



Mortgage-Backed Securities: A Historic Opportunity for 2025

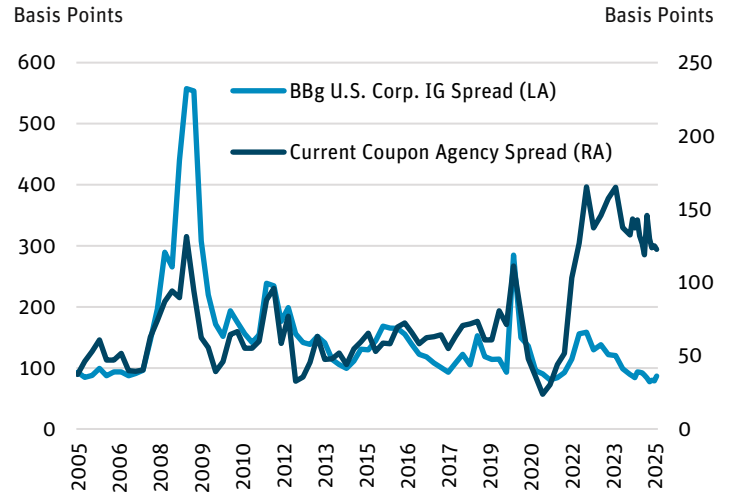
As markets begin anticipating the impact of the incoming administration’s policy proposals, Angel Oak remains confident that 2025 will present a historic opportunity in fixed income and is recommending increases in allocations to residential mortgage-backed securities (RMBS). Fed Chair Powell recently stated that the U.S. economy continues to be in a good place, an indication that Fed policy has engineered a “soft” landing for the economy after a period of heightened inflation. In addition, the fed funds futures markets are currently pricing in at least three additional rate cuts in 2025. We believe that high-quality, fixed-income portfolios of intermediate duration have the potential to generate total returns greater than current yields, while mitigating reinvestment risk.

Figure 1 shows spreads in agency RMBS trading significantly wider than investment-grade (IG) corporate credit for the first time in more than 20 years. Corporate credit spreads (both IG and high yield) are trading at cyclical tightness with less relative value versus RMBS securities that are trading wider than historical averages (Figure 2).

Market Dislocation Opportunity:

- RMBS may offer compelling relative value due to strong fundamentals, conservative underwriting, and a resilient housing market.
- Corporate credit allocations (both IG and HY) are trading at cyclical tightness versus agency and non-agency RMBS that are trading wider.

Figure 1: Current Coupon Agency Spread Wider Than IG Corp. Spread



Source: Bloomberg as of 2/28/25.

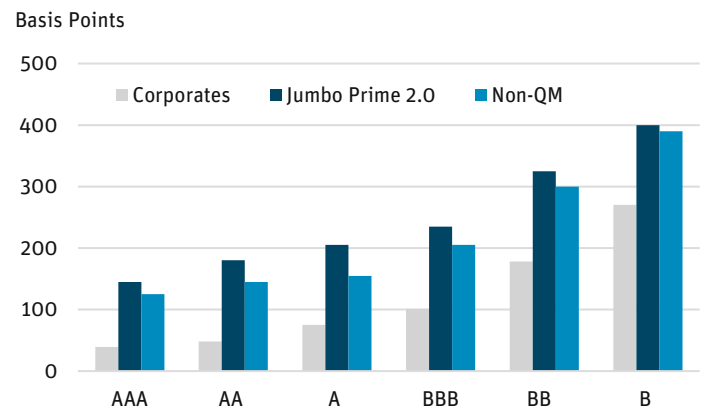
Figure 2: Historical Spreads

RMBS		Current Spread (bps)	YTD Change (bps)	Percentile Since 2018
Agency RMBS	Fannie Mae/Freddie Mac Current Coupon	119	-5	66%
Non-Agency RMBS	Non-QM AAA	125	5	46%
	Prime Jumbo 2.0 A	205	0	48%
Corporate Credit/CLOs		Current Spread (bps)	YTD Change (bps)	Percentile Since 2018
Corp. Index	BBg U.S. Corp. IG Index	86	9	12%
	BBg U.S. Corp. HY Index	283	2	7%
CLO	AAA	122	-8	16%
	BBB	280	-5	2%

Source: Bloomberg, Wells Fargo, Bank of America as of 2/28/25.

- Agency RMBS have explicit or implicit default protection by the U.S. government, unlike corporate debt. Although agency MBS are historically more attractive based on spreads (Figure 1), investors may find the best relative value within NA RMBS (Figure 3).
- As spreads revert to historical norms, we see more upside price potential in NA RMBS given the wider current spreads vs. Agencies (Figure 2). Lower rates also generally accelerate prepayments, which would be yield-accretive to investors holding RMBS trading at current discounts.

Figure 3: Non-Agency vs. Corporate Spreads



Source: Bloomberg as of 2/28/25.

Agency Mortgage-Backed Securities (AMBS): Securities issued or guaranteed by the U.S. government or a GSE.

Basis Point (bps): One hundredth of one percent and is used to denote the percentage change in a financial instrument.

Bloomberg U.S. Corporate High Yield Bond Index: An unmanaged market value-weighted index that covers the universe of fixed-rate, non-investment-grade debt.

Bloomberg U.S. Corporate Investment Grade Index: An index that measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Current Coupon: Refers to a security that is trading closest to its par value without going over par. In other words, the bond's market price is at or near to its issued face value.

Duration: Measures a portfolio's sensitivity to changes in interest rates. Generally, the longer the duration, the greater the price change relative to interest rate movements.

Morgan Stanley 30Y Conventional Current Coupon (\$100) ZV Index: The index represents the ZV (zero volatility) spread for the hypothetical \$100-priced 30-year conventional mortgage over time.

Mortgage-Backed Security (MBS): A type of asset-backed security which is secured by a mortgage or collection of mortgages.

Non-Qualified Mortgage (Non-QM): A loan that does not meet the standards of a qualified mortgage and uses non-traditional methods of income verification to help a borrower get approved for a home loan.

Prime Jumbo: Prime jumbo mortgages are non-agency loans typically because the lending amount exceeds the conforming loan limits. These tend to be high-quality mortgages with high credit scores that, for the most part, comply with agency mortgage underwriting guidelines.

Spread: The difference in yield between a U.S. Treasury bond and a debt security with the same maturity but of lesser quality.

Yield Curve: The U.S. Treasury yield curve refers to a line chart that depicts the yields of short-term Treasury bills compared to the yields of long-term Treasury notes and bonds.

Opinions expressed are as of 2/28/25 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

Investing involves risk; principal loss is possible. Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and nonrated securities present a greater risk of loss to principal and interest than do higher-rated securities. Investments in asset-backed and mortgage-backed securities include additional risks that investors should be aware of, including credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Derivatives involve risks different from — and in certain cases, greater than — the risks presented by more traditional investments. Derivatives may involve certain costs and risks such as illiquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lead to losses that are greater than the amount invested. The Fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. The Fund may use leverage, which may exaggerate the effect of any increase or decrease in the value of securities in the Fund's portfolio or the Fund's net asset value, and therefore may increase the volatility of the Fund. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are increased for emerging markets. Investments in fixed-income instruments typically decrease in value when interest rates rise. The Fund will incur higher and duplicative costs when it invests in mutual funds, ETFs and other investment companies. There is also the risk that the Fund may suffer losses due to the investment practices of the underlying funds. For more information on these risks and other risks of the Fund, please see the Prospectus.

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