

GUGGENHEIM

Guggenheim Investments

An Investor's Guide to the Coming Recession

Brian Smedley

Chief Economist

Head of Macroeconomic and Investment Research

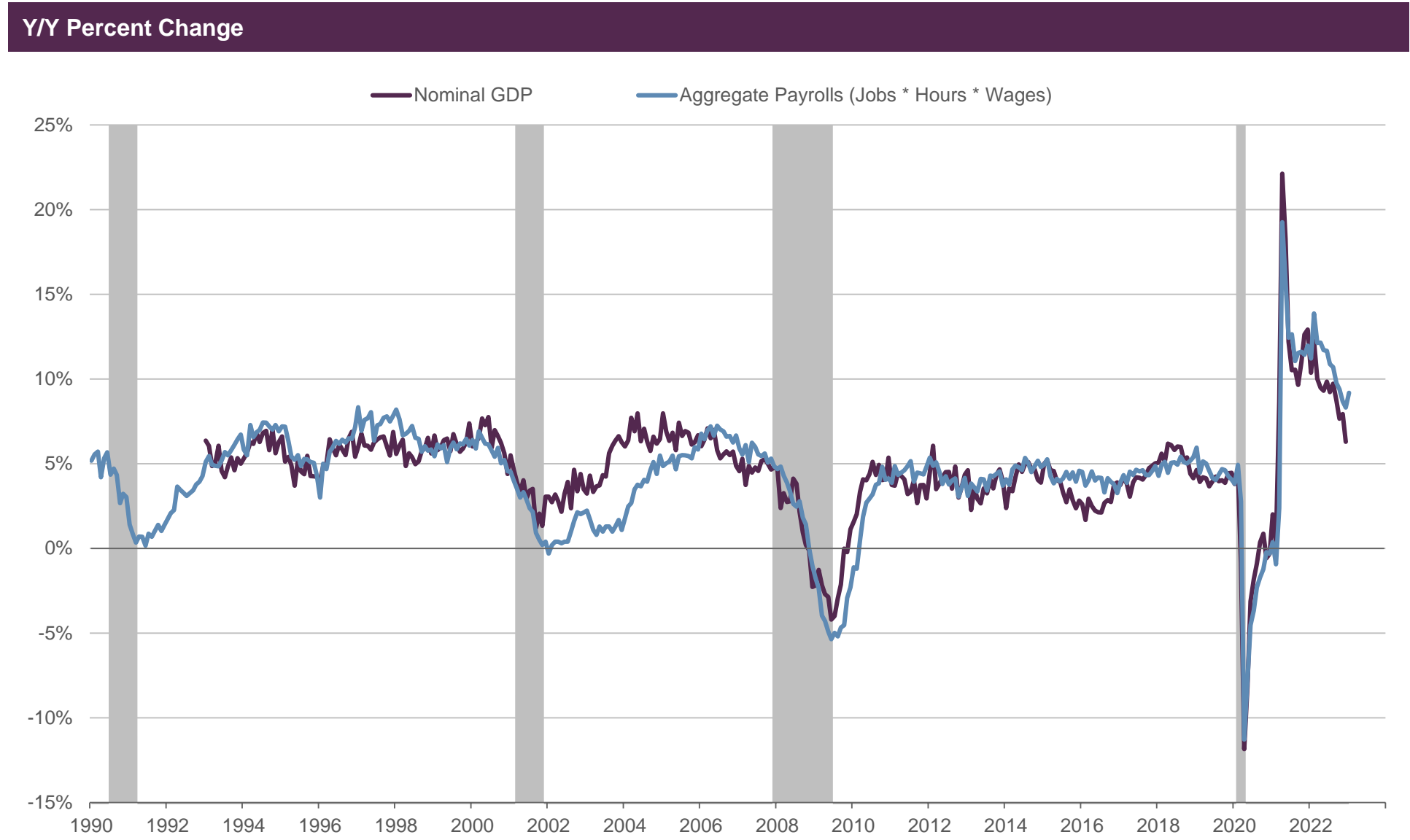
February 2023

Innovative Solutions. **Enduring Values.**[®]

GUGGENHEIM

Where Are We Now?

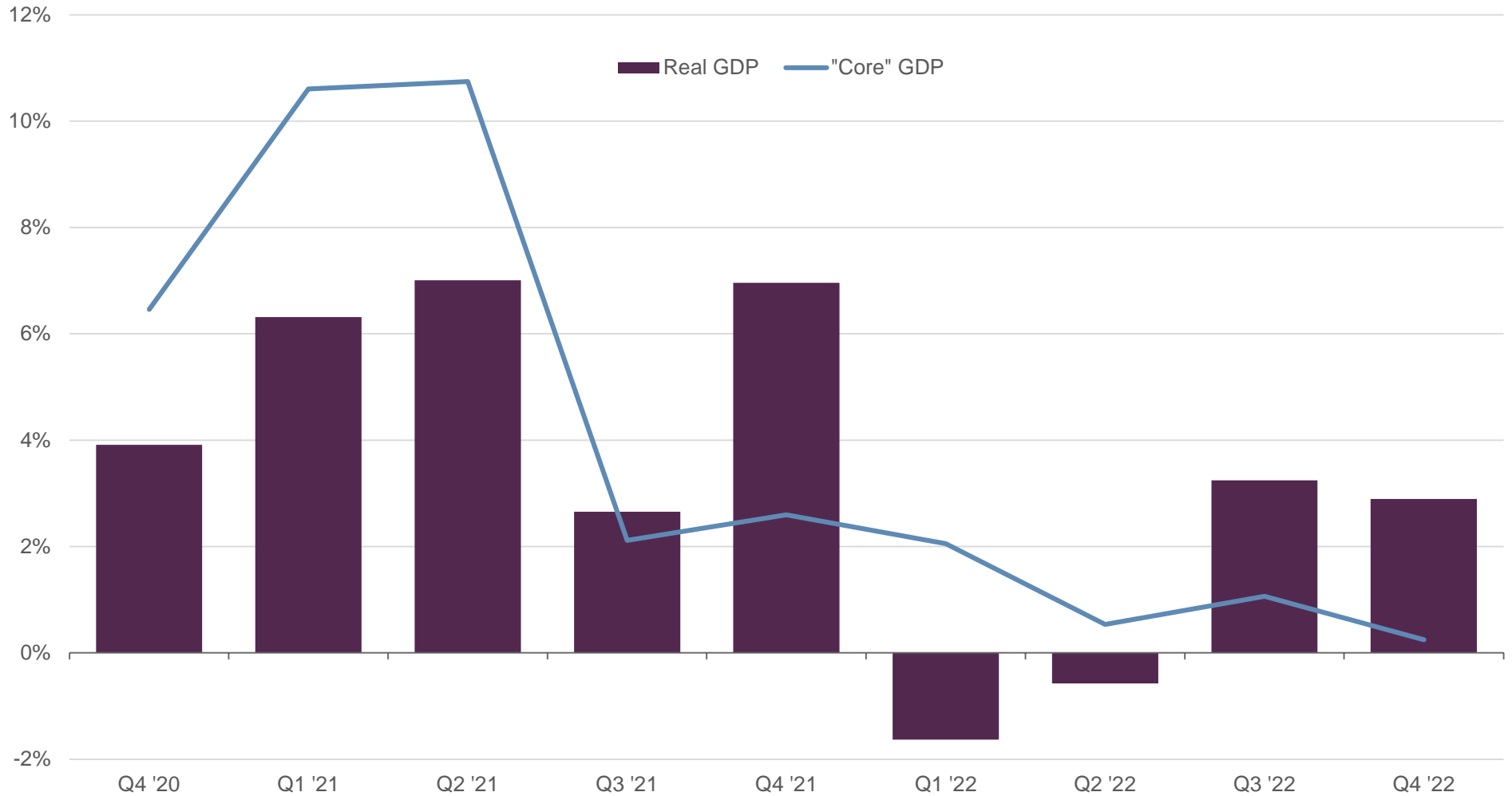
Aggregate Demand Growth Is Overheated...But Is Cooling Fast



Source: Guggenheim Investments, Haver Analytics, S&P Global Market Intelligence, BLS. Nominal GDP as of 12/31/2022, aggregate payrolls as of 01/31/2023. Shaded areas represent periods of recession.

