



THE DYNEX ANGLE



READING THE MARKET THROUGH 4 LENSES
FUNDAMENTALS • TECHNICALS • PSYCHOLOGY • POLICY

Q3'26



Markets rarely move for a single reason

Understanding the environment requires more than a single forecast. It requires a disciplined way to separate what is happening from why it matters.

This edition of *The Dynex Angle* reflects our views and impressions of recent key market trends and developments and how they influence the broader business and investment environment. Our focus is not on predicting every market move, but on identifying the forces shaping risk, liquidity, valuation and opportunity.

We read the market through four connected lenses: **fundamentals, technicals, psychology and policy**. Each lens answers a different question, and together they provide a more complete framework for evaluating market conditions.



FUNDAMENTALS

What is driving underlying value?

What economic and financial factors are influencing the value of an investment? We consider interest rates, inflation, growth, cash flows, credit conditions and other underlying drivers that can affect valuations and prospective returns.



TECHNICALS

How is the market functioning?

What supply and demand dynamics are influencing market prices? We assess liquidity, market flows, positioning, issuance and financing conditions to understand what is driving relative value and how efficiently the market is functioning.



PSYCHOLOGY

How are investors behaving?

How are sentiment, positioning and investor behavior influencing markets? We consider crowding, risk appetite and shifts in market expectations that can amplify price movements and create dislocations between price and underlying value.



POLICY

What can change the market environment?

How can monetary, fiscal and regulatory decisions influence markets? We consider policy actions that can affect interest rates, liquidity, capital flows, financing conditions and asset valuations.

The Price of Money Rose Across the Globe in Q3'26

Higher rates, increased volatility and wider mortgage spreads reflected a market adjusting to tighter policy and growing competition for capital

Fed Tightening is Expected to Continue

The Federal Reserve raised rates 25 basis points in September, the first increase since July 2023, as elevated inflation shifted expectations toward further tightening. With the potential for additional rate increases expected this year, less forward guidance, and Fed working groups continuing to evaluate the policy framework, the path of monetary policy remains highly dynamic.

Oil and Rates Have Increasingly Moved Together

Energy remained an important variable for inflation and the economic outlook. Higher and more volatile oil prices added to inflation uncertainty and contributed to broader market volatility during the quarter.

Global Debt Financing Needs are Elevated

Large government deficits and rising borrowing costs are driving continued growth in global sovereign debt issuance. Higher interest costs are consuming a growing share of government outlays, adding to financing needs and increasing the volume of debt markets must absorb ([Chart 1](#)).

AI Debt Issuance is Increasing Competition for Capital

Hyperscaler investment in AI, power and infrastructure is adding considerable amounts of debt supply, intensifying competition for long-duration capital and putting upward pressure on borrowing costs ([Chart 2](#)).

Rates and Required Returns Moved Higher

Long-term Treasury yields rose sharply as markets accounted for tighter monetary policy and greater competition for long-duration capital. The 10-year Treasury yield increased 82 basis points during the quarter, driving a broader repricing of rates and risk and raising required returns across fixed-income markets ([Chart 3](#)).

Crowded Positioning Increased Volatility

Many investors entered the quarter positioned for lower rates and relatively stable markets. When rates instead moved higher, investors reduced or hedged those positions, amplifying market moves and contributing to a sharp increase in realized interest-rate volatility ([Chart 4](#)).

