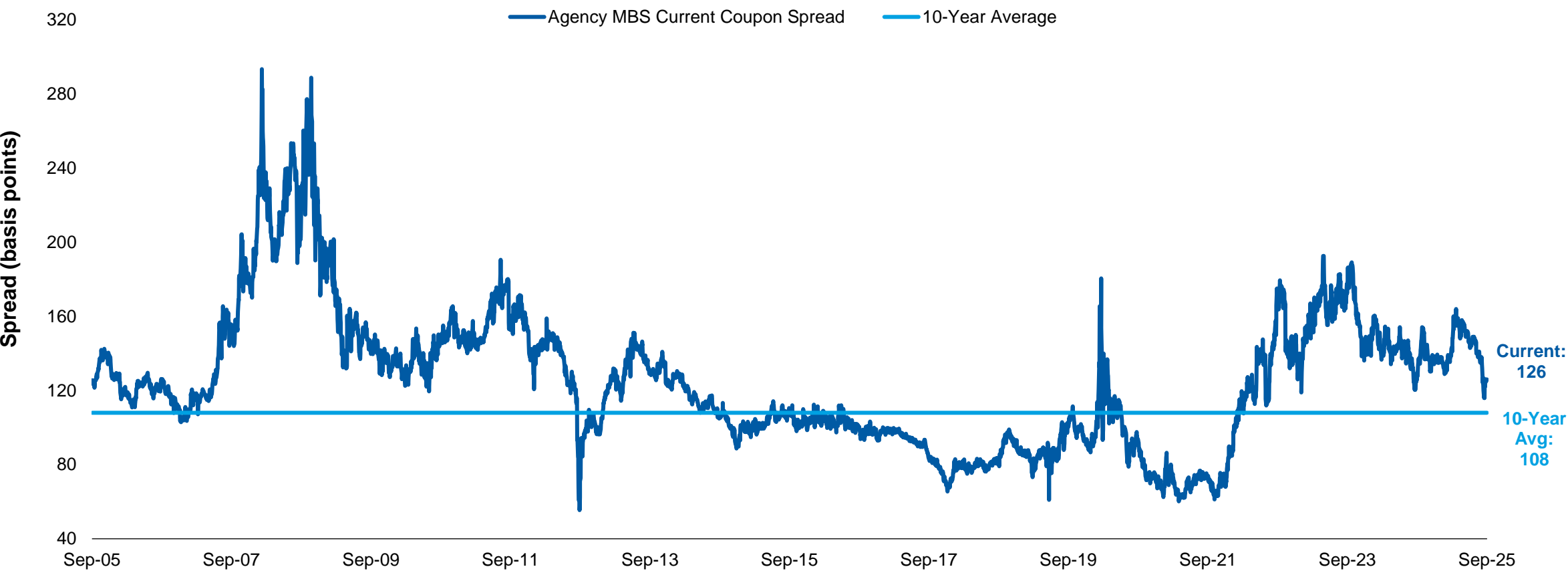


AGENCY MBS MARKET UPDATE

Current Valuations

Agency MBS spreads tightened sharply in the third quarter as lower interest rate volatility and strong demand propelled the sector. On a historical basis, agency MBS spreads remain nearly 20 bps wider than their average over the last 10 years.