Private Consumption and Investment Spending Are Fading

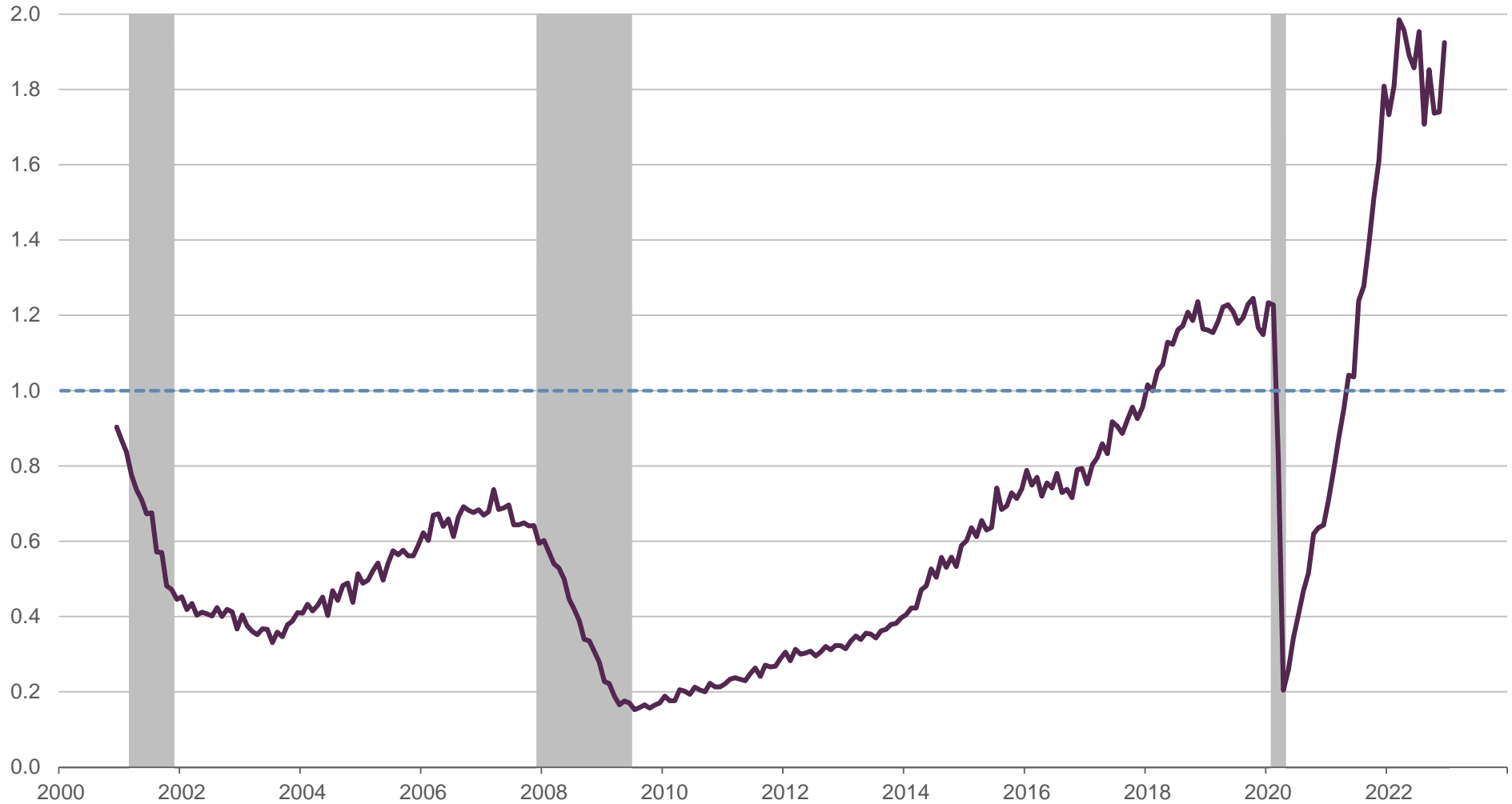
Quarterly Percent Change at a Seasonally Adjusted Annualized Rate



Source: Guggenheim Investments, Haver Analytics, BEA. Data as of 12/31/2022. Core GDP is defined as real final sales to private domestic purchasers.

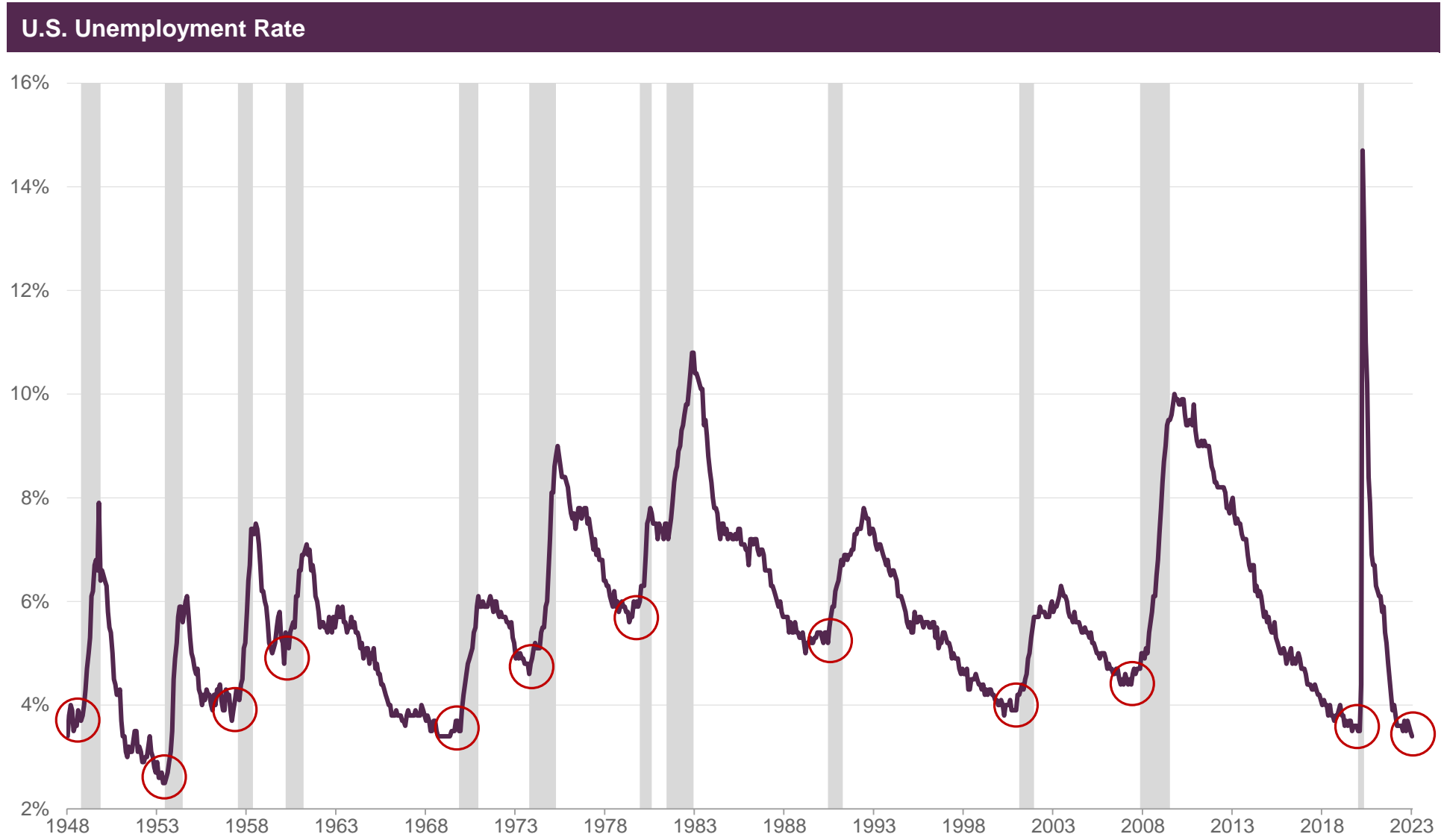
Demand for Labor Remains Extremely Strong...

Ratio of Job Openings Per Unemployed Worker



Source: Guggenheim Investments, Haver Analytics, BLS, Bloomberg. Data as of 12/31/2022. Shaded areas represent periods of recession.

