

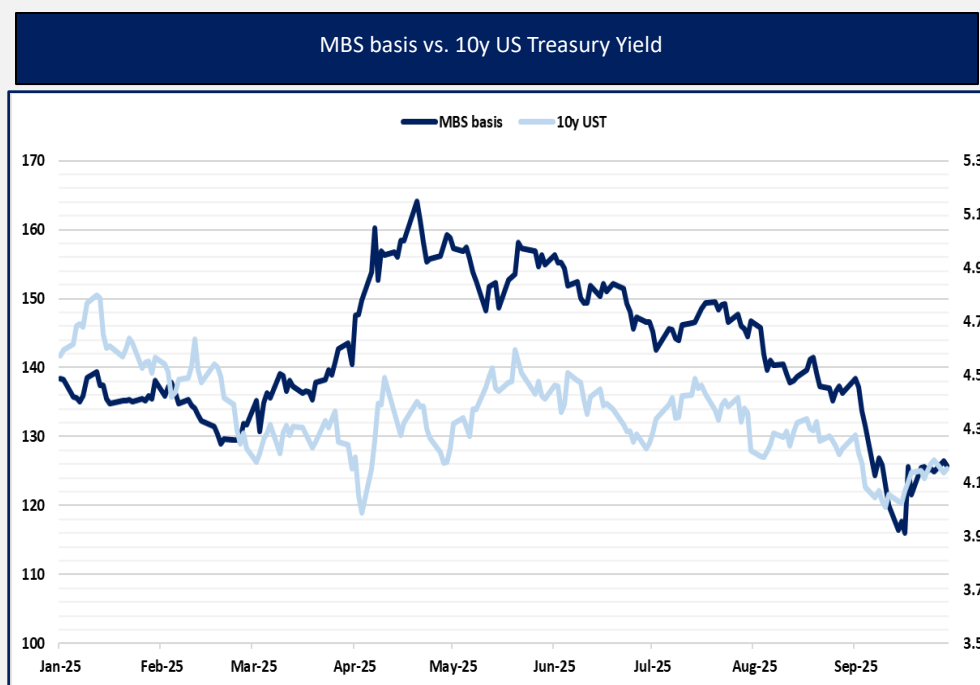
Spreads Tightening: Thriving

The broader U.S. economy in Q3 2025 remained resilient despite softness in the job market. Job growth slowed from the brisk pace of Q2 but remained positive, keeping the unemployment rate anchored near 4.3%. Wage growth cooled modestly, reflecting softer labor demand. Inflation data such as headline CPI and core PCE showed continued moderation. Consumer spending, however, showed signs of fatigue, with households facing stretched balance sheets and rising delinquency rates in autos and credit cards. Overall, the macro picture was one of a slowing economy, giving the Fed room to deliver its 25bps rate cut of the cycle in September.

On the policy front, three noteworthy developments stood out in Q3:

- **September FOMC, Hawkish Cut** – The Federal Reserve delivered a 25bps rate cut at its September meeting. While widely expected, the decision was framed as a “hawkish cut,” with Chair Powell emphasizing the risks have been extremely “two-sided.” Markets nonetheless priced in a faster easing path, with Fed funds futures projecting four more cuts by 2026 year end. Rates volatility declined, which supported mortgage valuations and contributed to the spread tightening during September.
- **GSE Privatization** – A major headline in Q3 was renewed momentum towards a GSE privatization. President Trump continued to push for taking Fannie Mae and Freddie Mac public, allowing them to retain earnings while preserving some form of federal guarantee. Although details remain uncertain, the administration stressed that any transition would be executed in a way that ensures stability in the mortgage and housing markets. Treasury Secretary Bessent, in a September 24th Fox Business interview, underscored the priorities: delivering a fair valuation for taxpayers while ensuring mortgage rates remain affordable. Markets interpreted these remarks as signaling Treasury’s intent to manage spreads tightly during the privatization process, which provided additional comfort for MBS investors.
- **National Housing Crisis** – Another key development was the Trump administration mulling the declaration of a National Housing Crisis in late Q3, citing affordability pressures and supply shortages. An official declaration would likely include initial measures aimed at lowering mortgage costs, such as encouraging regulatory flexibility for lenders and signaling support for targeted rate relief programs. Trump has mentioned the housing crisis many times, so we view this as an ongoing political and economic priority.

Market Recap



Mortgage spreads experienced a sharp tightening, rallying nearly 40bps from the July wides of ~150bps to ~110bps shortly after the September FOMC, before retracing modestly to ~125bps currently. The strong tightening in mortgages was driven primarily by: 1) increased expectations for rate cuts, 2) lower rate volatility, 3) anticipation of GSE's purchasing MBS for their retained portfolios, and 4) attractive relative valuations versus investment-grade corporates.