Agency MBS Spread vs. U.S. Treasuries



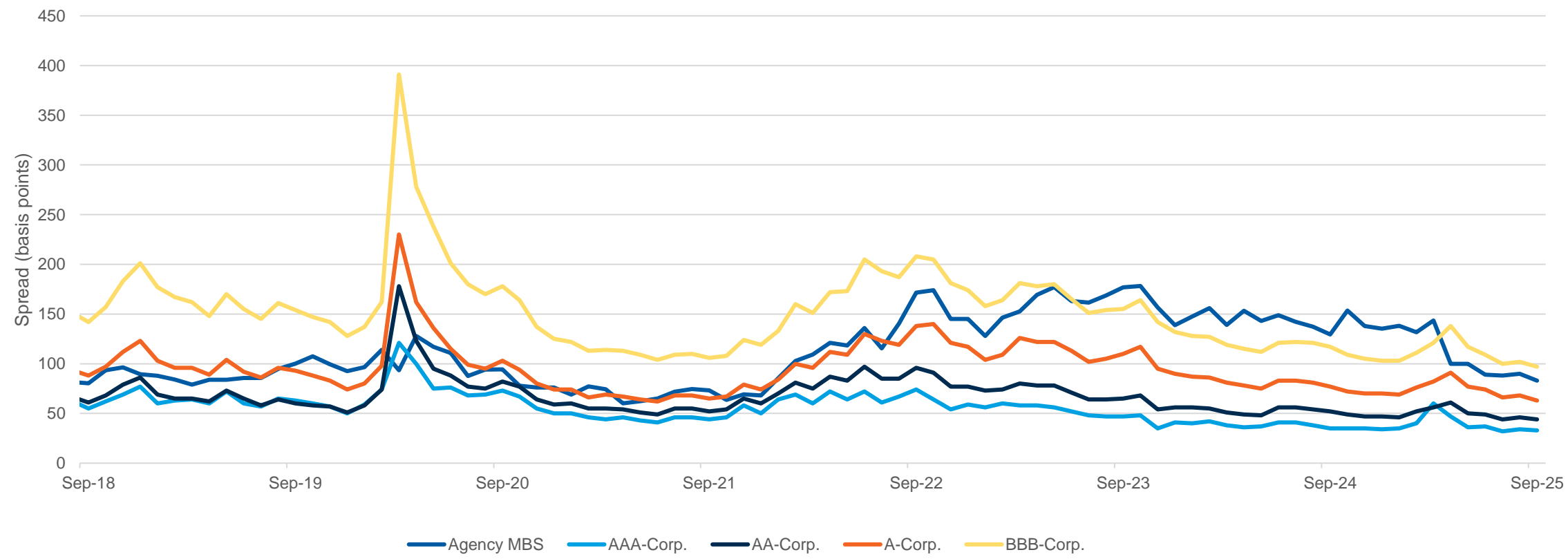
Source: Bloomberg . As of 9/30/25. Agency MBS spread reflects current coupon spread over 5/10yr US Treasury blend. **Past performance is not a reliable indicator of future results.**

AGENCY MBS MARKET UPDATE

Relative Valuations

On a relative basis, agency MBS appear even more attractive than other investment-grade sectors, such as IG corporates. As noted earlier, agency MBS are still cheaper than long-term averages, whereas IG corporate spreads are near their tightest levels in the last 10 years.

Spread to U.S. Treasuries



Source: Intercontinental Exchange, Bloomberg . As of 9/30/25. Agency MBS spread reflects current coupon spread over 5/10yr US Treasury blend. Corporates represented by ICE BofA US Corporate Indices. **Past performance is not a reliable indicator of future results.** Data provided for informational purposes only. It is not possible to invest directly in an index.

AGENCY MBS MARKET UPDATE

MBS Yields

The YTD rally in interest rates, coupled with tightening MBS spreads over that period, has pushed MBS yields lower. With that said, MBS yields remain attractive by historical standards. The yield of the Bloomberg US MBS Index ended the quarter at 4.74%, while the MBS current coupon yield closed September 2025 at 5.20%.

