

## Carrying On in Securitized Products

2026 MARKET OUTLOOK | April 2026

We enter the second quarter of 2026 with a constructive view on securitized credit, even as spreads have widened across both agency and non-agency sectors in recent months. Rather than signaling a deterioration in fundamentals, we view this widening as primarily macro-driven—reflecting broader risk repricing tied to geopolitical uncertainty, oil price volatility and elevated issuance in corporate credit markets, particularly associated with ongoing AI-related capital expenditure. In our view, this repricing has created more attractive entry points across securitized markets rather than weakening the underlying investment case.

Importantly, securitized credit remains relatively insulated from many of these forces. Unlike corporate credit, which is more directly exposed to cyclical earnings risk, input cost pressures (including energy), and heavy primary issuance linked to AI infrastructure investment, securitized assets are predominantly backed by pools of loans tied to the real economy—especially housing and high-quality consumer balance sheets. While there are pockets of exposure, such as data centers, aircraft and autos, these represent a relatively small portion of the broader securitized universe.

Instead, the sector's performance is more closely linked to household balance sheets—particularly higher-income consumers, who continue to exhibit strong credit performance supported by substantial home equity and financial asset appreciation over the past several years. This high-end consumer exposure remains a key differentiator, as it has helped support stable credit performance even amid a more uncertain macro backdrop.

As a result, securitized credit today offers a compelling combination: the ability to generate high yield-like income, with yields approaching ~6%, alongside average credit quality in the A/A+ range, backed by hard, income-generating assets. At the same time, the asset class has historically exhibited lower volatility, as well as less frequent and less severe drawdowns, than comparably yielding corporate credit.

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Against this backdrop, we believe securitized markets represent one of the most attractive relative value opportunities in fixed income today. Should spreads continue to widen and valuations become even more compelling, we would expect to further increase allocations to the asset class.

**DISPLAY 1**

**Securitized Highest Conviction Trades**

POSITIVE	NEGATIVE
Agency MBS	Consumer ABS
Non-Agency RMBS	Distressed CMBS
High-end CMBS	
Business ABS	

Source: Morgan Stanley Investment Management (MSIM). For informational purposes only and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

**Agency MBS**

We began 2026 with a positive outlook for agency mortgage-backed securities (MBS), and that view remains intact even as spreads have widened modestly alongside broader fixed income markets. The recent widening reflects macro risk sentiment rather than any deterioration in underlying fundamentals, and in our view has improved the relative value opportunity.

Agency MBS continues to offer attractive risk-adjusted valuations versus other fixed income sectors, particularly corporate bonds, which face ongoing supply pressure from

elevated issuance. In contrast, agency MBS benefits from a more stable and diversified demand base and remains relatively insulated from corporate leverage cycles and AI-driven capex trends.

Following the tightening observed in January after policy support for Global Sports & Entertainment purchases, spreads have partially retraced. However, current coupon agency MBS still offers yields in the ~5% range, which remains compelling for a high-quality, government-backed asset class.

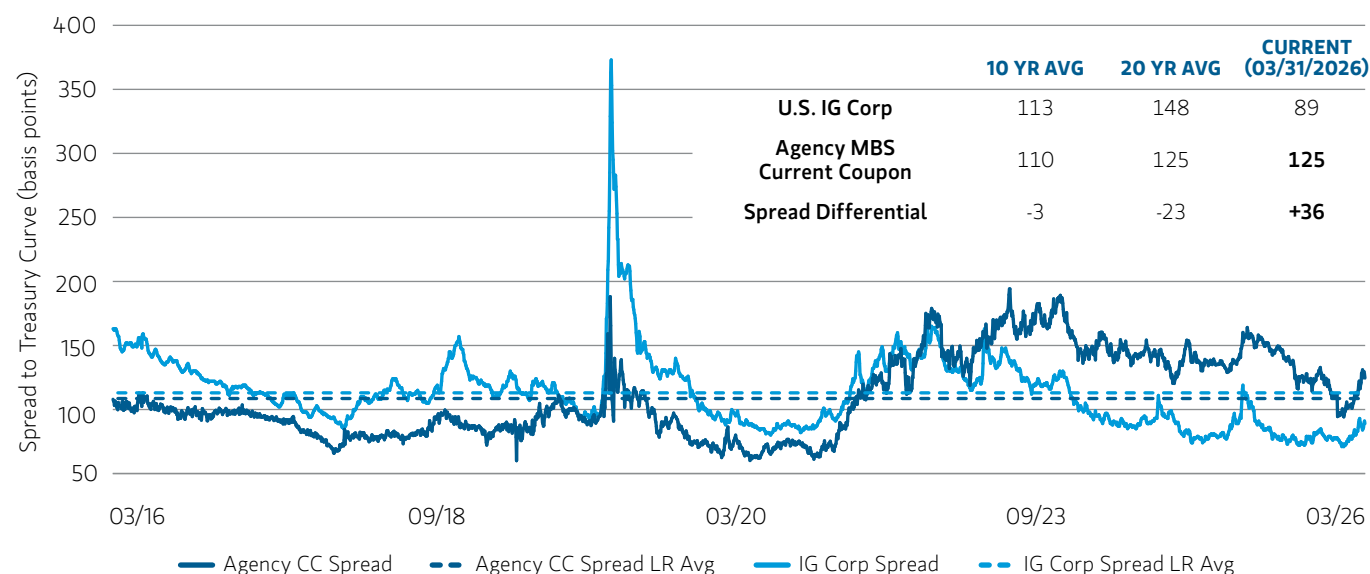
We expect long-maturity U.S. rates to remain elevated in 2026, with the 10-year Treasury yield near 4%. This should keep mortgage rates high, limiting refinancing activity and prepayment risk, and thereby supporting carry and income generation.