Chart 1: G7 Government Debt Has Increased Considerably⁽¹⁾

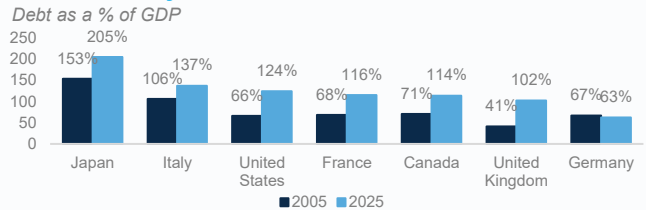


Chart 2: AI Debt Issuance Has Been Surging⁽²⁾

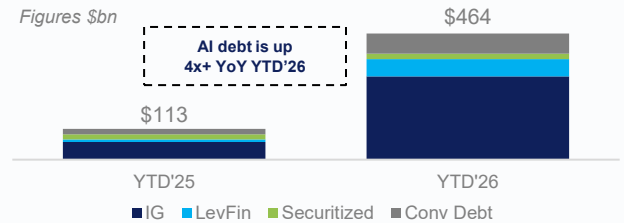
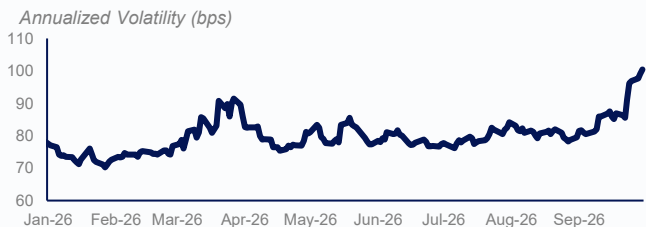


Chart 3: Treasury Yields Reached the Highest Level Since 2007⁽³⁾



Chart 4: Implied Volatility Spiked at the End of Q3'26⁽⁴⁾



Note: Views on this page represent management's views and actual results may differ materially.

1. Source: IMF World Economic Outlook / Global Debt Database. General government gross debt. Japan's ratio is sensitive to GDP revisions (recent IMF vintages ~205–235%). Data shown is for 2005 and 2025.

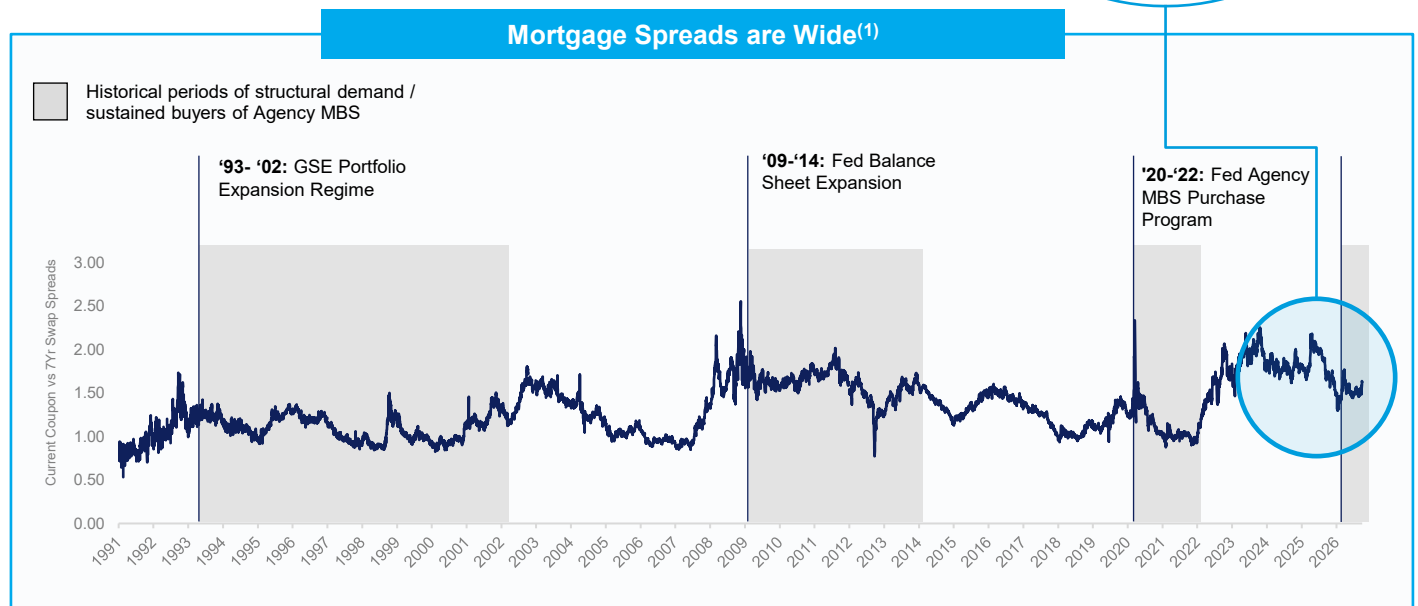
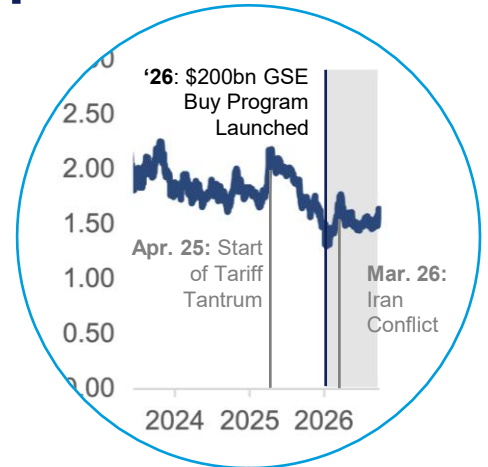
2. Source: Morgan Stanley Research through September 30, 2026.