Yield to Worst



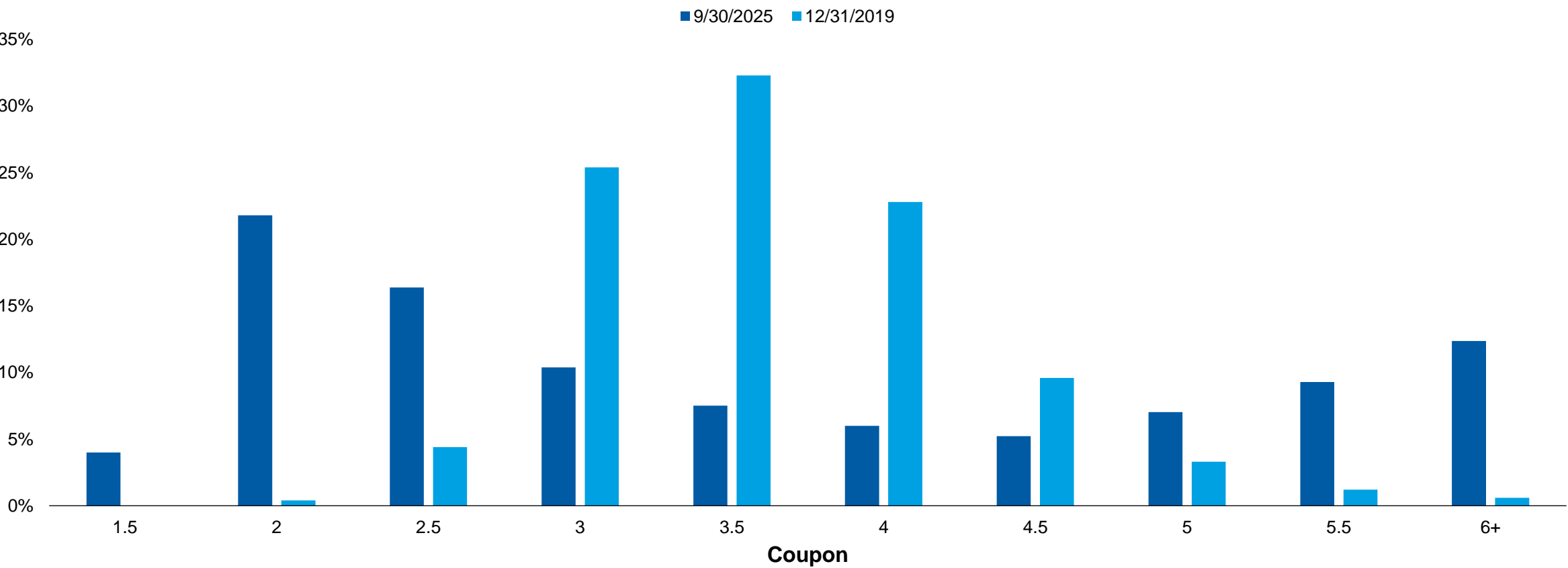
Source: Bloomberg. As of 9/30/25. **Past performance is not a reliable indicator of future results.** Data provided for informational purposes only. It is not possible to invest directly in an index.

AGENCY MBS MARKET UPDATE

MBS Index Composition

The coupon breakdown of the MBS index has changed dramatically since before the pandemic. The sharp drop in mortgage rates combined with a spike in origination of low-coupon MBS in 2020 and 2021 caused the index to become heavily weighted in low-coupon bonds.

