Market Outlook | August 2025

Securitized Credit Outlook 2H25: Keep Calm and Carry On

At a time when corporate credit spreads are tighter than ever, securitized markets still offer attractive relative value. Our take on how to approach it: add diversification, pick your targets, and take some calculated risks.

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VOYA INVESTMENT MANAGEMENT

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Executive summary

- We expect **volatility to remain low and liquidity to stay high** in securitized markets as trade policy friction loops less directly into our consumer and U.S. real estate-focused sectors. Conversely, the "OBBB" and efforts to deregulate are clear positives for risk-taking in securitized.
- Key segments of the securitized credit investor base are **likely to remain motivated risk-seekers,** with insurers and money managers craving the yield premiums and lower volatility that securitized credit can deliver. Banks are a potential source of demand upside as deregulation efforts start to have impact.
- Broadly, we **favor the middle of the securitized credit capital stack, BBB+ to A,** navigating between safer but duration-heavy AAAs and the riskier cash flows at the low end of the market.
- At the sector level, **we're most bullish on commercial mortgage-backed securities (CMBS);** the sector is early in its credit cycle, new issuance is hot and spreads still have room to tighten.
- **The collateral for collateralized loan obligations (CLOs), leveraged loans, are seeing defaults increase** from various pressures, while base rates remain high.
- High rates keep prepayments and home price appreciation subdued **in non-agency residential mortgage-backed securities (RMBS); we're mostly seeing technical opportunities,** as new issuance remains sporadic.
- We are **staying opportunistic in the vast universe that is asset-backed securities (ABS),** but we are cautious about lower-income cohorts, which face increasing economic stress.

Why securitized credit?

At Voya, we view securitized credit as an evergreen portfolio allocation. Its historic spread premium to, and low correlation with, other assets gives it one of the best fixed income risk/return profiles of the past 10 years. Our target allocation remains approximately 50% of investors' non-core fixed income portfolio.

For a deeper dive into the asset class, please see our Guide to Securitized Credit and our Glossary of Securitized Credit Terms.

Snapshot: Securitized credit now

Securitized credit's low correlation to the rest of fixed income is manifesting as a relative value opportunity.

Relative value in a shifting market

Built on a bedrock of consumer borrowing, household formation, and real estate, securitized credit has always moved to the beat of Main Street more than Wall Street. It is only indirectly affected by tariffs, the budget deficit, and geopolitics. Even a few rate cuts aren't likely to significantly change risk appetites.

While the securitized market's low correlation to other fixed income sectors supports a long-term allocation to the asset class, it has more recently manifested in a tactical relative value opportunity. As policy headlines that caused gyrations in financial markets in April are increasingly discounted, broader higher-beta bond market spreads have moved tighter and tighter, showing elevated volatility along the way.

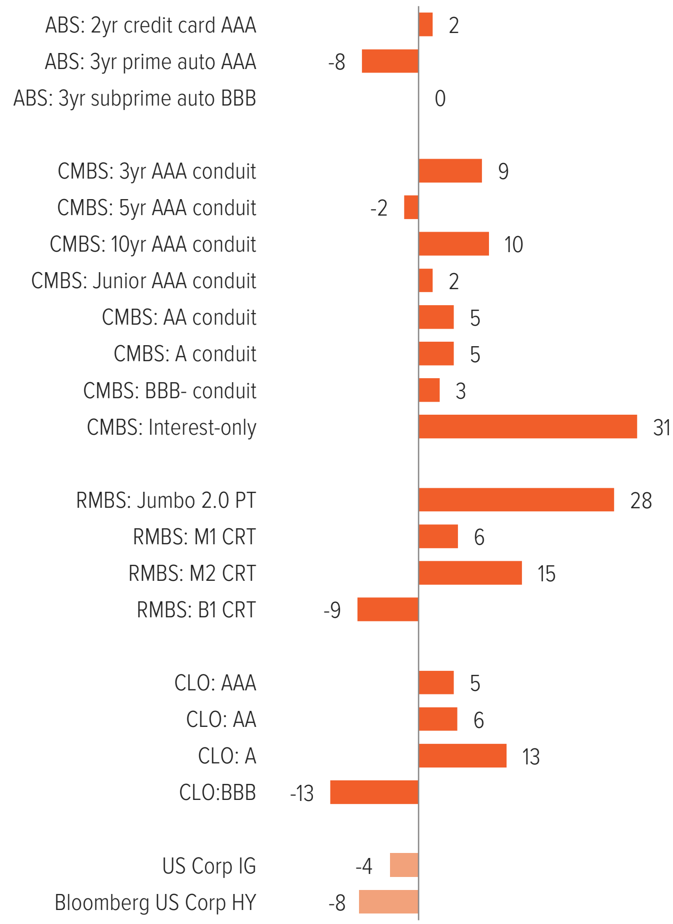
Meanwhile, securitized markets have behaved true to their low-beta form as spreads have lagged, leaving most flat to a little wider year to date (Exhibit 1). This has helped preserved securitized's relative value, and, with the policy narrative shifting favorably, the market offers a range of interesting opportunities to improve risk-adjusted portfolio returns.