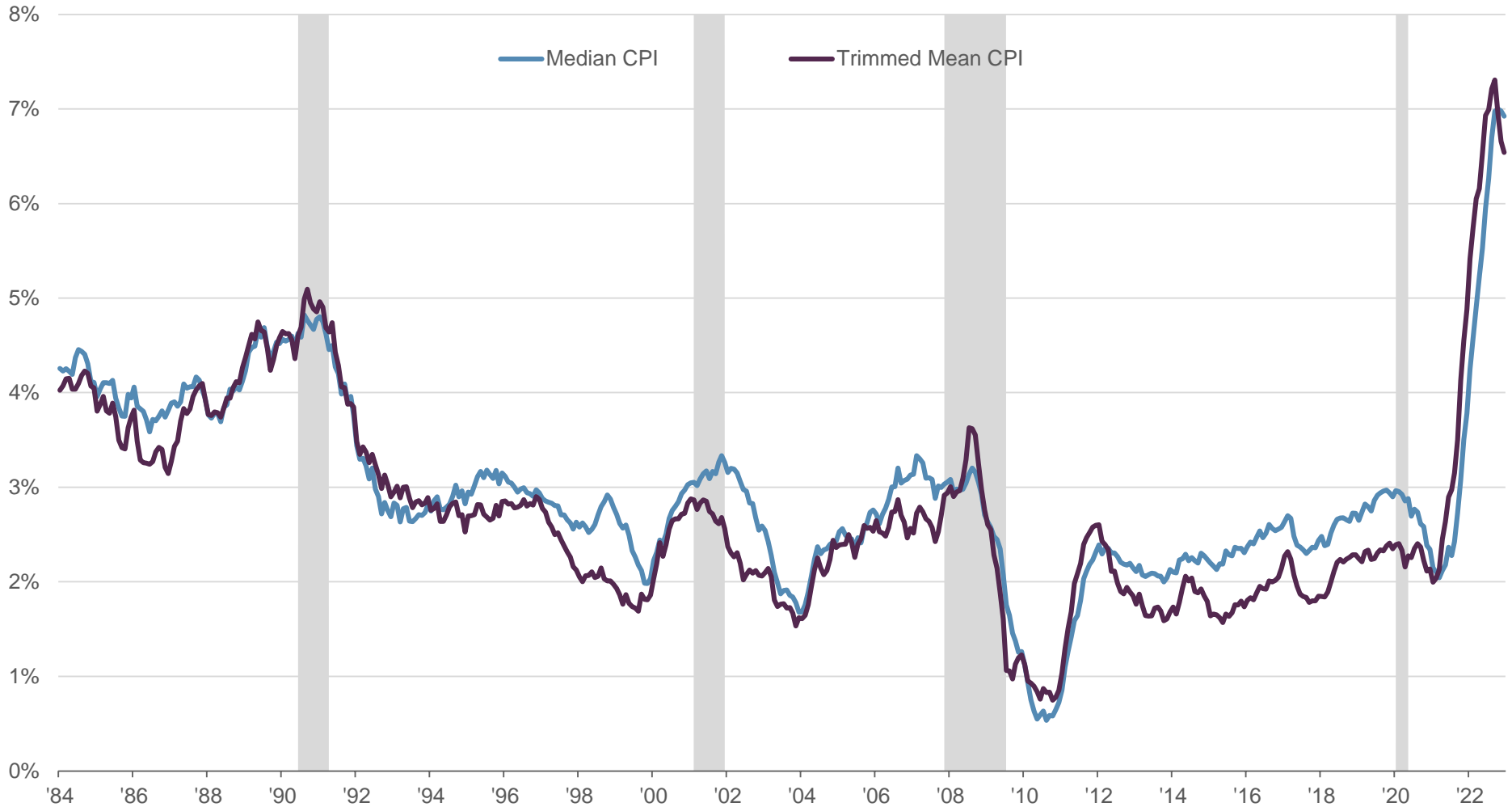
...Though Low Unemployment Always Precedes Recessions



Source: Guggenheim Investments, Bloomberg. Data as of 01/31/2023.. Shaded areas represent periods of recession.

Underlying Inflation Measures Show Inflation Is Broad-Based...

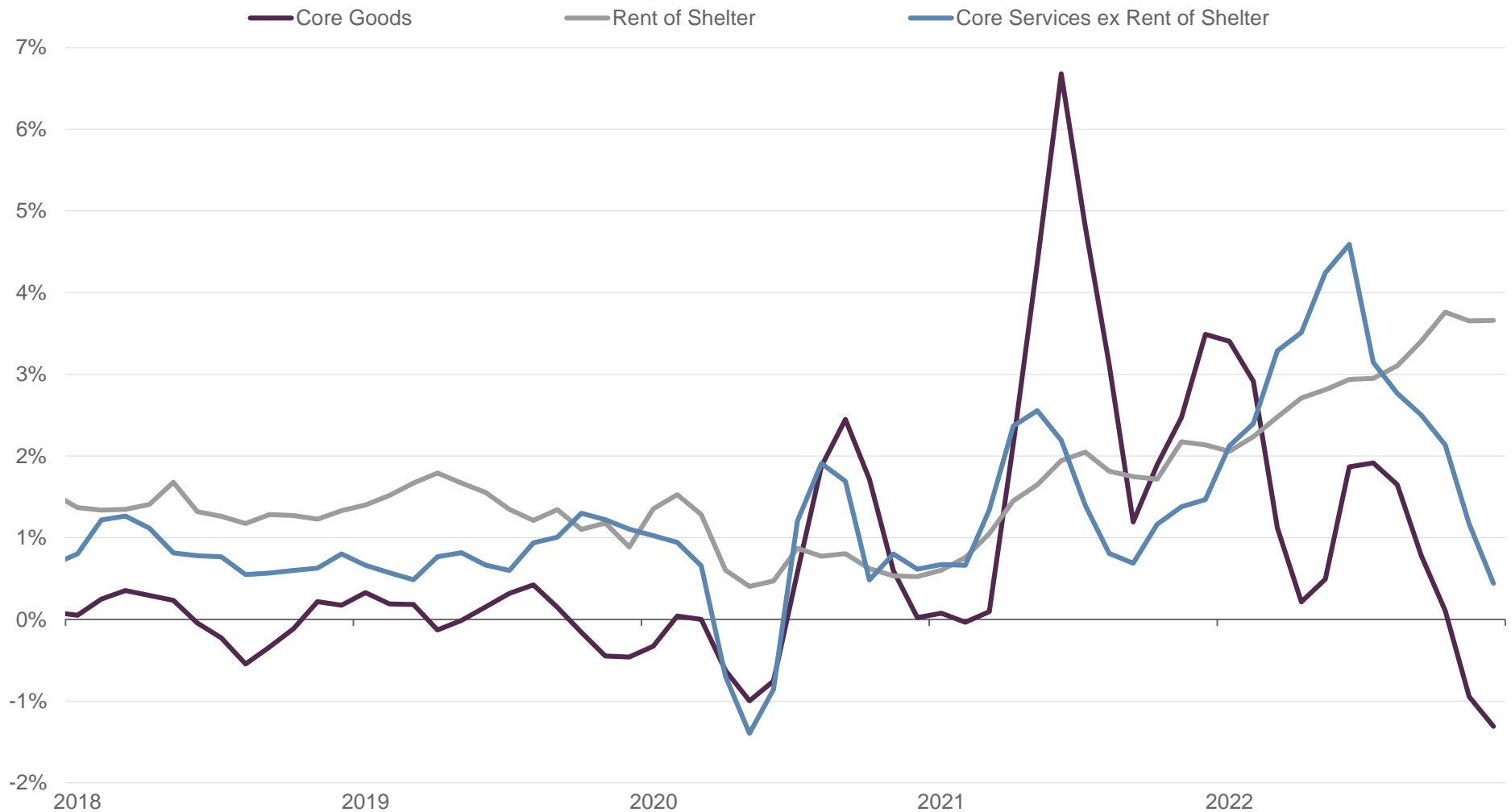
12-Month Percent Change



Source: Guggenheim Investments, Bloomberg. Data as of 12/31/2022. Shaded areas represent periods of recession.