3. Source: Bloomberg data as of September 30, 2026.

4. Source: JP Morgan Research as of September 30, 2026.

Improved Agency MBS Return Profile Amid Spread Widening

Wide spreads, constrained supply, durable demand and limited refinancing incentives create a compelling combination of income and cash-flow stability



Wide Spreads Provide Meaningful Relative Value

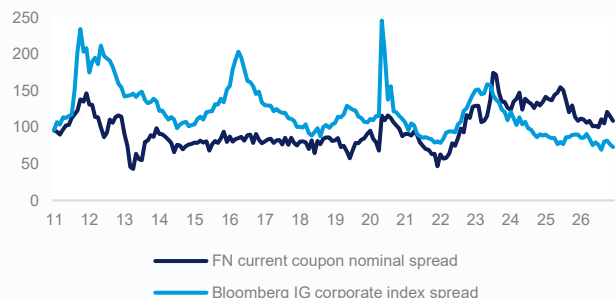
Agency MBS continue to offer attractive income and relative value. Spreads traded largely in a 140–160 basis point range during Q3, averaging roughly 150 basis points. [See chart above.](#)

Importantly, when compared with other periods when spreads have been similarly wide, today's mortgage backdrop is particularly supportive, with more stable cash flows, constrained supply and healthy demand.

Agency MBS also screen favorably relative to investment-grade corporates, where spreads remain near the tighter end of their historical range. This valuation gap leaves mortgages better compensated for risk once rate volatility subsides. [See chart to the right.](#)

Mortgages Appear Cheap to Investment Grade Corporates⁽²⁾

Figures bps



Note: Views on this page represent management's views and actual results may differ materially.

- Source: Bloomberg. Secondary mortgage market yield less interpolated 7-year swap adjusted for Libor/SOFR difference as of September 30, 2026.
- Source: Goldman Sachs data as of September 30, 2026.

02 AGENCY MBS Continued

Limited Supply, Supportive Demand

Elevated mortgage rates continue to limit refinancing and housing turnover, constraining new mortgage production and reinforcing a limited supply backdrop as long as rates remain elevated ([Chart 1](#)). Meanwhile, ongoing fixed-income fund inflows and GSE activity provide steady demand, with GSEs retaining more than \$110 billion of additional purchase capacity ([Chart 2](#)). Together, limited supply and durable demand provide a firmer technical foundation for mortgage valuations.

Improved Convexity & Cash Flow Profile

Perhaps the most distinctive feature of today's market is the stability of mortgage cash flows. Limited refinancing incentives ([Chart 3](#)) and an already-extended mortgage universe have reduced the negative convexity historically associated with Agency MBS, leaving the index in the rare position of being positively convex ([Chart 4](#)). Today's market offers higher spread compensation with a more stable cash flow profile.