A healthy market with attractive opportunities

So, volatility across securitized market sectors has stayed relatively low this year—which you'd expect, given the Main Street bias mentioned above and disconnected from policy headlines. At the same time, liquidity in the sector has been strong and deep, especially in primary issuance.

Exhibit 1: Securitized spreads have lagged the corporate market's post-Liberation Day tightening

YTD change, bp



As of 07/31/25. Source: Voya IM, FRED.

Primary issuance has been robust, enjoying demand from money managers and insurers.

Primary issuance has been the dominant place to source risk this year, with the mortgage sectors in particular financing new production at a higher scale than in recent years. Deals are generally being executed efficiently (Exhibit 2), although periodic bursts of issuance have created fleeting opportunities for nimble investors. These deals have continued to attract investor sponsorship, led by insurers and money managers seemingly flush with fresh cash.

This was on full display with insurers' enthusiastic return to the market in May, after a mini pullback during April's policy upheavals. Outside of their affinity for CLOs, banks' participation still remains limited, but potential changes to the supplementary leverage ratio (SLR) calculation and clarity around Basel III endgame could lead to improved involvement in the securitized markets after a multi-year period of reduced participation.[1] This would be an additional source of potential upside, especially as banks tend to be less price-sensitive buyers.

In short, the market looks healthy, and we are not seeing any material distortions that could lead to valuation-based bubbles—spreads have room to tighten, and the market's main subsectors are all at different points in their credit cycles (see Exhibit 6). While we like some areas more than others, we are broadly taking a risk-on attitude towards securitized credit for the second half of 2025.

Exhibit 2: Issuance is on track to exceed 2024's high levels

($ bn)	2019	2020	2021	2022	2023	2024	YTD 2024	YTD 2025	YTD change (%)
ABS	242	183	285	253	274	331	206	214	4
CMBS	121	64	161	107	50	115	44	82	86
CLO	123	84	187	130	117	184	101	114	13
RMBS	130	105	204	127	66	119	56	92	64
Total	**616**	**436**	**837**	**617**	**507**	**749**	**407**	**502**	**23**

As of 08/04/25. Source: Voya IM, BofA Global Research.

[1] For more information on the Federal Reserve's porposed SLR changes, see "US Banking Regulators Propose Changes to the Enhanced Supplementary Leverage Ration for US GSIBs," Skadden, Arps, Slate, Meagher & Flom, 07/05/25.

How could the macro backdrop impact securitized sectors?

The emotional impact of a softening economy seems already priced in.

The economy is softening, not crashing

We've had a strange push-pull of solid hard data and doom-laden soft data all year. That means that, as the hard data has started to move downwards, the emotional impact has already been somewhat absorbed by the market.

In other words, it's not news to markets that the economy is likely to slowly decelerate for the rest of the year. It would be news if it were going to crash and growth turn negative, but we see this as increasingly unlikely as the Trump administration pivots from tariffs to a seemingly more business-friendly agenda. Corporate balance sheets and earnings growth remain strong, consumer spending has reprioritized but remains stable overall, and the labor market is still mostly okay, at least for now.

We are of the view that at some point nonfarm payrolls are going to show negative growth and there will be some upwards pressure on the unemployment rate. Wage growth has already moderated and pockets of weakness have emerged in parts of the economy, like housing.

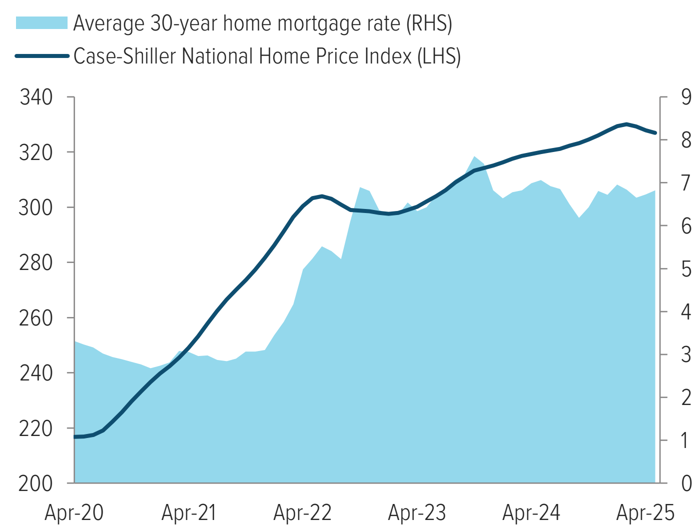
Nonfarm payroll growth and house price appreciation will likely turn negative by year end.

A housing market in flux

We are already seeing house price appreciation turn negative month on month in certain indexes (Exhibit 3), and we expect it to be negative year on year by the beginning of 2026 as inventories continue to be pressured in more metropolitan areas. Unless mortgage rates show a significant decline, home sales are likely to continue to stay near historical lows, with affordability the key culprit. This is a mixed blessing for us—on the one hand, high mortgage rates and home prices are good for multi-family CMBS, but on the other, the gap between effective mortgage rates (4.05%) and new mortgage rates (6.75%) is not exactly spurring housing turnover. This keeps prepayments/de-leveraging low in non-agency RMBS transactions. More broadly, high mortgage rates suppresses household formation, which is a traditional pillar of economic growth and can be an engine for financing in securitized markets.