We remain positioned with an overweight to current coupon 30-year MBS in order to maximize income and carry, while maintaining less exposure to 15-year and lower coupon 30-year MBS where carry is less compelling. In terms of structure, we favor specified pools and CMOs, where prepayment risk can be more effectively managed through favorable loan characteristics and structural protections.

From a technical perspective, supply-demand dynamics remain favorable. While gross supply, including Fed runoff, is expected to remain elevated, we anticipate that it will be well absorbed by GSEs, banks, money managers, REITs and foreign investors. A potential rate-cutting cycle could further support bank demand for MBS.

**DISPLAY 2**

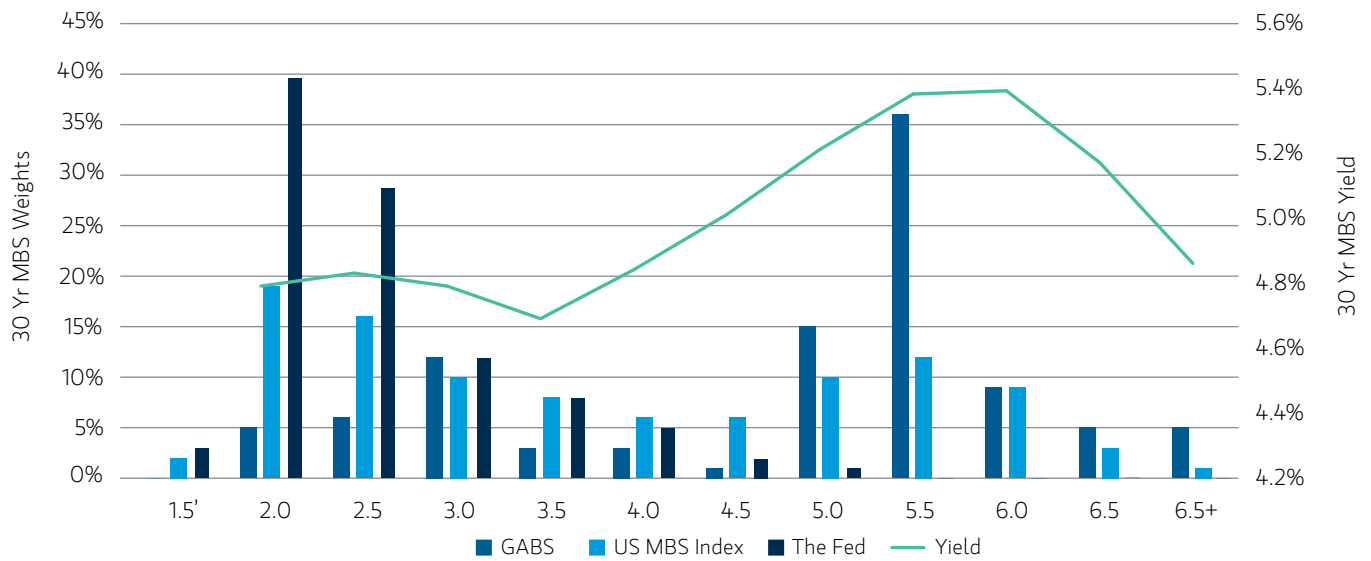
**Agency MBS Cheap Versus U.S. Corporates**



Source: MSIM, Bloomberg. As of 03/31/2026. **Past performance is no guarantee of future results.** The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment.