Strong Funding Markets

Funding markets remain deep and well supported, strengthened by the growth in tri-party repo, increased central clearing, approximately \$8 trillion in money market funds, and greater use of Federal Reserve standing facilities. Unlike prior periods of extreme mortgage spread widening, such as the GFC and COVID, today's attractive mortgage spreads exist against a far more supportive funding backdrop. [See the following page for additional commentary on funding markets.](#)

Today's Volatility Is Different

Periods of volatility naturally invite comparisons with 2022 and 2023, but today's mortgage backdrop is materially different. Mortgage cash flows are more stable, refinancing incentives remain limited, supply is constrained, and funding markets remain supportive. Against that backdrop, late-Q3 spread widening was driven largely by technical selling rather than a deterioration in mortgage fundamentals. The repricing therefore improved prospective returns and reinforced the opportunity in Agency MBS at current valuations.

Chart 1: Agency MBS Net Supply Remains Low⁽¹⁾

Net issuance \$bn

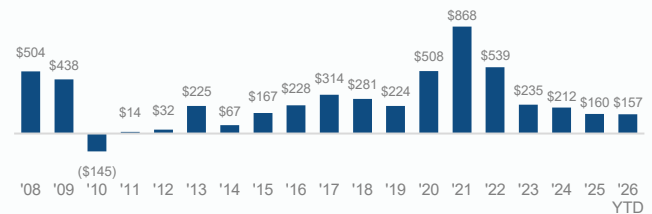


Chart 2: Bond Fund and Annuity Flows Remain Elevated⁽²⁾

Figures \$bn

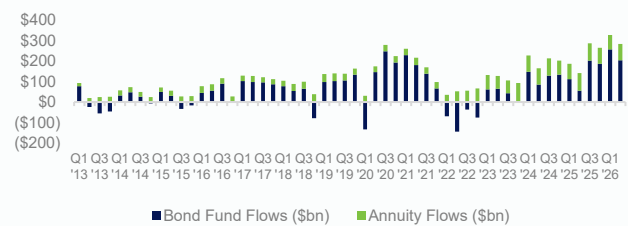


Chart 3: Majority of Outstanding Mortgages Sit Below Today's Rate⁽³⁾

Figures \$bn

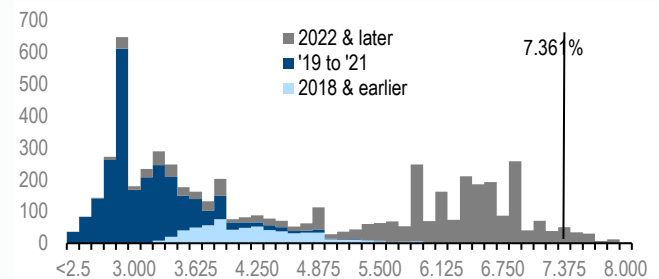


Chart 4: MBS Index Convexity Has Turned Positive⁽²⁾

Option Adjusted Convexity



Note: Views on this page represent management's views and actual results may differ materially.

1. Source: BofA Global Research. Fannie Mae, Freddie Mac, Ginnie Mae (as of September 30, 2026).

2. Source: Bloomberg data as of September 30, 2026.

3. Source: JP Morgan Research as of September 30, 2026.

Funding Markets Provide a Strong Foundation for Agency MBS Investment

Deep liquidity, efficient repo markets and a supportive policy framework provide a durable financing backdrop for Agency MBS

Stable and resilient funding markets

Funding markets continue to operate as expected. Even with heightened volatility at quarter-end, Q3 quarter-end was notably orderly, with repo markets absorbing settlement activity without meaningful pressure.

A deeper liquidity base

Money market fund assets have more than doubled since 2020, and continued growth could further expand the pool of capital available to repo markets, providing an increasingly deep source of financing. [See chart to the right.](#)

Healthy and improving market structure

Bank regulatory changes and the continued expansion of the central clearing mandate could further improve balance-sheet efficiency and support dealer intermediation. Over time, these structural changes could increase the market's capacity to absorb financing demand, particularly during periods of elevated activity.