Given the conflicting priorities the Fed has to manage, we do not see it significantly lowering rates unless its is forced into politically-motivated cuts. However, when it does—and assuming it is for the "right" reasons—we are optimistic this can reduce the absolute level of mortgage rates as well as their volatility.

Exhibit 3: The last time home prices fell month on month, mortgage rates were in the process of doubling



As of 08/01/25. Source: FRED.

Residential mortgage credit remains solid despite rising delinquencies across consumer lending.

It's worth noting the resilience of residential mortgage credit performance this time around (Exhibit 4). Significant post-GFC regulation around mortgage lending has meant that we are not dealing with concerns around subprime mortgage lending the way we are in, say, subprime auto lending.

Housing unaffordability has also positively selected the profile of homebuyers, shifting credit profiles to the point where 60-70% of mortgage originations are to borrowers with credit scores of 760 or above, compared with 25-30% twenty years ago and around 50% ten years ago (Exhibit 5).

Subprime segments remain at risk

The one area in our markets where a slowing economy is likely to bite hard is with lower-income consumer borrowing. Certain cohorts in this country are hanging on by their fingernails, and rate policy isn't looking like it will make life materially easier. We are being very selective in our exposure to subprime consumer borrowing—much of which is still priced very tight—but we'll get more into that when we talk about ABS.

A selective approach to portfolio construction

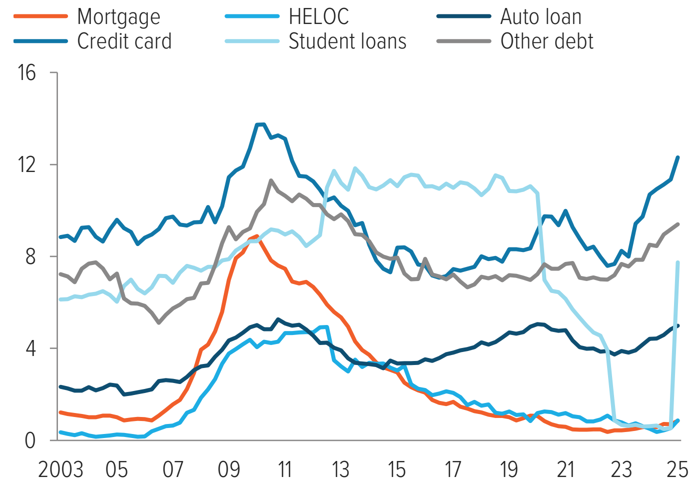
Our takeaway from all of this has been to focus on more of an all-weather strategy in our portfolio allocations rather than one predicated on above-trend economic growth and unemployment staying at 4.2%.

In most subsectors, BBB+ to single-A paper offers the best risk-adjusted value right now.

While we remain opportunistic (and optimistic), we're calibrating towards BBB+ to single-A paper for the best risk-adjusted value across most sub-sectors. Aside from non-agency RMBS, AAA/senior bonds are less compelling to us due to limited room for further spread tightening, with risk skewed too far towards rate risk. And when taking said credit risk, we are cautious about getting too involved on the bottom-most levered cash flows, which will be most vulnerable if the path to slower economic growth ends up rockier than expected.

Exhibit 4: Consumer delinquencies are hitting 2009 levels—but not in mortgages

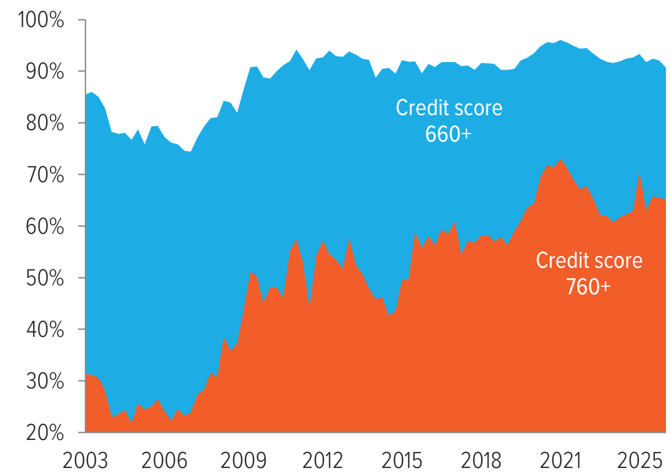
Percent of balance 90+ days delinquent by loan type



As of 05/30/25. Source: New York Fed Consumer Credit Panel/Equifax.

Exhibit 5: The majority of residential mortgage borrowers have excellent credit

Percentage of mortgage originations by borrowers with credit scores 760+



As of 05/30/25. Source: New York Fed Consumer Credit Panel/Equifax.

