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Market Commentary

RESIDENTIAL MORTGAGE LOANS | FEBRUARY 2026

It's been an exciting beginning to 2026 for Residential Credit. In this piece, we'll provide market updates, discuss investing dynamics, current spreads and touch on the recent news.

Quick 2026 YTD Overview

Quite an interesting start to 2026. SPY and rates pretty flat, tech under pressure leading to cracks in private corporate credit, and gold and BTC going in opposite ways. Residential credit (RMLs and RMBS) has been a bright spot with positive tailwinds and performance. A little something for everyone...

Market Monitor

	11-Feb	31-Dec	YTD
SPY	692	682	+1%
CDX IG	50	50	0
CDX HY	301	317	-16
2YR	3.50	3.47	+0.03
5YR	3.74	3.73	+0.01
10YR	4.17	4.17	0.00
NQM AAA	115	135	-20
NQM A	145	170	-25
NQM BBB	185	220	-35

Source: Bloomberg

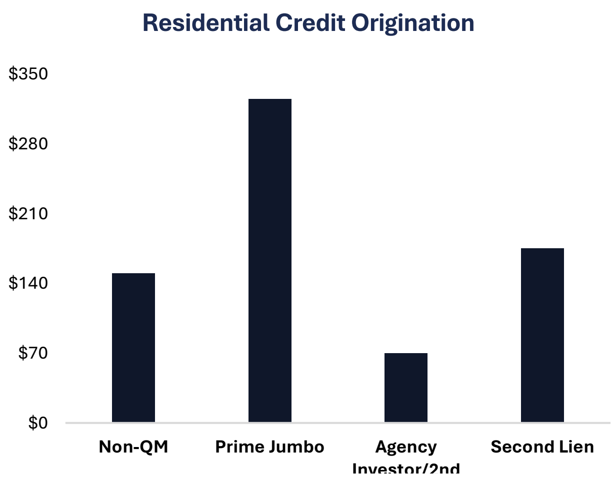
2026 Residential Related Outlook

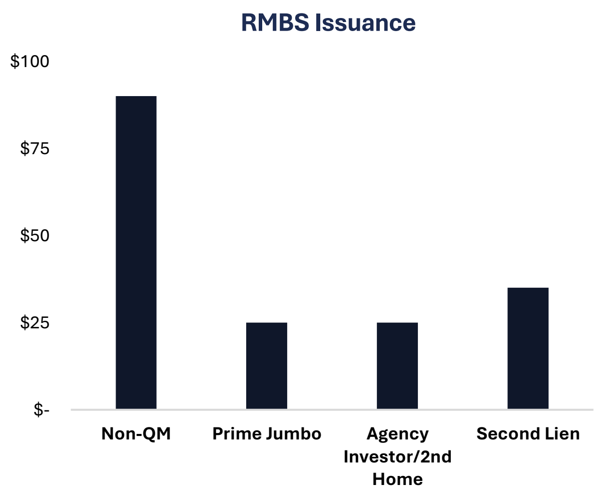
With home prices expected to rise modestly and origination activity remaining steady, the residential credit market enters 2026 positioned for attractive opportunities across both origination and securitized channels.

- **National Home Price Appreciation (HPA):** 1-3%
- **Total Mortgage Origination:** $2.2 trillion

Residential Private Credit Target Assets

2026 Forecasted Activity ($B)





Source: Nomura.

Market Activity – Who's Buying & What Are They Buying

In a positive development for RML/RMBS investors, decades-old bright lines are shifting. Traditionally, the final resting place for residential origination was Agency MBS, Non-Agency RMBS or loans on bank balance sheets. Outside of bank portfolios, loans were bought by broker dealers and a small number of funds for securitization. Everyone else bought MBS or RMBS.

Today a far greater percentage of origination remains in loan form. This is largely driven by insurance portfolios building out their RML allocations, a trend that's still in the early innings. Away from insurance portfolios, money managers and pensions are starting to invest in RMLs, generally as part of Core Plus allocations. In terms of ways to invest, we see a small number of institutions building out internal capabilities, but that's a long, costly, and highly regulated undertaking. By count of institutions, more are choosing to work with specialized managers and/or participate via customized private securitizations and rated feeders.