**DISPLAY 3**

**Maximize Yield in Current Coupon MBS**



Source: MSIM, Bloomberg, SOMA, Wells Fargo Research. As of 03/31/2026. **Past performance is no guarantee of future results.** The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. Chart represents agency MBS yields for each coupon sourced from Wells Fargo Analytics and produced using Yield Book models and assumptions.

**Residential Credit (Non-Agency RMBS)**

Non-agency RMBS remains our highest-conviction sector within securitized credit. Despite recent spread widening, fundamentals remain exceptionally strong, and valuations have become more compelling.

This sector is particularly well insulated from broader macro risks such as geopolitical shocks or commodity price volatility. Instead, performance is driven by the strength of household balance sheets, especially among higher-income borrowers, which continue to benefit from significant accumulated housing equity and financial wealth.

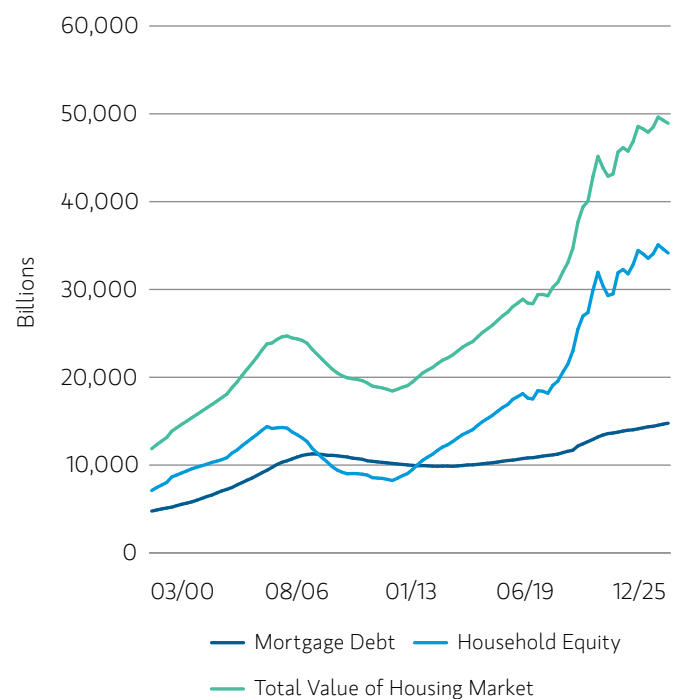
Record levels of homeowner equity, supported by several years of home price appreciation, have resulted in average loan-to-value ratios below 50%, providing meaningful loss protection even under stress scenarios. At the same time, delinquency and default rates remain at historically low levels.

We expect home prices to remain broadly stable in 2026, following modest 1–2% appreciation in 2025. While affordability remains a challenge, limited housing supply and strong demographic demand should continue to support the market.

Mortgage credit performance remains pristine, and we expect this trend to continue. Similar dynamics are evident in parts of the UK and Europe, where strong equity cushions, limited supply and low arrears provide additional support.

**DISPLAY 4**

**Historic Levels of Home Equity from HPA (\$)**



Source: Morgan Stanley, FRED, data as of 12/31/2025.

In our view, residential credit remains one of the most attractive ways to take credit risk globally, offering high income potential with strong structural protection and limited sensitivity to broader macro shocks.

## Commercial Mortgage (CMBS): Fundamentals improving after a multi-year reset

After several years of headwinds driven by higher rates and post-pandemic dislocations, CMBS fundamentals are improving. While spreads have widened alongside broader markets, underlying property-level performance is stabilizing.

Vacancy rates that surged during the pandemic are trending back toward pre-pandemic levels in many markets, while subdued new construction activity has improved the supply-demand balance across several property types. Financing conditions have also stabilized relative to prior periods of stress.

The CMBS market remains highly idiosyncratic, and we maintain a strong quality bias within each subsector:

- Hotels: luxury leisure properties over economy or business-oriented hotels
- Multifamily: higher-quality, well-located apartments over affordable housing units
- Retail: high-income, destination-oriented malls over lower-end discount centers
- Office: “trophy” and Class A assets over commodity Class B/C buildings

After several years of reducing exposure, we are looking to selectively increase CMBS allocations in 2026, focusing on

structures and collateral where we believe the margin of safety is most attractive.

## Asset Backed Markets (ABS): Selective, with a tilt to business-oriented collateral

Our overall positioning in ABS remains selective. While spread widening has improved relative value in some segments, fundamental divergence persists across consumer cohorts.