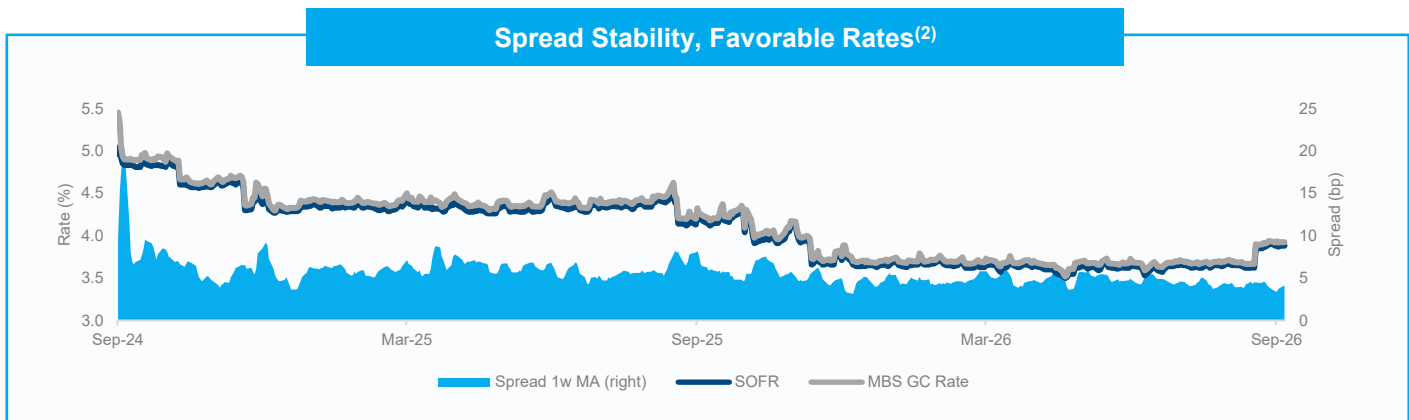
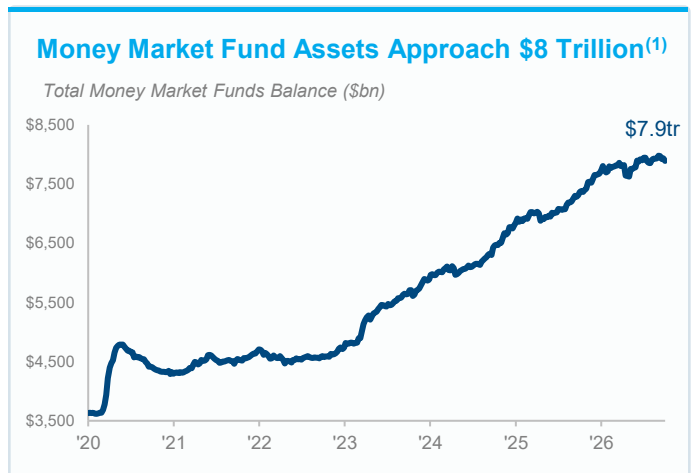
Policy provides important support for market liquidity

The Federal Reserve and Treasury have a strong toolkit to support money-market liquidity, including standing repo operations, reserve management purchases and Treasury buybacks. Following periods of funding volatility in 2019, 2023 and late 2025, the policy framework is increasingly focused on addressing liquidity pressures before they become disruptive.

Funding remains readily available, markets are functioning efficiently, and the policy framework provides meaningful support for liquidity when needed. For mortgage investors, that remains an important backdrop for efficiently financing Agency MBS portfolios.

Attractive spread economics

While short-term funding costs increased modestly, mortgage asset yields also moved higher and financing spreads remained relatively stable, preserving a constructive backdrop for Agency MBS investment. [See chart below.](#)



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1. Source: Bloomberg, Investment Company Institute as of September 30, 2026.