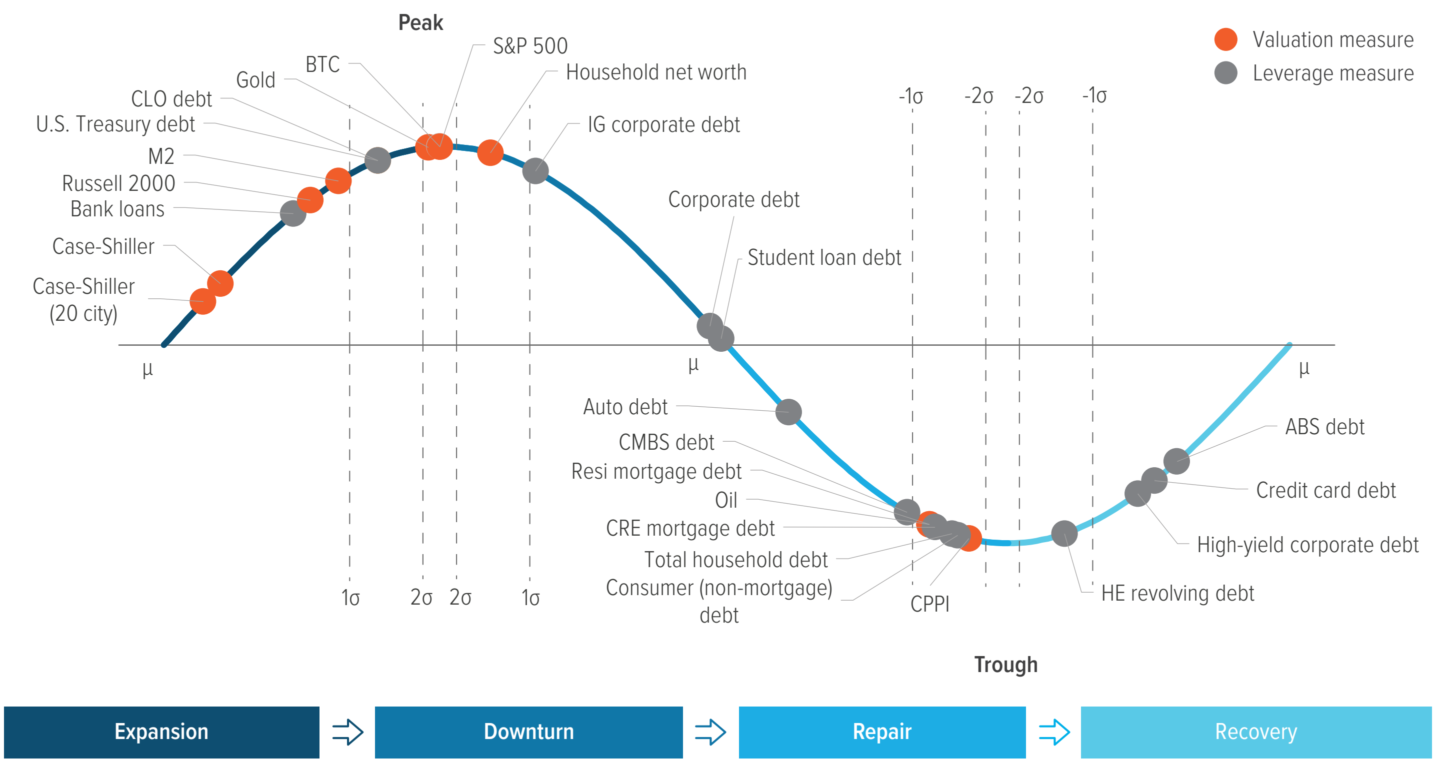
Let's check in with the credit cycle

CMBS is at the earliest stages of its credit cycle.

One of securitized credit's many benefits is the diversity of its underlying collateral. Even within a sector like ABS, different subsectors are at different places in their respective credit cycles as our dynamic, heterogeneous economy is constantly shifting (Exhibit 6).

Auto debt, for example, is experiencing some de-leveraging as increasingly large loans impact lending/borrowing dynamics, while credit card debt is in the midst of a long-standing recovery, the roots of which are in the deleveraging that was catalyzed by the global financial crisis.

Exhibit 6: CLOs are at the peak of their credit cycle while CMBS is in early-stage recovery