...But Two of the Fed's Three Inflation Buckets Show Progress

Contribution to 3-Month Annualized Percent Change in Core CPI

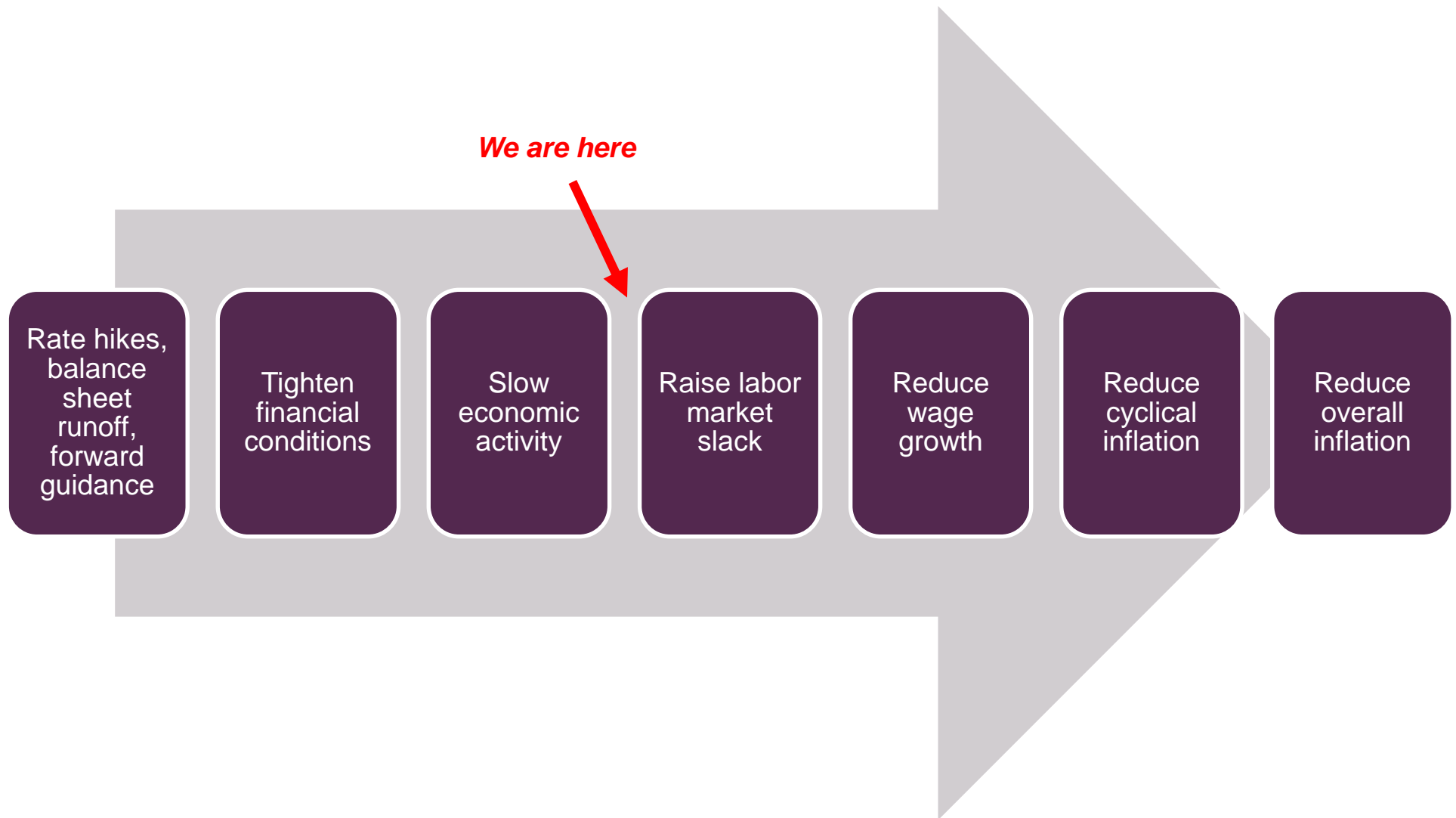


Source: Guggenheim Investments, Haver Analytics. Data as of 12/31/2022.

GUGGENHEIM

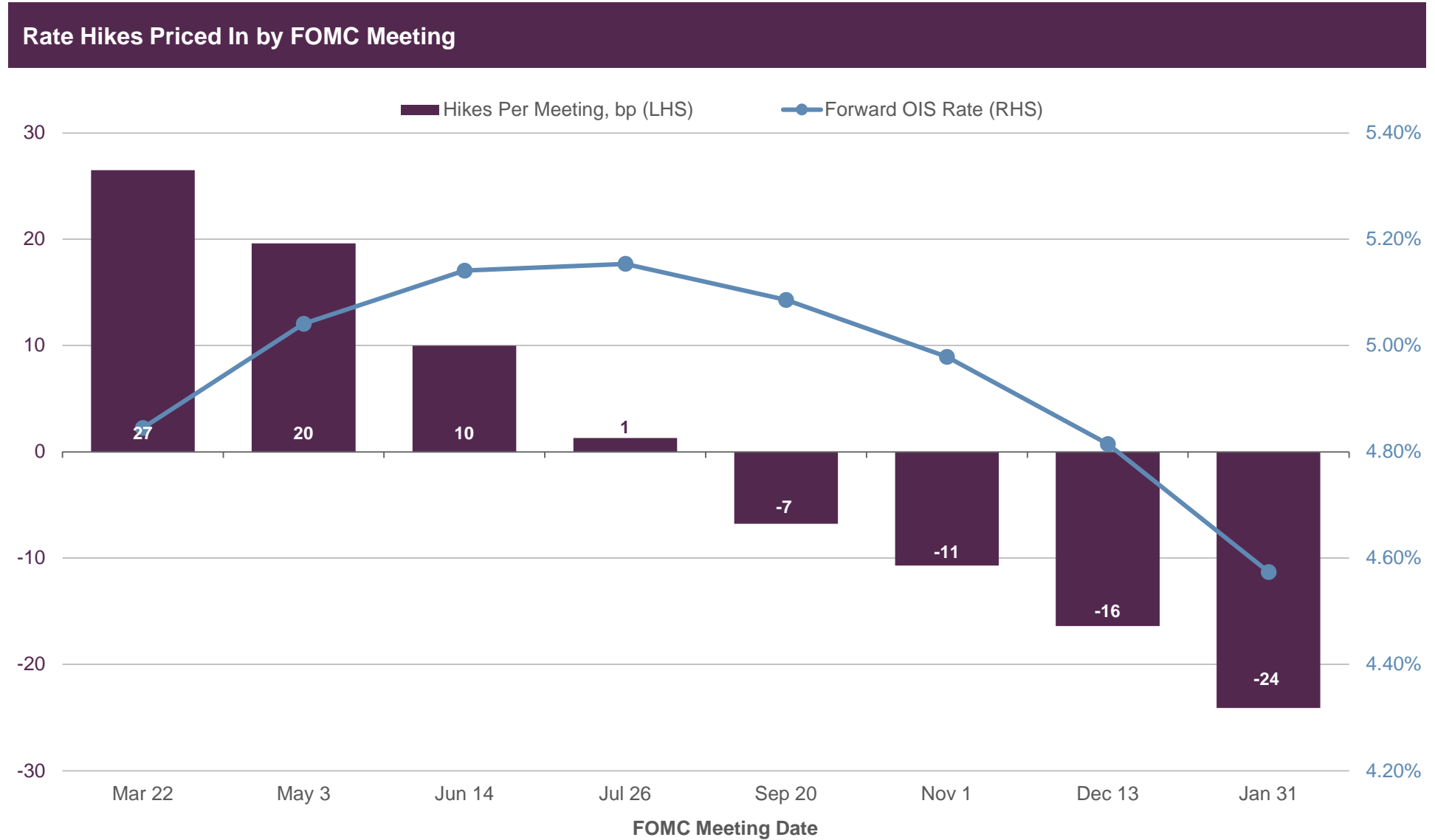
Where Are We Going?

For the Fed, Controlling Inflation Requires a Softer Labor Market



Source: Guggenheim Investments.

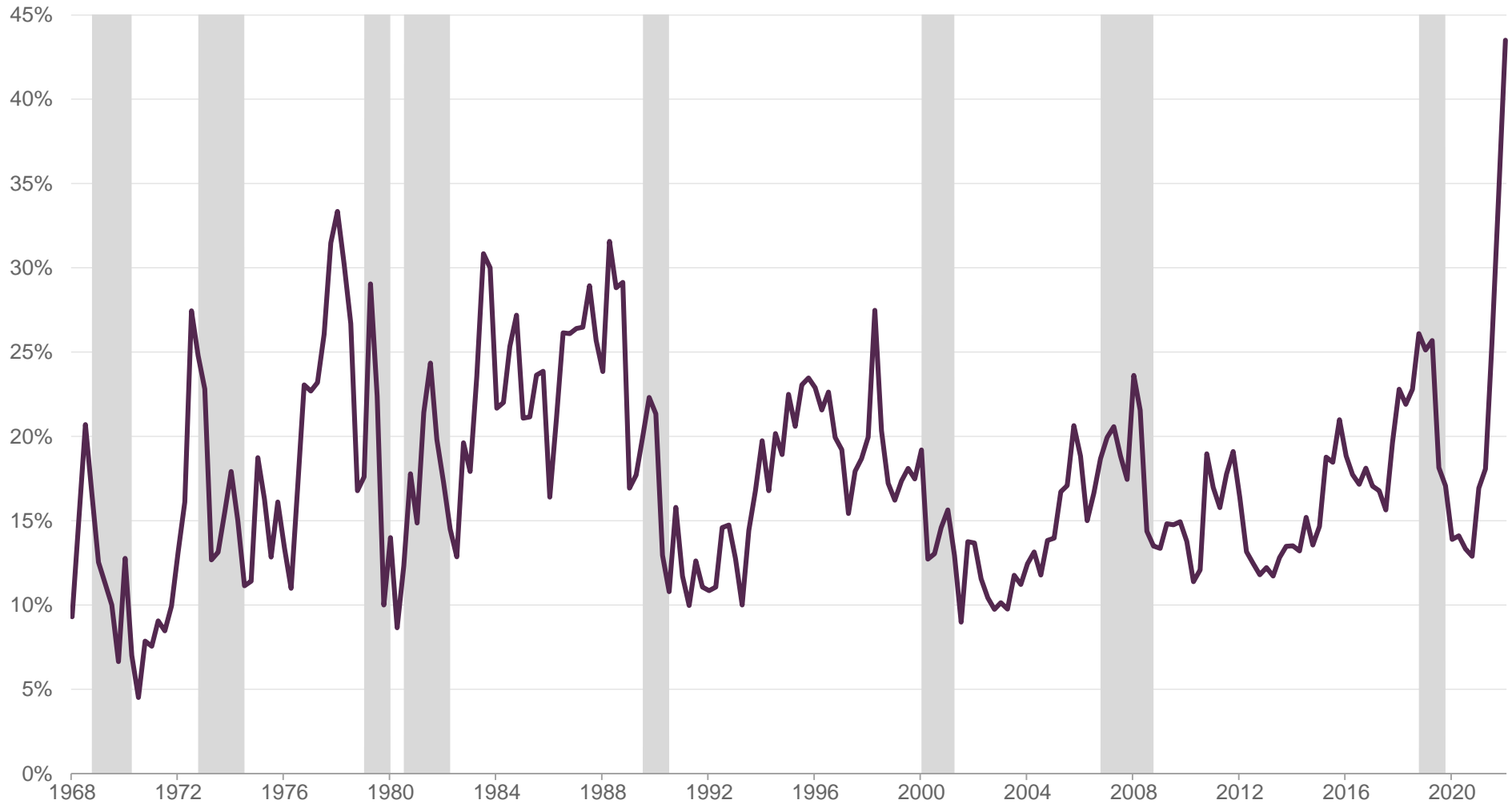
We See the Federal Funds Rate Peaking Above 5 Percent in Q2