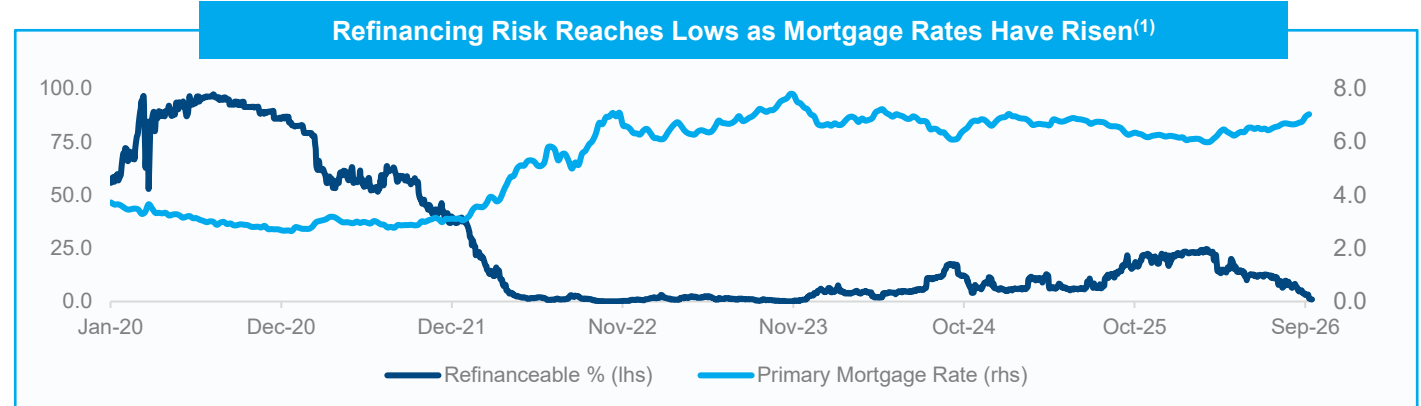
2. Source: Bloomberg as of September 30, 2026.

Potential to Capture Mortgage Spread with More Stable Duration and Convexity

More stable mortgage cash flows and reduced refinancing risk support attractive spread without relying on a directional view on rates

Mortgage Cash Flows are More Predictable

Higher mortgage rates have significantly reduced refinancing incentives, meaning borrowers are more likely to remain in their existing mortgages for longer, effectively extending the life of the mortgage universe. With less sensitivity to changes in rates, mortgage cash flows are more stable and convexity risk is reduced. [See chart below.](#)



Strong Returns Without Significant Duration Risk

Mortgage spreads continue to provide attractive income even as uncertainty around the direction of the yield curve remains elevated. Investors can capture mortgage spread without taking significant duration exposure or relying on rates to move materially higher or lower. [See chart to the right.](#)

Treasury Futures Provide Deep Liquidity

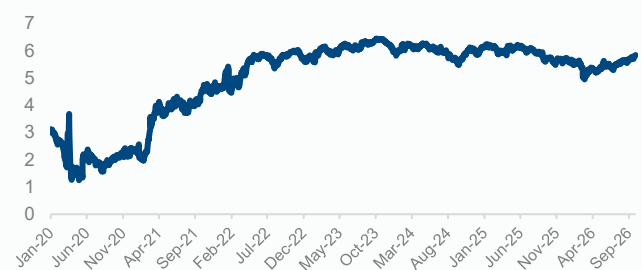
Treasury futures remain an important source of liquidity for investors navigating changes in rates and the yield curve. Their depth and flexibility are particularly valuable when markets experience periods of rapid repricing.

Policy and Market Structure Continue to Evolve

Changes in Federal Reserve policy, Treasury issuance, bank regulation and central clearing all influence the relative economics and liquidity of different hedging instruments. These developments will remain important to watch as the market adapts to a structurally different interest-rate environment.

Mortgage Durations are Fully Extended⁽²⁾

MBS Index Option-Adjusted Duration



Swap Spreads Remain Historically Attractive

Swaps can provide additional spread capture while expanding the tools available to manage rate exposure across the portfolio. Negative swap spreads across important parts of the yield curve create favorable economics for hedging with interest-rate swaps relative to Treasury-based instruments.