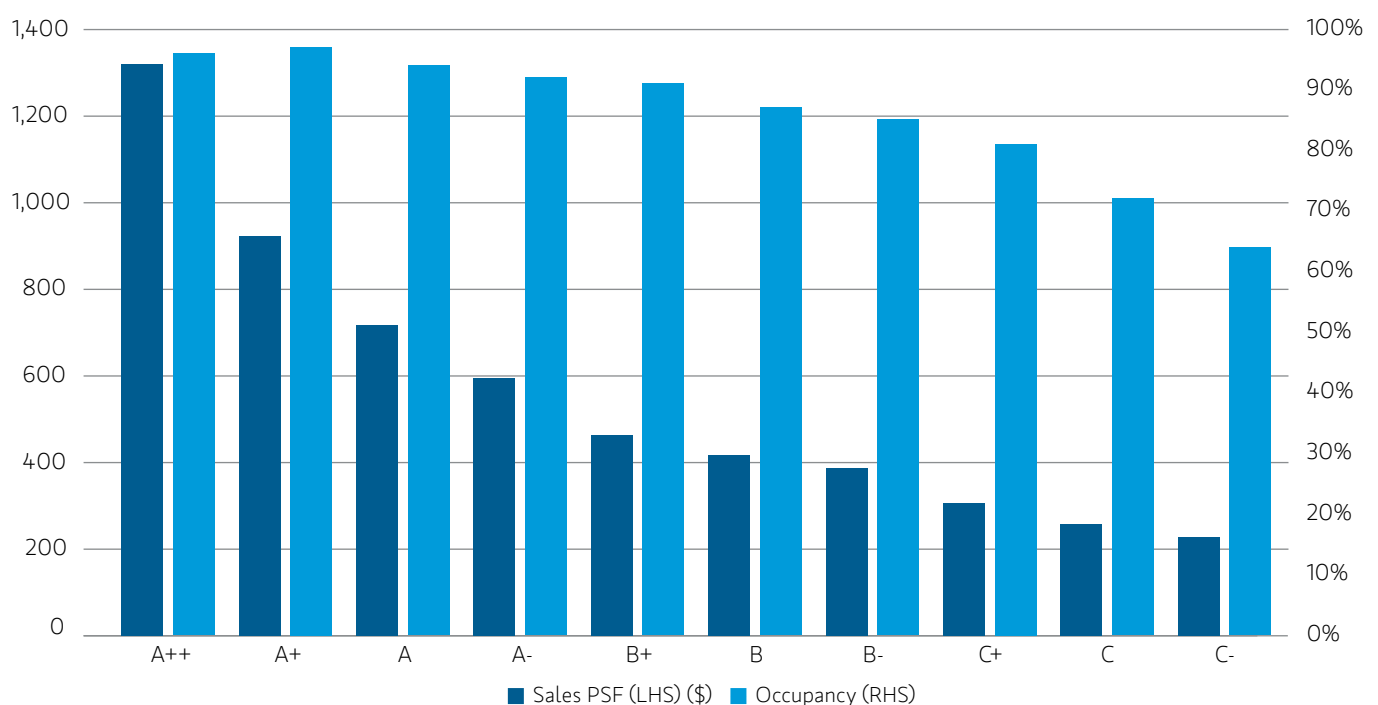
Lower-income consumers continue to face pressure from elevated inflation and higher borrowing costs, with delinquency and default rates rising in non-prime segments. In contrast, higher-income consumers remain resilient, supported by accumulated wealth from both housing and financial assets.

As a result, we emphasize higher-quality consumer exposure and favor business-oriented ABS, where fundamentals tend to be more stable and less sensitive to consumer stress. Areas of focus include aircraft leasing, data centers, mortgage servicing rights and small business loans.

While certain subsectors have some linkage to broader macro themes, such as data centers and AI infrastructure, overall exposure remains limited, and the securitized market as a whole remains far less sensitive to these dynamics than corporate credit.