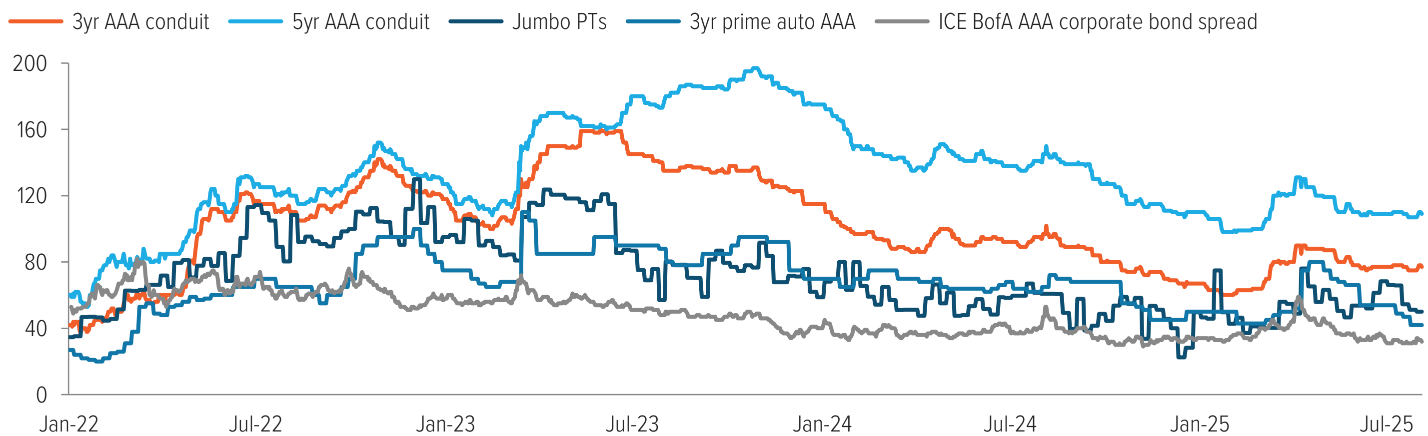
As of 08/06/25. Source: Voya IM.

CLOs are seeing tight spreads coupled with rising defaults in underlying loans.

While we will talk in depth about each of the major sectors in the following sections, here is what the credit life cycle tells us:

- **CMBS is the earliest, best-positioned sector with a long runway for credit normalization and positive growth dynamics.** Affirming underlying fundamentals support the sector's early-stage recovery—yes, even in office.
- **CLOs have had a good run** in markets but are showing late cycle signals with historically tight credit spreads and heavy issuance volumes with "easy" access to equity capital despite increasing defaults in underlying leveraged loans; we are treading more cautiously here.
- **ABS is a mixed bag,** which is fitting for a sector with this much breadth: Auto and student loan debt are both beset by deleveraging pressures catalyzed by macro and policy obstacles, while other forms of consumer credit are in recovery after bouts of weak underwriting standards.
- While it has been anchored below its mean size in the economy since the global financial crisis, **RMBS has maintained terrific credit fundamentals against the highly regulated lending backdrop**. **Associated housing market dynamics are a risk to sentiment,** but likely not dramatic enough to impact payment decisions for mortgage holders.

Exhibit 7: Even the least risky CMBS spreads have lagged the market



As of 08/06/25. Source: Voya IM, BofA. Spreads are to U.S. Treasuries.

CMBS: Back in the game

We're most bullish about CMBS right now, given its place in the early stages of its credit cycle, and given that the crisis in office has come off the boil. That isn't to say there aren't still some poison pits out there—we saw a big Chicago office building clear the market at something like $50 per square foot, which is a quarter of the price it went for just six years ago.

But the pervasive story of recent years that working from home will make all office buildings obsolete is over. Empty space is getting absorbed, rents are slowly recovering, valuations are starting to come back up, and CMBS is adjusting around that, pricing in better and better outcomes. Typical for a risk market early in its cycle, the sector still lags the rest of the securitized market, especially in the medium-duration paper.

We also like multi-family credit risk a lot right now, and it's a significant way we're expressing positivity about CMBS. The oversupply that plagued the market in 2023 and 2024 is slowing, and rentership remains a necessary evil given the still-unaffordable purchase market.

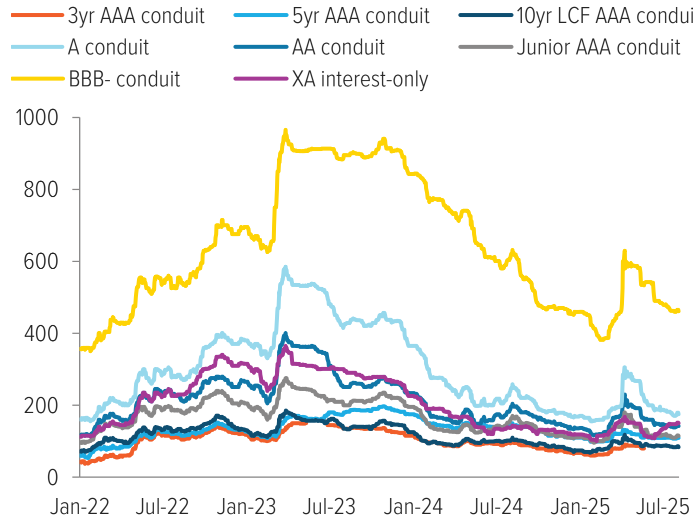
Retail's had a great run, and lack of new mall buildout is helping keep vacancies low and rents high, but we're selective. Industrial's a bit of a wild card—it's also had a good run but it's one area where tariffs may have an effect. Data centers have been lagging recently due to DeepSeek news and Microsoft scaling back its previously ambitious buildout plans, but we think the demand is there and like the sector on an opportunistic basis.

Multi-family's oversupply is slowing, while demand remains high due to housing unaffordability.