Source: Guggenheim Investments, Prebon, Bloomberg. Data as of 02/07/2023.

Forecasters Have Never Been So Confident That a Recession Is Coming

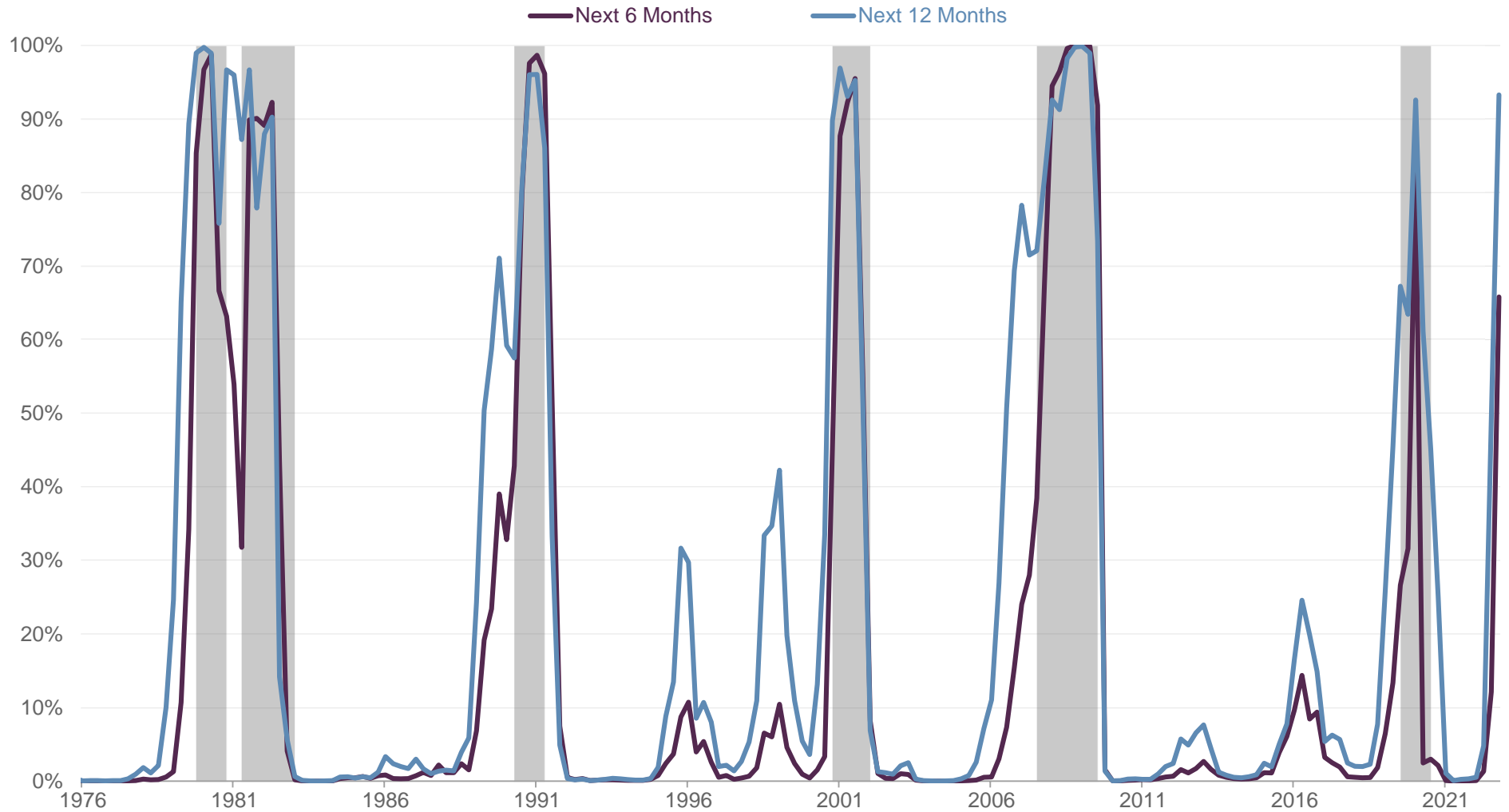
Survey of Professional Forecasters: Probability of Decline in Real GDP 4 Quarters Ahead



Source: Guggenheim Investments, Haver Analytics. Data as of 12/31/2022. Shaded areas represent periods of recession.

Our Models Also Point to a U.S. Recession Starting in 2023

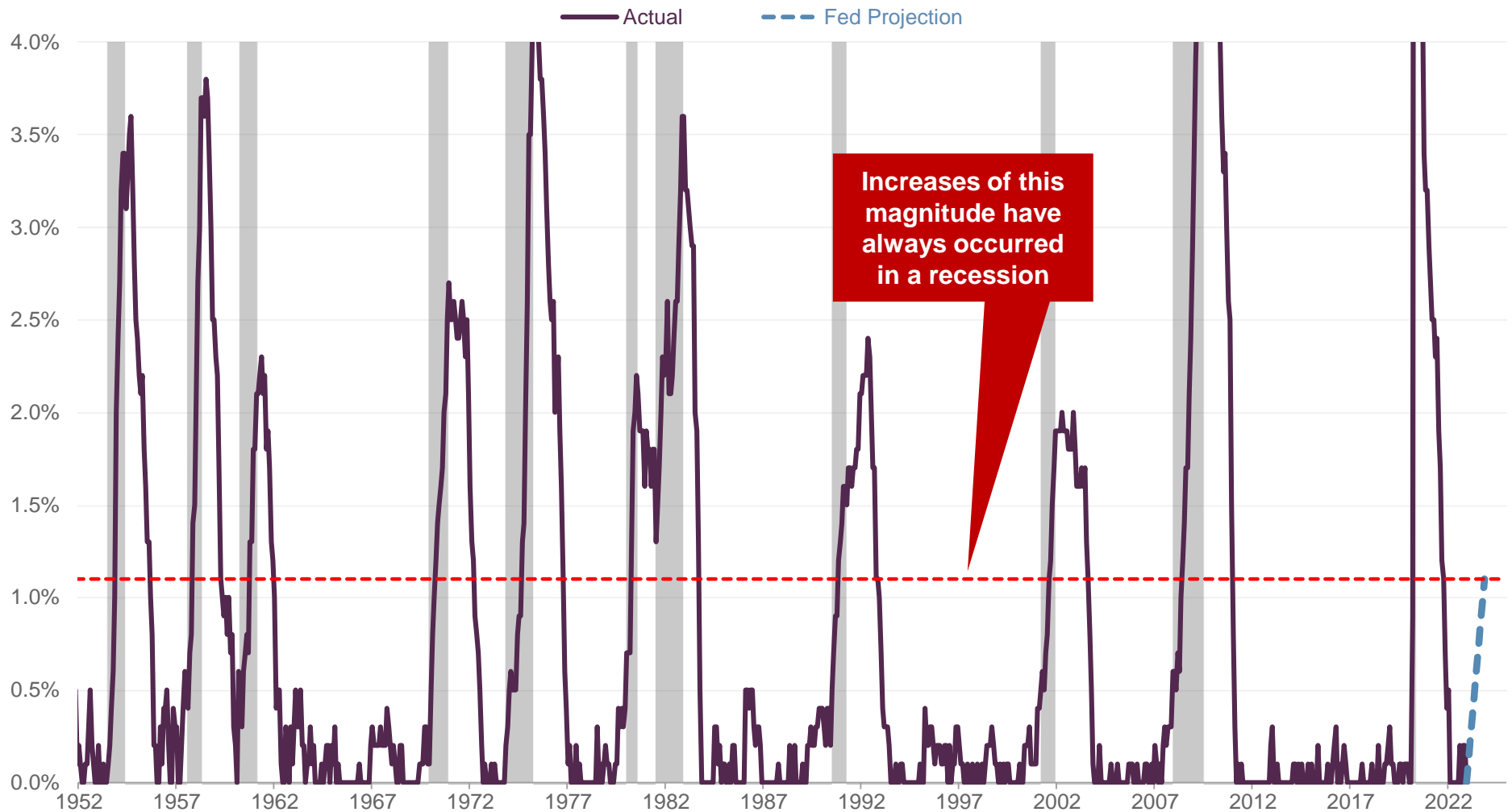
Model Based Recession Probability



Source: Guggenheim Investments, Haver Analytics, Bloomberg. Data as of 09/30/2022. Shaded areas represent periods of recession.