Agency MBS Index - Coupon Breakdown



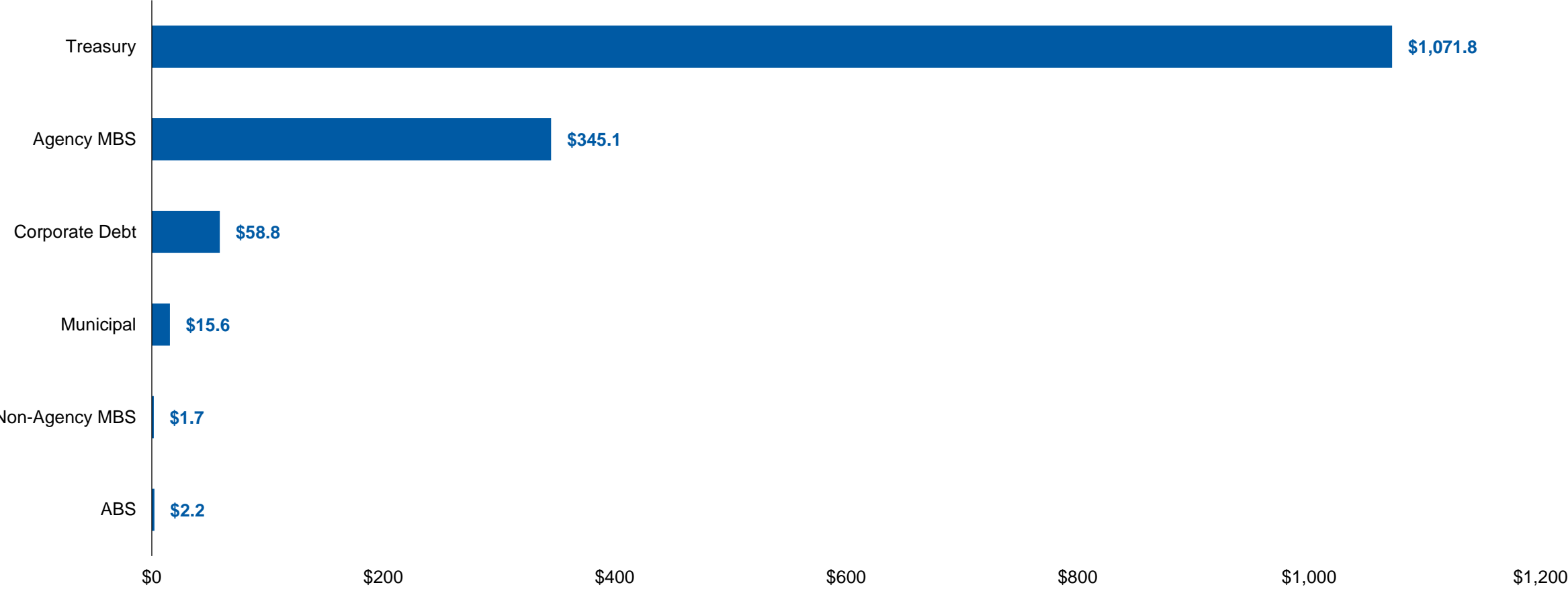
Source: Bloomberg . As of 9/30/25. Agency MBS represented by the Bloomberg US MBS Index. Past performance is not a reliable indicator of future results. Data provided for informational purposes only. It is not possible to invest directly in an index.

AGENCY MBS MARKET UPDATE

Liquidity

The Agency MBS market is the 2nd most liquid U.S. fixed income market, behind only Treasuries.

Average Daily Trading Volume (\$B)