Demand outlook is mixed but expected to strengthen across a variety of buyers:

- Bank demand for short-duration MBS (current coupon pass-throughs, CMOs such as floaters and front sequentials) remains steady. Although floater issuance trended lower in Q3, banks typically increase activity in Q4 due to seasonal factors. With renewed discussions around deregulation and potential reinstatement of capital relief measures such as the Supplementary Leverage Ratio (SLR), banks may soon have more balance sheet capacity to add high-quality assets like agency MBS. We expect a significant pickup in bank demand over the next 12 months.
- Money managers continue to support the sector on any weakness. We expect this buyer base to stay robust given the relative value of agency MBS vs. other fixed income spreads products.
- Demand from hedgers has surged. Strong issuance of floating-rate MBS created a wave of inverse IOs (interest-only securities). The curve steepener trade remains attractive, fueling demand for IIOs. To hedge these positions effectively, hedge funds are buying par coupon pass-throughs, which provides sustained technical demand.
- GSEs, Fannie Mae and Freddie Mac, are expected to increase MBS purchases for their retained portfolios in the coming months, helping to keep the basis contained.
- Overseas investors were net sellers in Q3 2025. However, as the dollar weakens further in the Fed's cutting cycle, lower FX hedging costs should encourage renewed foreign demand for MBS.

Supply was subdued early in Q3 due to summer seasonality, but activity began to pick up in September as 30-year mortgage rates fell to the low-6s (%) range. Looking ahead, we expect supply to increase modestly in Q4 despite several offsetting factors:

- Expected lower mortgage rates – Following the Trump administration's expected declaration of a National Housing Crisis in Q3, we expect mortgage rates to decline toward 5% over the next 12 months.
- Better-Than-Expected home sales – Despite affordability challenges, home sales surprised to the upside, supporting supply.
- Lesser Impact from Home Price Appreciation (HPA) – Cooling HPA removes a key driver of refinancing and cash-out activity, which historically generated new MBS supply.
- Limited Refinance Incentive ("Refi Burnout") – Most borrowers remain locked into historically low mortgage rates. With current rates still elevated, refinance incentive is limited, keeping prepayments low and restraining supply.

Special Topic: MBS QE?

There has been market chatter about the possibility of the Federal Reserve resuming MBS purchases (QE) in 2026 as a tool to directly lower mortgage rates. While the topic has generated interest, especially in the context of a Trump administration "National Housing Crisis" and its determination to push mortgage rates lower, we believe the probability of MBS QE remains low.

From the Fed's perspective, the long-term balance sheet strategy has been clearly articulated: a steady migration toward a Treasury-only portfolio. This preference reflects the Fed's desire to keep its operations as neutral as possible. Reintroducing MBS QE would undermine years of efforts into limiting the Fed's footprint in the mortgage market.

If the Fed were to consider additional accommodation, it would be more likely to come in the form of long-end Treasury QE designed to lower term premia, reduce long-end yields broadly, which in turn indirectly put downward pressure on mortgage rates. This approach would be more consistent with the Fed's preference for balance sheet composition while achieving the administration's policy goals.

That said, the political backdrop introduces tail risks. With the administration making housing affordability a top priority, the Fed could face pressure to explore more direct interventions should housing affordability deteriorate and mortgage rates remain elevated. ***While we see the likelihood of MBS QE small, the possibility cannot be ruled out entirely. Markets should therefore treat it as a low-probability, high-impact tail risk in 2026.***

Bottom Line

Despite MBS's strong performance in Q3 2025, we believe the MBS basis still has room to tighten. Multiple tailwinds, including attractive valuation, Fed easing, strong demand outlook, and policy initiatives aimed at lowering mortgage rates, create a favorable environment for MBS. While risks remain around foreign investor participation and potential refi-wave, we believe agency MBS still provide interesting opportunities for investors.

Who We Are

Our Independence Prioritizes the Client

Seelaus Asset Management, LLC is a private, women-owned investment manager providing expertise in active fixed income and equity portfolio management and designing customized investment strategies.

Our Vision

To be a best-in-class asset manager that leads with value in a client driven, partnership model.

Our Values

- *Innovative*
- *Impactful*
- *Diverse Perspective*
- *Authentic*

Our Mission

To be an agent for change in the finance industry by demonstrating a straight line between the support we receive as a women-owned firm and the support we provide to women in the industry and in the community.

To learn more about our investment offerings, please call 212-935-0755, email ir@seelausam.com or visit <https://www.rseelaus.com/asset-management/>

26 Main Street, Suite 304, Chatham, NJ 07928

Tel: 212-935-0755 Fax 888-901-4201



Seelaus Asset Management, LLC (the "Investment Manager") is a privately held U.S. Securities and Exchange Commission registered investment advisor that specializes in fixed income and equities portfolio management and tactical asset allocation investment strategies for private clients, financial advisors, Commentary as of 10/01/25. Data and charts as of 10/01/25, per Bloomberg.

insurance companies, pension plans, and other institutional investors. Registration does not imply a certain level of skill or training. The Investment Manager is a subsidiary of R. Seelaus & Co., Inc. More information about Seelaus Asset Management, LLC can be found in its Form ADV, which is available upon request or on the company website found at www.rseelaus.com.

The information contained herein is not, and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in investment vehicles sponsored or managed by the Investment Manager.

Past performance is not indicative of future results. There is no guarantee that any specific outcome will be achieved. Investments may be speculative, illiquid and there is a risk of loss.

The opinions expressed herein are those of the Seelaus Asset Management, LLC Investment Team. The opinions referenced are current as of the date of publication and are subject to change at any time as a result of changes in market or economic conditions or other variables used to create this report including but not limited to any estimates, targets, analysis, and assumptions. Certain information contained in this presentation constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “target,” “project,” “estimate,” “intend,” “continue” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Fund or other investment vehicles sponsored or managed by the Investment Manager may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance, or a representation as to the future.

Certain transactions give rise to substantial risk and are not suitable for all investors. This material is furnished for informational purposes only.