The Fed's Forecasts Imply that a Recession Is the Base Case

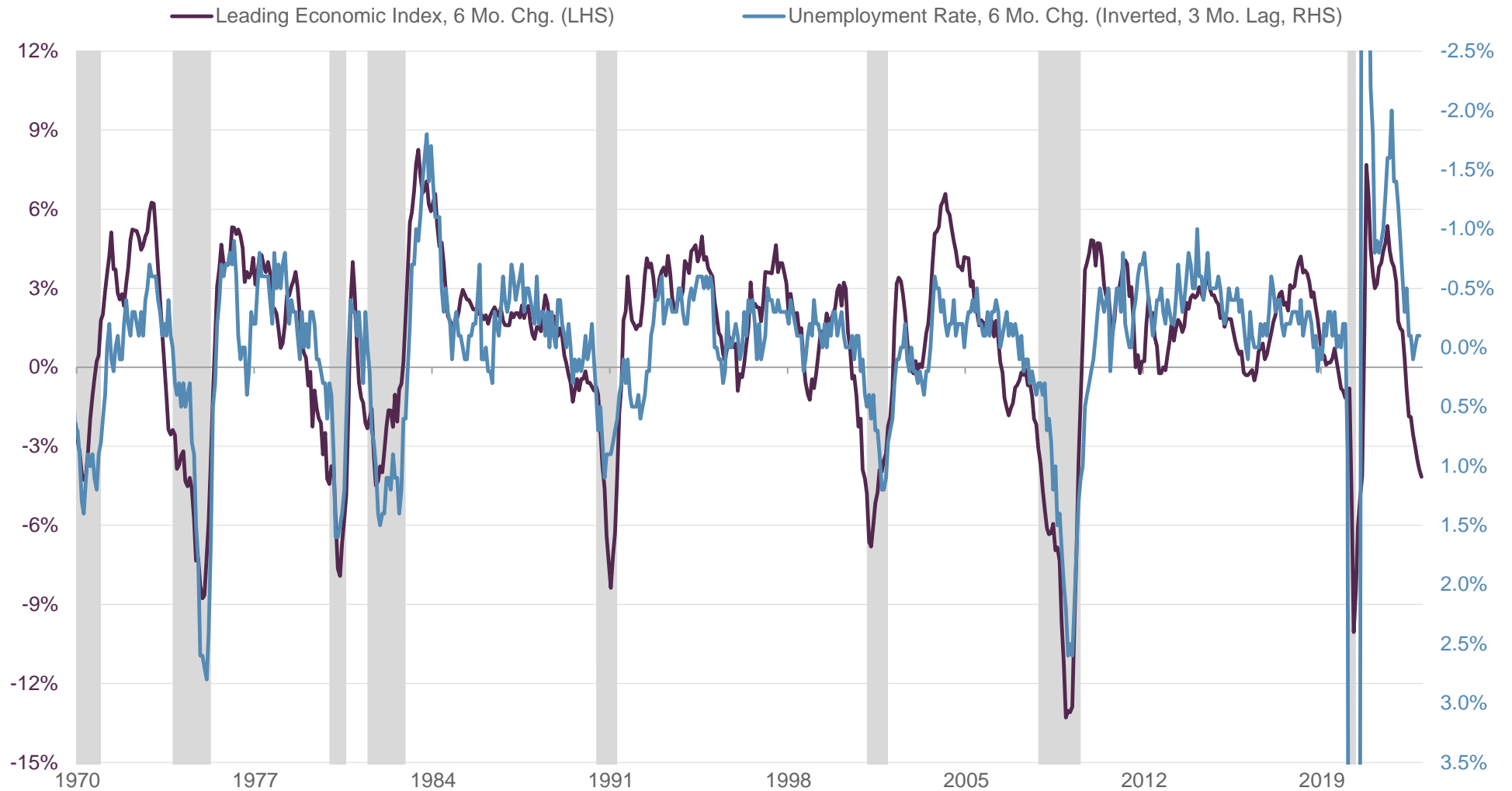
Unemployment Rate: Increase from Trailing 2-Year Low



Source: Guggenheim Investments, Haver Analytics, Federal Reserve. Data as of 12/31/2022. Shaded areas represent recession. Red line shows the magnitude of the unemployment rate increase the Fed is projecting this year, which historically has only occurred in recessionary periods.

Leading Indicators Also Suggest Unemployment Will Rise

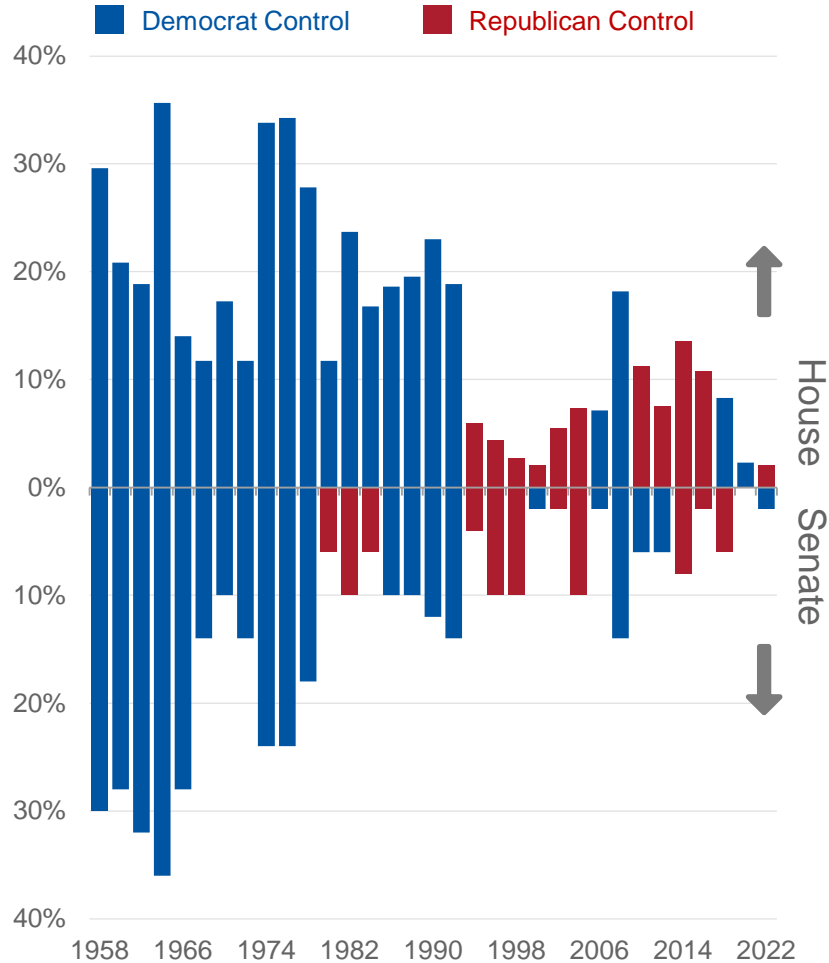
Leading Economic Index and Unemployment Rate, 6 Month Changes