CMBS current risk assessment

	Hurting values	Helping values
Macro	U.S. rates Federal policy **(tariffs, immigration, DOGE)**	Potential for Fed rate cuts Financial conditions
Micro	**SASB delinquencies**	**Primary market dynamics** **Office demand** **Near-term refinancings** Transitional multi-family opportunities

CMBS spread to Treasuries



CMBS current opportunity set

Love	Like	Leave
New issue CRE CLO AA-AAA + **New issue conduit A to AS** **New issue SASB A to AA** Multi-family credit risk Freddie 'K' re-REMICs	De-leveraging CRE CLOs Class A office High coupon Ginnie Mae project loan ""Zs" **2019 Conduit BBBs +**	Premium priced floaters **Premium priced SASB -** Class B office Life science office **Conduit and SASB AAA -**

As of 08/06/25. Source: Voya IM. Descriptions highlighted in **bold** reflect new assessment since last update, with + indicating upgraded assessment and – indicating downgraded assessment. For definitions, see our Glossary of Securitized Credit Terms.

CLOs: The party's over

The sector we favor least for the second half of 2025 is CLOs. They've had an amazing run—lowest fall, highest return, and just an incredible Sharpe ratio over the past two years.

For those years, CLOs' status as a primarily floating rate investment has been a positive for investors. However, if the Fed does move into a cutting cycle, it will reduce the income from that floating rate and we may see some of their sponsorship (hello CLO ETF buyers) fall away.

Fundamentally, the sector appears to be both at the peak of its credit cycle and, as it's tied to corporate credit, the most likely securitized sector to experience disruption from tariffs. While the sector still has good liquidity and investor interest, defaults in the leveraged loan market (the collateral for CLOs) are at multi-year highs: 4.5% of issuers had a default or engaged in a distressed exchange in June, versus 0.9% in June 2022.[2] We have been slowly reducing exposure and shifting allocations to higher quality.

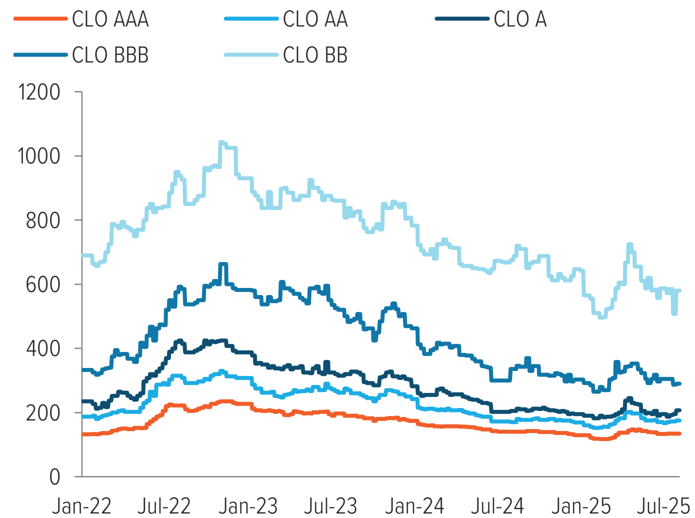
While we have concerns about the CLO sector, liquidity isn't one of them—the ETF selling that seemed like a big deal back in April is a distant memory and, ultimately, had negligible impact.

CLOs are the sector most likely to experience disruption from tariffs.

CLO current risk assessment

	Hurting values	Helping values
Macro	**Economic cycle** Federal policy **(tariffs, fiscal)**	Leveraged loan credit cycle Fed rate policy **Financial conditions**
Micro	**Foreign demand decrease** **ETF demand decrease**	Bank demand **The "arb"** Warehouse dynamics

CLO spread to SOFR



CLO current opportunity set

Love	Like	Leave
Dinged up Tier 1-2 single A's **Refi BBBs +** **New issue single A- and BBB- +**	Private credit single A Short subs **Short AAAs +**	**Equity -** **High premium subs -** Dirty refi/reset subs

[2]As at 30 June 2025. Source: LCD/Pitchbook.

As of 08/06/25. Source: Voya IM. Descriptions highlighted in **bold** reflect new assessment since last update, with + indicating upgraded assessment and – indicating downgraded assessment. For definitions, see our Glossary of Securitized Credit Terms.

U.S. ABS: Stick to the middle

Much of subprime is not okay, but the market is still pricing it at all-time tights.

While U.S. consumer spending and consumer credit both broadly remain solid, ABS is not the screaming buy you might think it is. There are a few reasons why, but a particularly relevant one today is that ABS tends to ride the back of consumer income—and while middle and high income cohorts seem fine, lower income cohorts are increasingly not fine (Exhibit 8). Yet the market is pricing even areas like subprime auto lending (where there has been what we consider a lot of questionable underwriting) at nearly all-time tights.