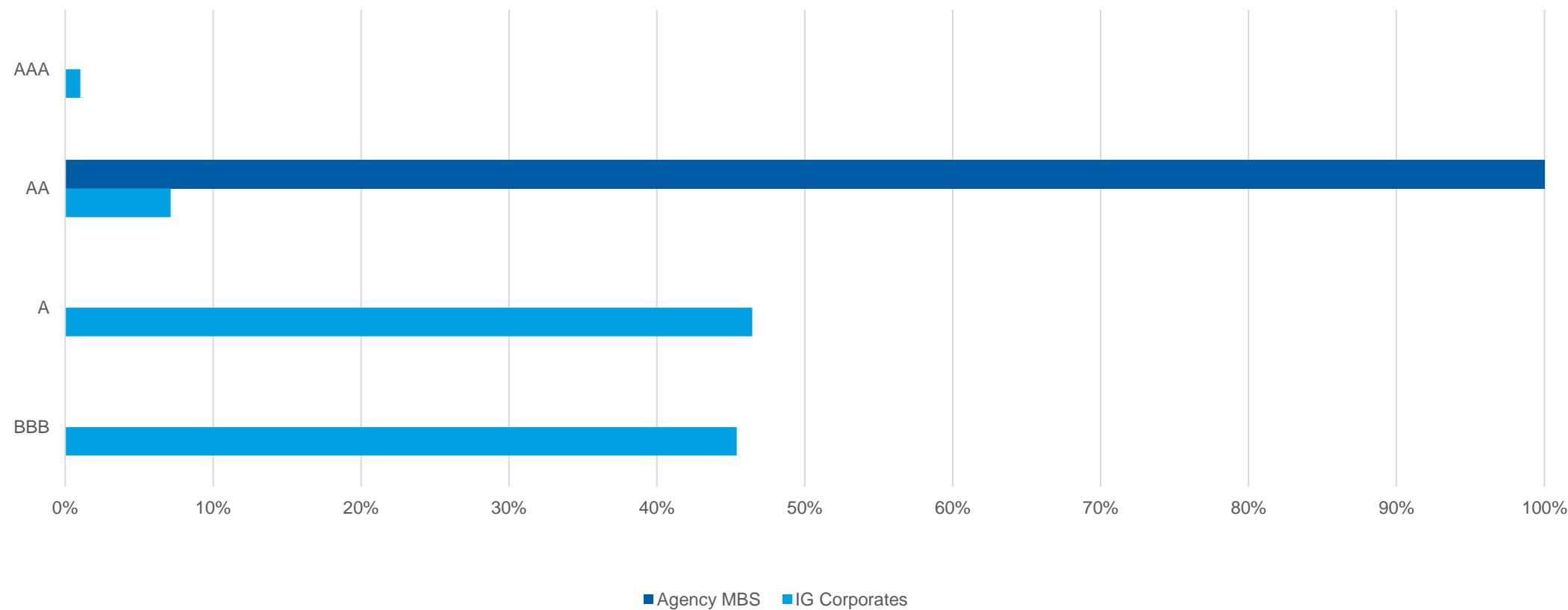
Source: SIFMA. As of 9/4/25.

AGENCY MBS MARKET UPDATE

Credit Quality

Not only do Agency MBS currently offer higher yields than parts of the investment-grade corporate bond market, but they also offer higher credit quality than the bulk of the IG corporate universe.

Credit Quality Breakdown



Source: Bloomberg, Intercontinental Exchange. As of 9/30/25. Agency MBS represented by Bloomberg US MBS Index. IG Corporates represented by ICE BofA US Corporate Index. Data provided for informational purposes only. It is not possible to invest directly in an index.

IMPORTANT ADDITIONAL INFORMATION

Important Information and Disclosure

INDEX DEFINITIONS:

**Bloomberg U.S. Mortgage Backed Securities (MBS)** measures agency mortgage-backed pass-through securities issued by GNMA, FNMA, and FHLMC.

**Bloomberg CMBS Index** tracks the performance of US dollar denominated investment grade fixed rate commercial mortgage backed securities publicly issued in the US domestic market.

**Bloomberg Asset Backed Securities (ABS) Index** tracks the performance of US dollar denominated investment grade fixed rate asset backed securities publicly issued in the US domestic market.

**ICE BofA U.S. Treasury Index** tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market.

**ICE BofA U.S. 3-Month Treasury Bill Index** is comprised of a single issue purchased at the beginning of the month and held for a full month.

**ICE BofA Current U.S. 2-Year Treasury Index** is a one-security index comprised of the most recently issued 2-year US Treasury note.

**ICE BofA Current U.S. 5-Year Treasury Index** is a one-security index comprised of the most recently issued 5-year US Treasury note.

**ICE BofA Current U.S. 10-Year Treasury Index** is a one-security index comprised of the most recently issued 10-year US Treasury note.

**ICE BofA Current U.S. 30-Year Treasury Index** is a one-security index comprised of the most recently issued 30-year US Treasury bond.