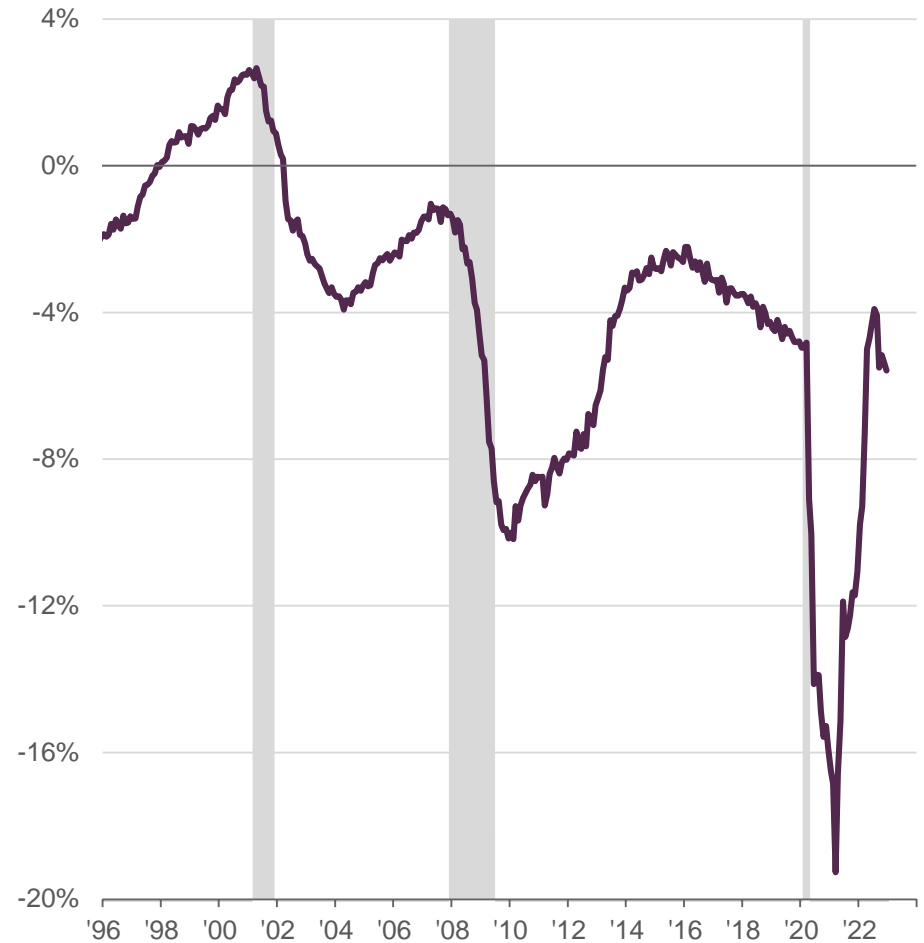
Source: Guggenheim Investments, Bloomberg. Data as of 12/31/2022. Shaded areas represent periods of recession.

A Debt Limit Fight Could Lead to Fiscal Tightening and Hurt Growth

**Net Majorities in the House of Representatives & Senate
(% of Total Seats of Respective Chamber)**



**U.S. Federal Budget Deficit
Percent of GDP**



Source: Guggenheim Investments, House.gov, Senate.gov, Haver DLX. Data as of 12/31/2022. Shaded areas represent periods of recession. Note: Independents counted as members of party with which they caucus.

GUGGENHEIM

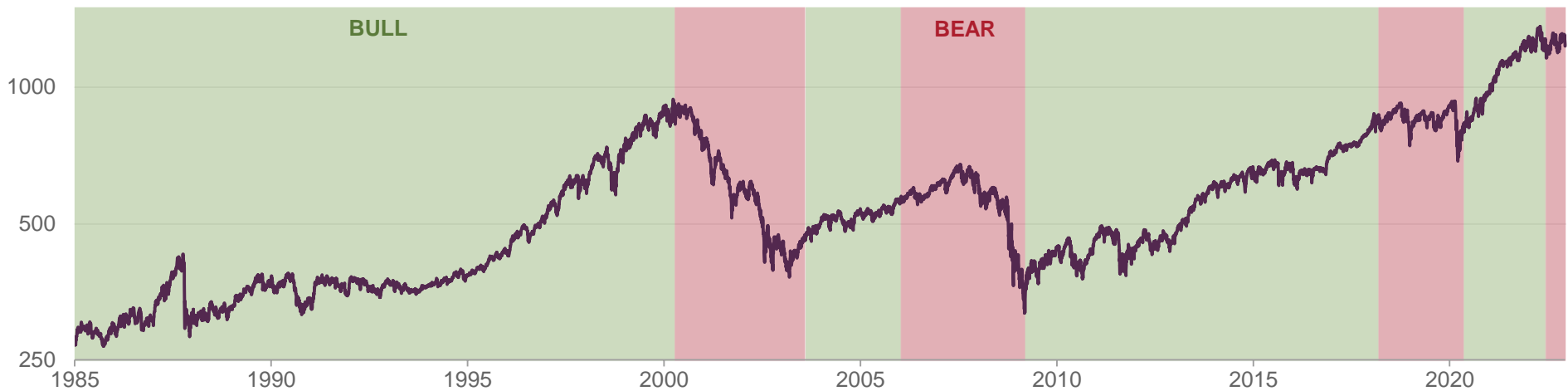
What Are the Implications for
Investors?

Our Asset Allocation Model Recommends a Defensive Stance

Guggenheim Bull/Bear Market Indicator



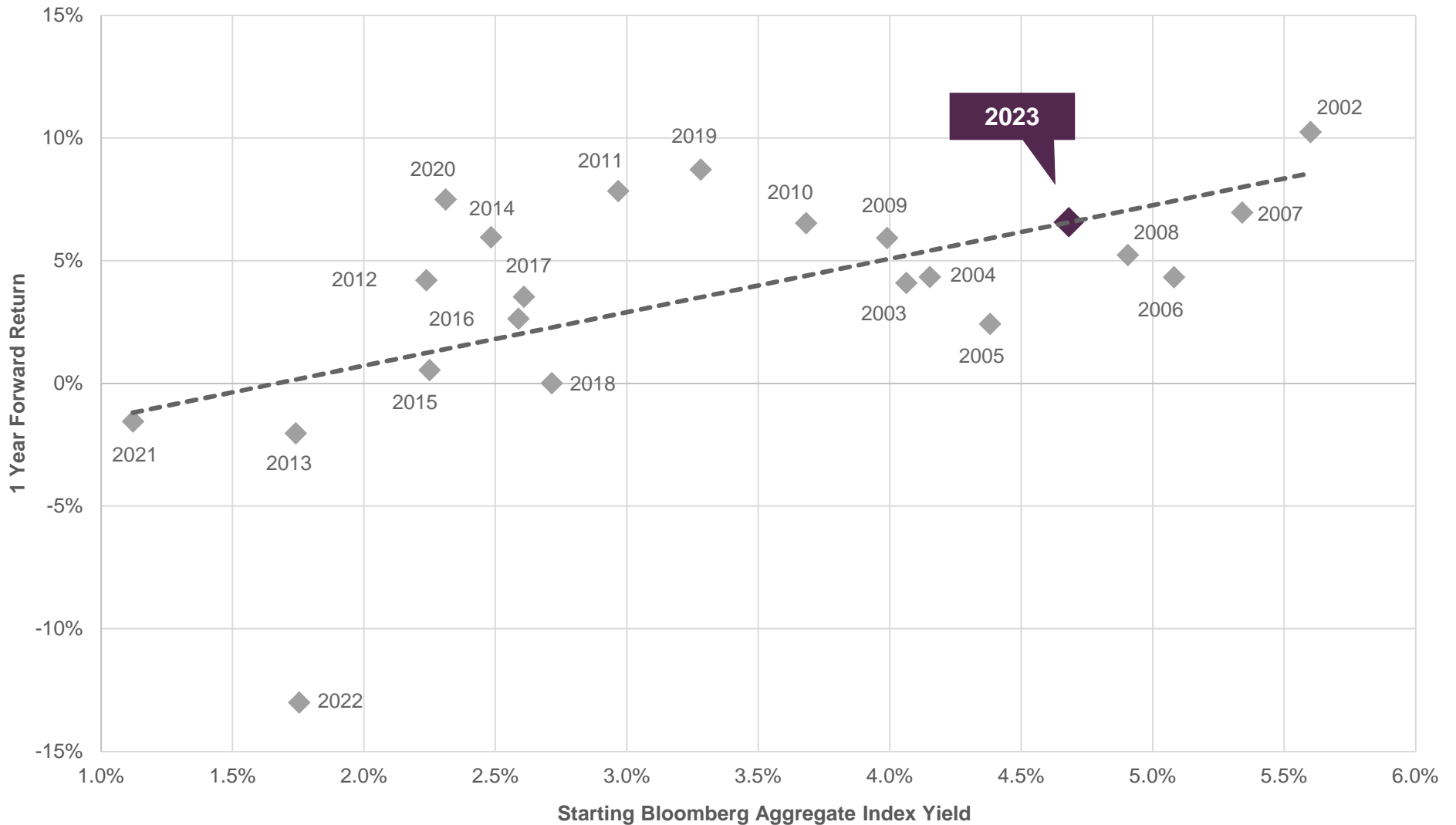
S&P 500 Relative to Bloomberg U.S. Investment-Grade Corporate Bond Index (Log Scale)



Source: Guggenheim Investments, Haver Analytics, Bloomberg. Data as of 12/07/2022. Past performance does not guarantee future returns.