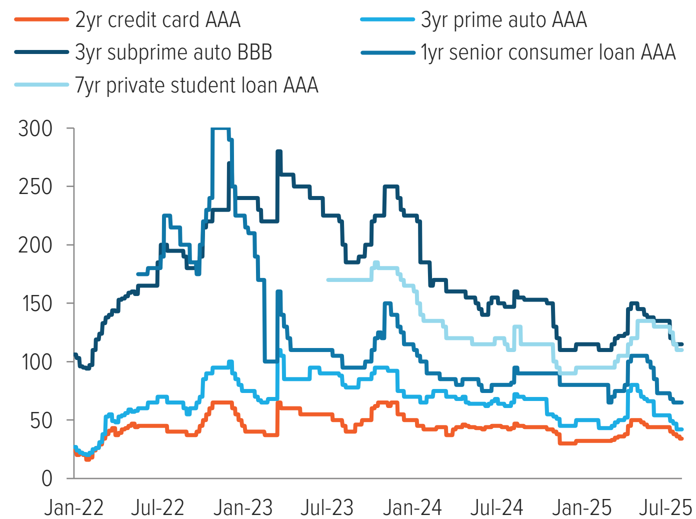
Not all low-income loans are risky, but investors need to pick their subsectors and vintages carefully. For example, we consider subprime loans taken out in 2021-2023, when consumer accounts were full of stimulus payments, to be among those with the most potential risk. (The jury is still out for 2024 loans.)

Student loans are another subsector with shifting dynamics—some dramatically negative and some fairly positive. The Department of Education's move in May to go after delinquent borrowers' wages is going to further pressure lower-income cohorts, especially given TransUnion's data suggesting that one in three federal student loan borrowers is at risk of default. However, the federal malaise doesn't carry over to private student loan borrowers, who are by and large doing great.

ABS current risk assessment

	Hurting values	Helping values
Macro	Federal policy **(tariffs, DOGE, fiscal)** **Labor markets**	**Financial conditions**
Micro	**Student loan dynamics** Bad actors (fintech; subprime auto) Private ABF **Solar woes**	**Primary market dynamics** **Used car prices** Private ABF Bank RBC management

ABS spread to Treasuries



ABS current opportunity set

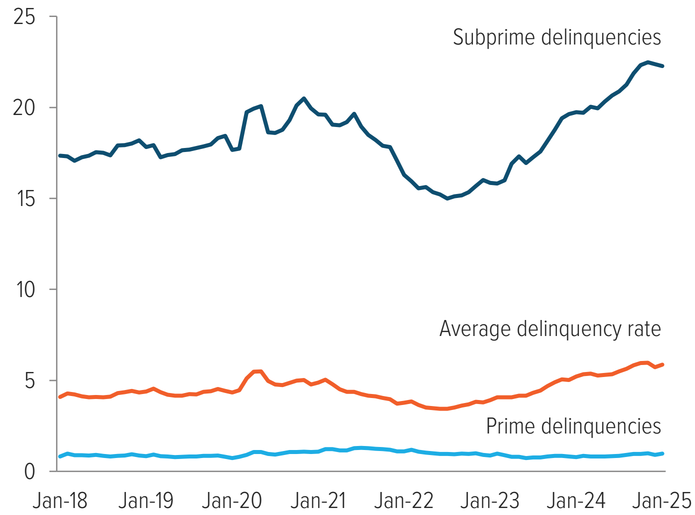
Love	Like	Leave
Top tier whole business +	**Car rental/fleet lease +**	2022-2024 subprime
Seasoned container +	**AAAs from "off the run" issuers -**	2022-2024 solar
Seasoned private student loan +	Stranded cost/utility	Digital infrastructure ABS
<2022 & new issue solar		NNN (in ABS structure)

[2] As at 30 June 2025. Source: LCD/Pitchbook.

As of 08/06/25. Source: Voya IM. Descriptions highlighted in **bold** reflect new assessment since last update, with + indicating upgraded assessment and – indicating downgraded assessment. For definitions, see our Glossary of Securitized Credit Terms.

We are staying a little higher in the capital structure in ABS right now.

Exhibit 8: Subprime credit card delinquencies are rising while prime delinquencies are declining



As of 04/02/25. Source: Kansas City Federal Reserve. Rates are weighted by outstanding credit card balance. Delinquency refers to balances 30+ days past due.

This adds to the stress on lower-income consumers and has real, ongoing consequences as we project longer-term consumer credit trends. On the positive side, private student lending is set to benefit as more borrower demand shifts, potentially catalyzing more securitized issuance and activity in this sub-sector.

While it has negative connotations to many risk managers, we're actually fairly positive on "buy now pay later" (BNPL), given its short duration and the collection advantages it enjoys over other forms of consumer credit. Access to BNPL as bridge credit helps relieve short-term cash flow pressure on lower-income cohorts in the same way that payday loans or layaway plans used to in an earlier era, so in our judgment it has a place in society.

In ABS' commercially-oriented sub-sectors, we are emerging from this period of policy uncertainty to prefer securitized cash flows from owners of assets. Areas like equipment leases, fleet auto leases, container leases, and particular forms of digital infrastructure are all better positioned to withstand public policy friction. Of course, for these inherently more cyclical sectors, risk taking remains measured, higher in the capital structure and in amounts that complement our consumer-oriented core ABS allocations.

Overall, we're staying a little higher in the capital stack in ABS than in other sectors.