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1. Source: Refinanceable % (Morgan Stanley) and Primary Mortgage Rate (Freddie Mac) as of September 30, 2026.
2. Source: Bloomberg data as of September 30, 2026.



Cautionary Statement / Forward-Looking Statements

NOTE: This document contains certain statements that are not historical facts and that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “project,” “plan,” “may,” “could,” “will,” “continue” and similar expressions identify forward-looking statements that are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Statements in this presentation addressing expectations, assumptions, beliefs, projections, estimates, future plans, strategies, and events, developments that we expect or anticipate will occur in the future, and future operating results or financial condition are forward-looking statements. Forward-looking statements in this presentation may include, but are not limited to, our ability to find suitable reinvestment opportunities; changes in domestic economic conditions; geopolitical events and instability, including the conflict in the Middle East, and the related impacts on macroeconomic conditions as a result of such related uncertainty; tariffs that the U.S. imposes on trading partners or tariffs imposed on the U.S. from trading partners, including the legality of any such tariff measures; global and domestic government policy changes and the ability or inability to react to rapidly changing economic policies; changes in interest rates and credit spreads, including the repricing of interest-earning assets and interest-bearing liabilities; Company’s investment portfolio performance particularly as it relates to cash flow, prepayment rates, and credit performance; the impact on markets and asset prices from changes in the Federal Reserve’s policies regarding the purchases of Agency residential mortgage-backed securities (“Agency RMBS”), Agency commercial mortgage-backed securities (“Agency CMBS”), and U.S. Treasuries; actual or anticipated changes in Federal Reserve monetary policy or the monetary policy of other central banks; adverse reactions in U.S. financial markets related to actions of foreign central banks or the economic performance of foreign economies, including in particular the People’s Republic of China, Japan, the European Union, and the United Kingdom; the cost and availability of financing, including the future availability of financing due to changes to regulation of, and capital requirements imposed upon, financial institutions; cost and availability of new equity capital; changes in the Company’s leverage and use of leverage; changes to the Company’s investment strategy, operating policies, dividend policy, or asset allocations; quality of performance of third-party service providers, including the Company’s sole third-party service provider for our critical operations and trade functions; the loss, unavailability, or security of the Company’s third-party service providers’ service and technology that support critical functions of the Company’s business, including those related to the Company’s trading and borrowing activities due to outages, interruptions, or other failures; the level of defaults by borrowers on loans underlying MBS; changes in the Company’s industry; increased competition; changes in government regulations affecting the Company’s business; changes or volatility in the repurchase agreement financing markets and other credit markets; changes to the market for interest rate swaps and other derivative instruments, including changes to margin requirements on derivative instruments; uncertainty regarding continued government support of the U.S. financial system and U.S. housing and real estate markets, or to reform the U.S. housing finance system including the resolution of the conservatorship of Fannie Mae and Freddie Mac; the composition of the Board of Governors of the Federal Reserve; the political environment in the U.S.; systems failures or cybersecurity incidents; and exposure to current and future claims and litigation. Not all of these risks, uncertainties, and other factors are known to us. New risks and uncertainties arise over time, and it is not possible to predict those risks or uncertainties or how they may affect us. The projections, assumptions, expectations, or beliefs upon which the forward-looking statements are based can also change as a result of these risks and uncertainties or other factors. If such a risk, uncertainty, or other factor materializes in future periods, our business, financial condition, liquidity, and results of operations may differ materially from those expressed or implied in our forward-looking statements.

While it is not possible to identify all factors, some of the factors that may cause actual results to differ from historical results or from any results expressed or implied by our forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, include the risks and uncertainties referenced in our Annual Report on Form 10-K for the year ended December 31, 2025 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption “Risk Factors.” The Company assumes no obligation to update any forward-looking statements, which speak only as of the date of this presentation.