ASSET MANAGEMENT VIEWPOINTS

CARY STREET PARTNERS

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Mortgages: Home to Opportunities

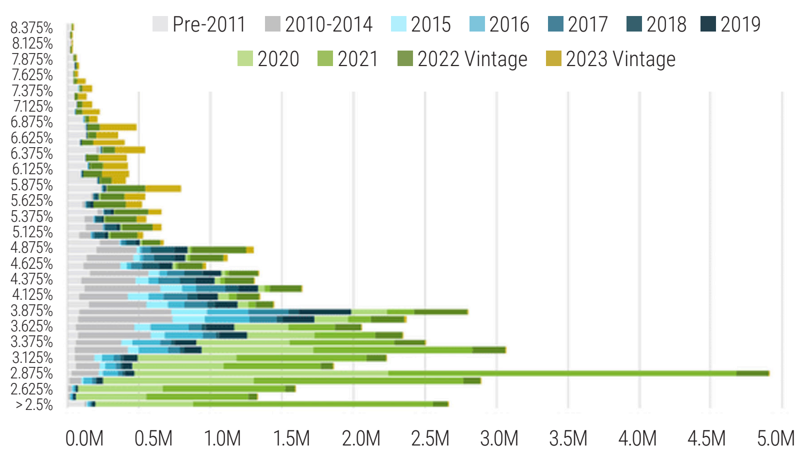
Agency mortgage-backed securities, also known as Agency MBS, offer a good entry point to fixed-income investors. To differentiate, what are mortgage-backed securities versus agency mortgage-backed securities? Mortgage-backed securities are pools of mortgage loans sold to investors, whereas agency mortgage-backed securities are pools of securitized residential mortgage loans issued and backed by US government agencies. These are conforming loans packaged and guaranteed by agencies such as Fannie Mae or Freddie Mac. They are not direct obligations of the US but are closely allied.

The current opportunity is twofold: 1. Agency paper is trading at historically high yields versus risk-free assets. 2. The risk of extension or pre-payment, which is usually a strong consideration when investing in mortgage-backed securities, is minimal at this juncture. Very few people in America are moving out of their low-rate mortgage loans, which would result in pre-payment. While these mortgages were issued at generationally low interest rates, mortgage-backed securities holding these loans are currently trading at substantial discounts, resulting in higher yield-to-maturity.

The corollary to the mortgage dynamic is a dearth of inventory in the residential home market. This has kept prices high despite the historic lack of affordability. Normally, income growth and borrowing costs drive residential home values, and prices would respond to a lack of affordability. The resale market is under-supplied until mortgage rates decline to some degree. New home builders are having a hard time in this market as well, not the least due to a shortage of construction trades workers.

Homeowners are reluctant to give up low interest rates.

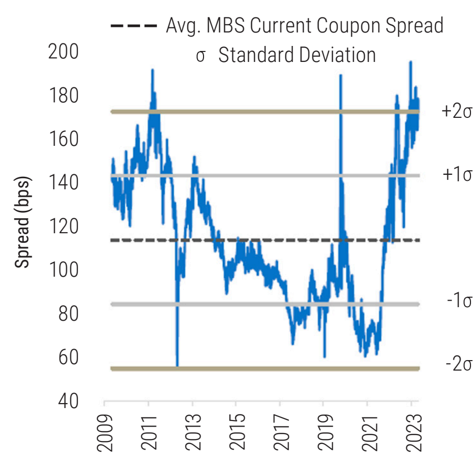
Active Mortgages By Interest Rate And Vintage



Source: ICE, McDash

Yields are attractive relative to risk-free rates.

Agency MBS Current Coupon Spread as of 9.29.23



Source: DoubleLine, Bloomberg