### DISPLAY 5

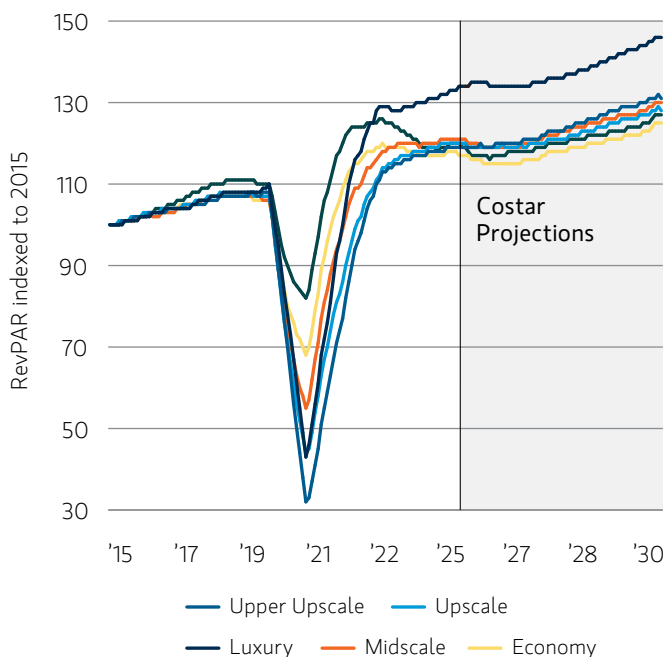
#### Retail: High-End Shopping Centers Performing Well



Source: Green Street, as of 09/30/2025.

**DISPLAY 6**

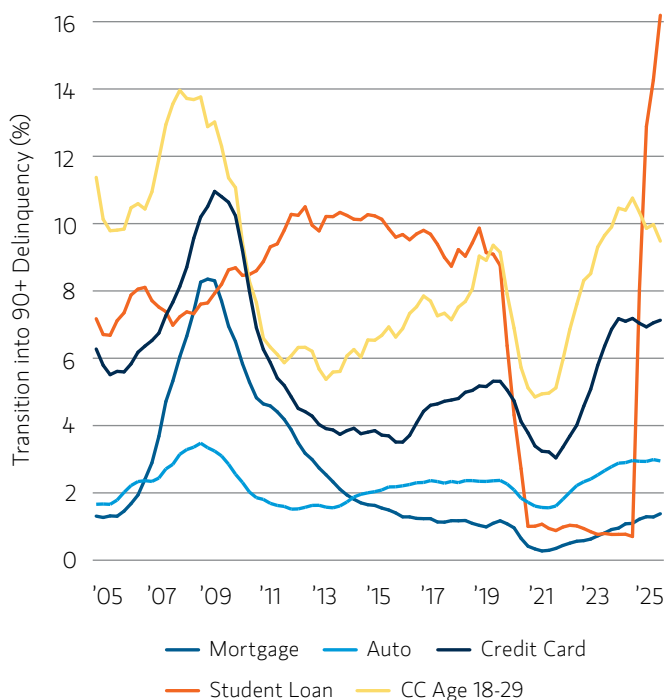
**Luxury Hotels Performing Well**



Source: Costar, STR, MSIM, as of 09/30/2025.

**DISPLAY 7**

**Consumer ABS Under Stress, Mortgage Delinquencies Remain Low Post GFC**



Source: New York Fed Consumer Credit Panel, data as of 12/31/2025.

**Conclusion**

We believe securitized credit remains one of the most compelling opportunities in fixed income today, particularly in an environment characterized by geopolitical uncertainty, oil price volatility and elevated corporate issuance tied to AI investment.

In contrast to corporate credit, securitized assets are less exposed to geopolitical and commodity-driven earnings risk, relatively insulated from AI-driven issuance and capex cycles, and primarily tied to high-quality household balance sheets and real assets.

This results in a unique investment profile: the ability to generate high yield-like income, with yields around ~6%, while maintaining average credit quality in the A/A+ range, backed by physical collateral. At the same time, the asset class has historically exhibited lower volatility, as well as less frequent and less severe drawdowns, than similarly yielding alternatives.

Additionally, the recent widening in spreads across securitized markets has further enhanced relative value. If this trend continues, we would expect to increase allocations to securitized credit, where we see the most attractive risk-adjusted opportunities.

Against this backdrop, we believe strategies with diversified exposure across agency and non-agency sectors, a focus on higher-quality collateral and disciplined structural risk management offer an efficient way to access the attractive income, resilience and diversification benefits that securitized credit provides today.

In our view, for investors seeking a combination of income, quality and stability in an uncertain macro environment, securitized credit—and this strategy in particular—stands out as one of the most attractive relative value opportunities available.

## Risk Considerations

Treasury bonds are backed by the full faith and credit of the US government if held to maturity. Not all government agency bonds are backed by the full faith and credit of the US government. It is possible that these issuers will not have the funds to meet their payment obligations in the future. Fixed income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. Longer-term securities may be more sensitive to interest rate changes. Mortgage and asset-backed securities are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest-rate risks. Active management attempts to outperform a passive benchmark through proactive security selection and assumes considerable risk should managers incorrectly anticipate changing conditions.

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