**ICE BofA U.S. Corporate Index** tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market.

**ICE BofA AAA U.S. Corporate Index** is a subset of ICE BofA US Corporate Index including all securities rated AAA.

**ICE BofA AA U.S. Corporate Index** is a subset of ICE BofA US Corporate Index including all securities rated AA1 through AA3, inclusive.

**ICE BofA A U.S. Corporate Index** is a subset of ICE BofA US Corporate Index including all securities rated A1 through A3, inclusive.

Credit ratings that may be referenced are based on Moody's, S&P or Fitch, as applicable. Credit ratings are based largely on the rating agency's investment analysis at the time of rating and the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition. The rating assigned to a security by a rating agency does not necessarily reflect its assessment of the volatility of a security's market value or of the liquidity of an investment in the security. Ratings of BBB or higher by Standard and Poor's or Fitch (Baa or higher by Moody's) are considered to be investment grade quality.

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IMPORTANT ADDITIONAL INFORMATION

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Elements of this report include comparisons of different asset classes, each of which has distinct risk and return characteristics. Every investment carries risk, and principal values and performance will fluctuate with all asset classes shown, sometimes substantially. Asset classes shown are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution. All asset classes shown are subject to risks, including possible loss of principal invested. The principal risks involved with investing in the asset classes shown are interest-rate risk, credit risk and liquidity risk, with each asset class shown offering a distinct combination of these risks. Generally, considered along a spectrum of risks and return potential, U.S. Treasury securities (which are guaranteed as to the payment of principal and interest by the U.S. government) offer lower credit risk, higher levels of liquidity, higher interest-rate risk and lower return potential, whereas asset classes such as high-yield corporate bonds and emerging market bonds offer higher credit risk, lower levels of liquidity, lower interest-rate risk and higher return potential. Other asset classes shown carry different levels of each of these risk and return characteristics, and as a result generally fall varying degrees along the risk/return spectrum. Costs and expenses associated with investing in asset classes shown will vary, sometimes substantially, depending upon specific investment vehicles chosen. No investment in the asset classes shown is insured or guaranteed, unless explicitly stated for a specific investment vehicle. Interest income earned on asset classes shown is subject to ordinary federal, state and local income taxes, excepting U.S. Treasury securities (exempt from state and local income taxes) and municipal securities (exempt from federal income taxes, with certain securities exempt from federal, state and local income taxes). In addition, federal and/or state capital gains taxes may apply to investments that are sold at a profit. Eaton Vance does not provide tax or legal advice. Prospective investors should consult with a tax or legal advisor before making any investment decision.

An imbalance in supply and demand in the income market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads and a lack of price transparency in the market. Investments in income securities may be affected by changes in the creditworthiness of the issuer and are subject to the risk of non-payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. As interest rates rise, the value of certain income investments is likely to decline. Investments involving higher risk do not necessarily mean higher return potential. Diversification cannot ensure a profit or eliminate the risk of loss.

Debt securities are subject to risks that the issuer will not meet its payment obligations. Low rated or equivalent unrated debt securities of the type in which a strategy will invest generally offer a higher return than higher rated debt securities, but also are subject to greater risks that the issuer will default. Unrated bonds are generally regarded as being speculative. In emerging (or frontier) countries, these risks may be more significant.

Credit ratings measure the quality of a bond based on the issuer's creditworthiness, with ratings ranging from AAA, being the highest, to D, being the lowest based on S&P's measures. Ratings of BBB- or higher by Standard and Poor's or Fitch (Baa3 or higher by Moody's) are considered to be investment grade quality. Credit ratings are based largely on the rating agency's analysis at the time of rating. The rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition and does not necessarily reflect its assessment of the volatility of a security's market value or of the liquidity of an investment in the security. If securities are rated differently by the rating agencies, the lower rating is applied. Holdings designated as "Not Rated" are not rated by the national rating agencies stated above.

Source of all data: Eaton Vance, as of 6/30/25, unless otherwise specified.



IMPORTANT ADDITIONAL INFORMATION

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