Attractive Yields Will Drive Fixed-Income Returns

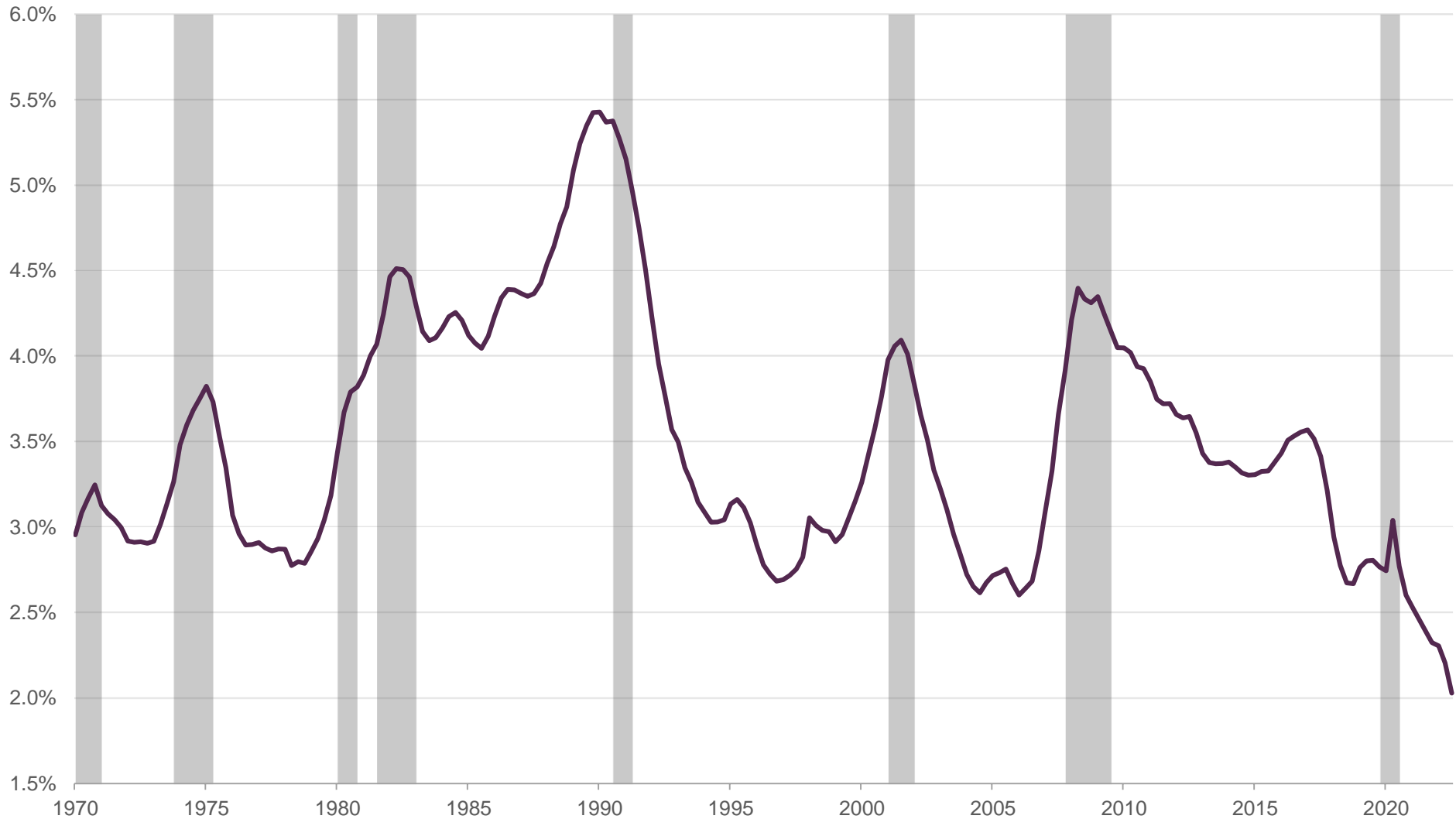
Bloomberg U.S. Aggregate Bond Index Yield and 1-year Forward Return



Source: Guggenheim Investments, Bloomberg. Data as of 12/31/2022. Past performance does not guarantee future returns.

Strong Credit Fundamentals Should Limit Spread Widening

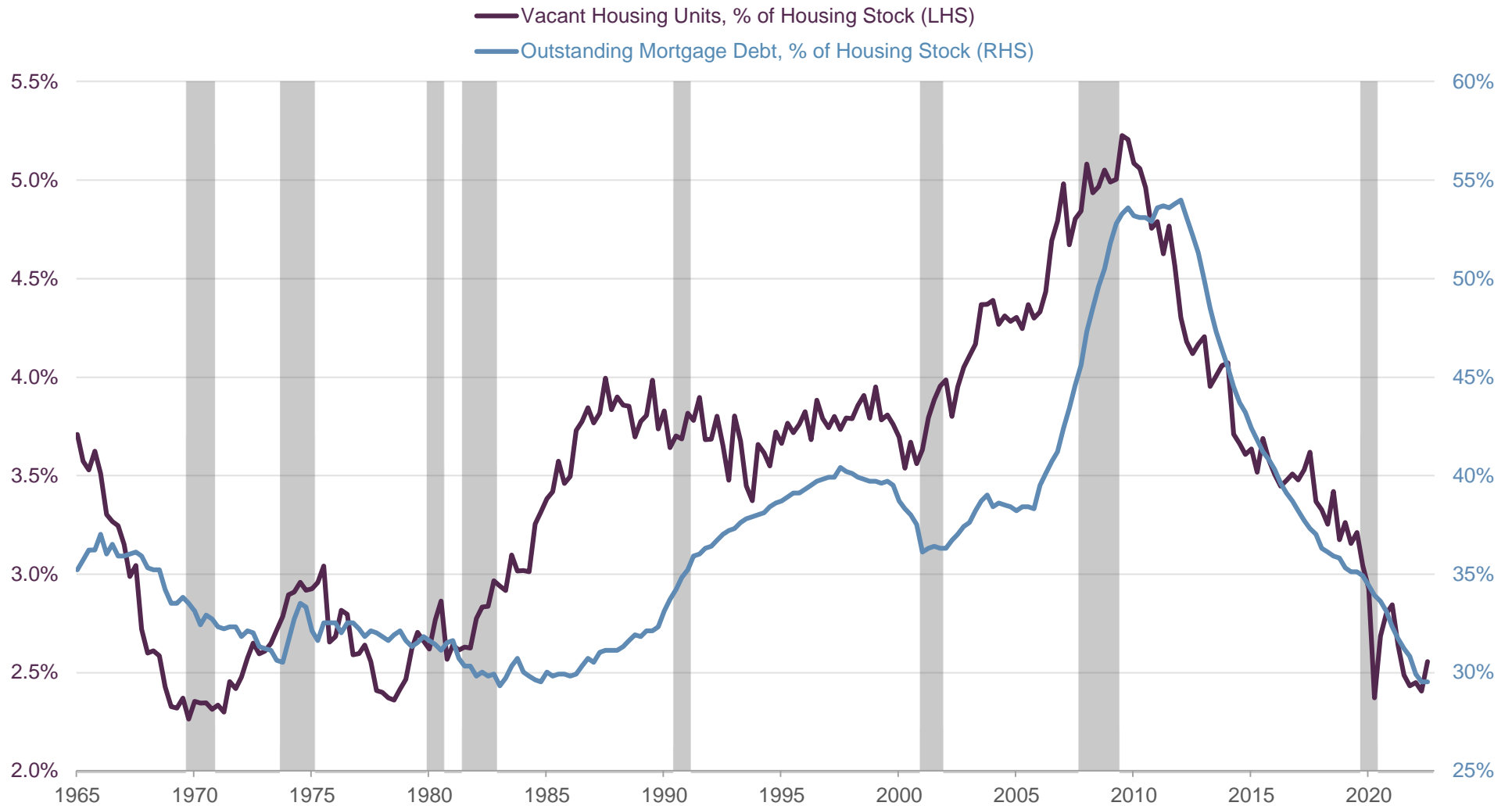
U.S. Nonfinancial Corporate Net Interest Payments as a Share of Corporate Output



Source: Guggenheim Investments, Haver Analytics. Data as of 09/30/2022. Note: Gross Value Added (GVA) used to measure corporate output. Shaded areas represent recession.

Structural Housing Supply Shortage Will Limit Downside to Home Prices

Housing Vacancy Rate vs. Aggregate Loan-to-Value Ratio



Source: Guggenheim Investments, Haver Analytics. Data as of 09/30/2022. Note: vacancy rate includes homes for rent and for sale. Excludes seasonal rental properties. Shaded areas represent recession.

Disclosures and Legal Notice



Disclosures and Legal Notice

Past performance does not guarantee future returns.

Guggenheim Investments represents the following affiliated investment management businesses: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Partners Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Partners India Management.

Investing involves risk, including the possible loss of principal. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations (“CLOs”), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the author or speaker, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. No part of this material may be reproduced or referred to in any form, without express written permission of Guggenheim Partners, LLC.

©2023 Guggenheim Partners, LLC. All Rights Reserved. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Guggenheim Partners, LLC.

GPIM 56042