Net/net, the residential credit space continues to grow in terms of investable asset volumes and ways to access the sector. Investors that have access to RML, securitization and RMBS capabilities can nimbly adjust to where they see the best risk, and risk-based capital, adjusted returns.

On the asset side, most non-bank private capital activity continues to be in Non-QM. Credit quality remains high and, return-wise, Non-QM has the most attractive combination of nominal spread and convexity cost. For insurance portfolios, that combination of attractive spread and FHLB eligibility is driving demand. On the debt fund and securitization side, retained yields depend highly on entry price, but we are currently seeing securitization produce returns of high teens or better.

Prime Jumbo remains dominated by bank portfolios. Outside of banks, broker dealers and REITs are active in securitizing prime jumbo collateral, while select insurers are buying loans. A steepening of the curve could shift more activity away from banks, but we're not there yet.

Pockets of loans eligible to be guaranteed by the GSEs and delivered to the MBS market have now developed into a steady source of assets for private capital. While full GSE privatization seems on the backburner, the GSEs can readily use price as a means to shift assets to the private markets. To date, what's been shifted has been mainly investor and second home loans, but changes in GSE pricing and focus can drive significant opportunity to the private sector. Another reason to have RML capabilities in place, as the greatest excess returns are usually captured right after large shifts.

Second liens continue to be an attractive investment opportunity. On the RML side, we see insurance portfolios adding an allocation to broader RML portfolios to increase yield. For securitizers, the RMBS market is open and efficient, producing high teens to twenty percent retained yields.

Lastly, an uptick in bank M&A is finally producing some interesting portfolio auctions. Pricing has been aggressive, but still an attractive way to buy discount $ priced, positive convexity assets. Here's another reason to get your RML capabilities in place.

The table (right) shows current risk-adjusted spreads over Treasuries across different RML sectors. We see strong relative value vs. RMBS (AAA = 115, A = 145) and IG Corps sub 80 bps.

Current Treasury Spreads

RML	Coupon	Spread
NQM	High 6%	+240
Prime Jumbo	Low 6%	+200
Agency	Low-Mid 6%	+200
Second Liens	Mid-High 8%	+400

Source: SGCP estimates.

Recent Market News

A lot's happened in the last couple months! With the administration focused on affordability and housing we expect more to come.

GSE's Directed to Buy $200B in MBS: Immediate positive for risk as agency spreads tightened to 2021 levels and broader residential came along for the ride. When, how and potentially even if are all still TBD. That said, the general concept of using the GSEs in various ways to lower mortgage rates is something we expect to hear more on.

Ban on Institutional Purchases of SFR: Near-medium term, not much impact; some potential longer-term effects. Depending on the research source you read, total institutional ownership of homes is only 1-3%. Additionally, institutional buyers have not been active in recent years purchasing individual homes and were more focused on the build-to-rent market. So, there's little to no effect on the near-term demand picture. It's also important to note that these institutions aren't borrowers in the traditional residential loan market. The underlying homes are packaged in more CMBS like securitizations. Longer-term, the picture is a less clear. While a lot of institutional SFR is held in REITs, there are funds that will look to exit at some point. The typical exit had been a portfolio sale to another institution. If this isn't an option, portfolio exits could put pressure on home prices in certain concentrated areas. That said, the market doesn't see any large scale selling in the near term and the institutional operators are busy working with the administration on solutions.

GSE IPO on Hold: With the focus shifted to housing affordability, focus on the IPO has waned. It's hard to make a credible pitch that fully private GSEs are better for mortgage rates. Odds of a full-scale release in 2026 seem low, perhaps there's some limited window dressing that happens.

Warsh as Fed Chair: I think the markets are just happy to have the bake-off behind us. Warsh is seemingly viewed as a steady hand, although the concept of a closer Treasury and Fed relationship hasn't been well received. Really though, it's all TBD until the Truth Social posts start flying.

Wrap-Up

It's been a strong start to 2026 and the fundamental and technical tailwinds behind residential credit remain in place. There are more ways to invest in the sector than ever.

If you're interested in discussing, please reach out.

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