Non-agency RMBS: Waiting in the wings

Resi has been our go-to sector to take risk, competing with CMBS as the latter has emerged from its crisis-like conditions in recent quarters. From a credit standpoint, residential mortgages remain very solid, possibly the most solid form of consumer borrowing right now, with locked-in rates that flash supreme affordability, especially against the staggering wealth and income build for homeowners since the pandemic.

But prevailing mortgage rates at 7% are sustaining the ongoing depression in housing-related activity, slow prepayments, and signs of weakness in home price appreciation. This has helped leave the sector in a place where, like ABS, we're generating alpha from security selection, harvesting the technical and opportunistic trades that emerge at regular intervals.

Is resi the most exciting sector right now? We concede: No, not really. Can you get a low-coupon non-agency RMBS trading around 90, with a pristine collateral pool? Yes, you can. If rates come down sooner and/or faster than expected, will that 90 bond move closer to par? Yes, it will.

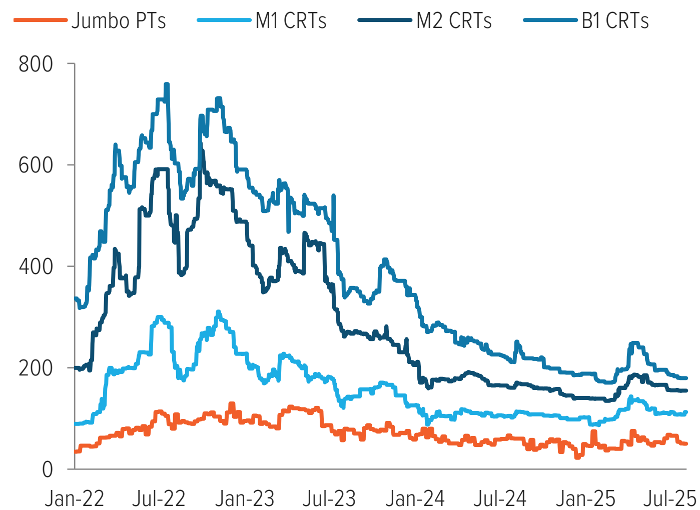
The only reason we're not leading with this risk position more aggressively is we are not convinced we will be getting significant rate cuts from the Fed, given the forest of current uncertainties. We recommend positioning to benefit from these "out of the money" mortgages, but their time in the spotlight isn't quite yet.

RMBS would be the biggest beneficiary from significant rate cuts.

Non-agency RMBS current risk assessment

	Hurting values	Helping values
Macro	**U.S. rates** **Housing** Federal policy **(tariffs, DOGE, fiscal)**	**U.S. rates** Labor markets **Financial conditions**
Micro	**Non-QM credit behavior**	**Primary market dynamics** GSE CRT utilization Credit standards

Non-agency RMBS spread to Treasuries



Non-agency RMBS current opportunity set

Love	Like	Leave
Discount priced prime seniors Senior-support Higher WAC (5.5%+) prime last cash flow **New issue prime jumbo BBBs** + Home equity agreements +	Deep discount priced prime seniors - "On the run" CRT B1s 2019-2022 CRT M2s/B1s Senior non-QMs	CRT M1s/A1s **On the run CRT M2s** - Closed-end seconds Non-QM subs New issue prime jumbo first cash flow Residential transition loans

As of 08/06/25. Source: Voya IM. Descriptions highlighted in **bold** reflect new assessment since last update, with + indicating upgraded assessment and – indicating downgraded assessment. For definitions, see our Glossary of Securitized Credit Terms.

Conclusion: No more drama

One of our colleagues who mainly deals with corporate credit groused the other day that it seemed like everything affecting his investment area right now was policy-related drama, not economics.

The large part of the securitized market that is focused on consumer credit has mostly been shielded from that policy uncertainty, and the economics that affect our fundamentals are all driven by still-intact longer-term trends whose shifts we have some ability to see coming.

We expect this relative predictability to support securitized credit markets through the second half of 2025 and beyond, with residual spread premium from April a nice tactical kiss for fresh allocators to the space.

We have deep liquidity to scale or re-position, with plenty of places that feature good fundamentals and plenty of new issuance. Spreads are tight in some areas, but there is attractive long- and short-term risk available, along with a range of technical opportunities.

In the current uncertain market environment, securitized credit offers not just its usual diversification and spread benefits but also low volatility and high relative value. We can't promise the rest of the year will be entirely drama free, but we do think it's likely that, whatever the policy headlines, the securitized markets will keep calm and carry on.

A note about risk

The principal risks are generally those attributable to bond investing. Holdings are subject to market, issuer, credit, prepayment, extension, and other risks, and their values may fluctuate. Market risk is the risk that securities may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security may decline for reasons specific to the issuer, such as changes in its financial condition. The strategy invests in mortgage-related securities, which can be paid off early if the borrowers on the underlying mortgages pay off their mortgages sooner than scheduled. If interest rates are falling, the strategy will be forced to reinvest this money at lower yields. Conversely, if interest rates are rising, the expected principal payments will slow, thereby locking in the coupon rate at below-market levels and extending the security's life and duration while reducing its market value.

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