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Macro Outlook: Will the Fed's Pivot Save the Day?

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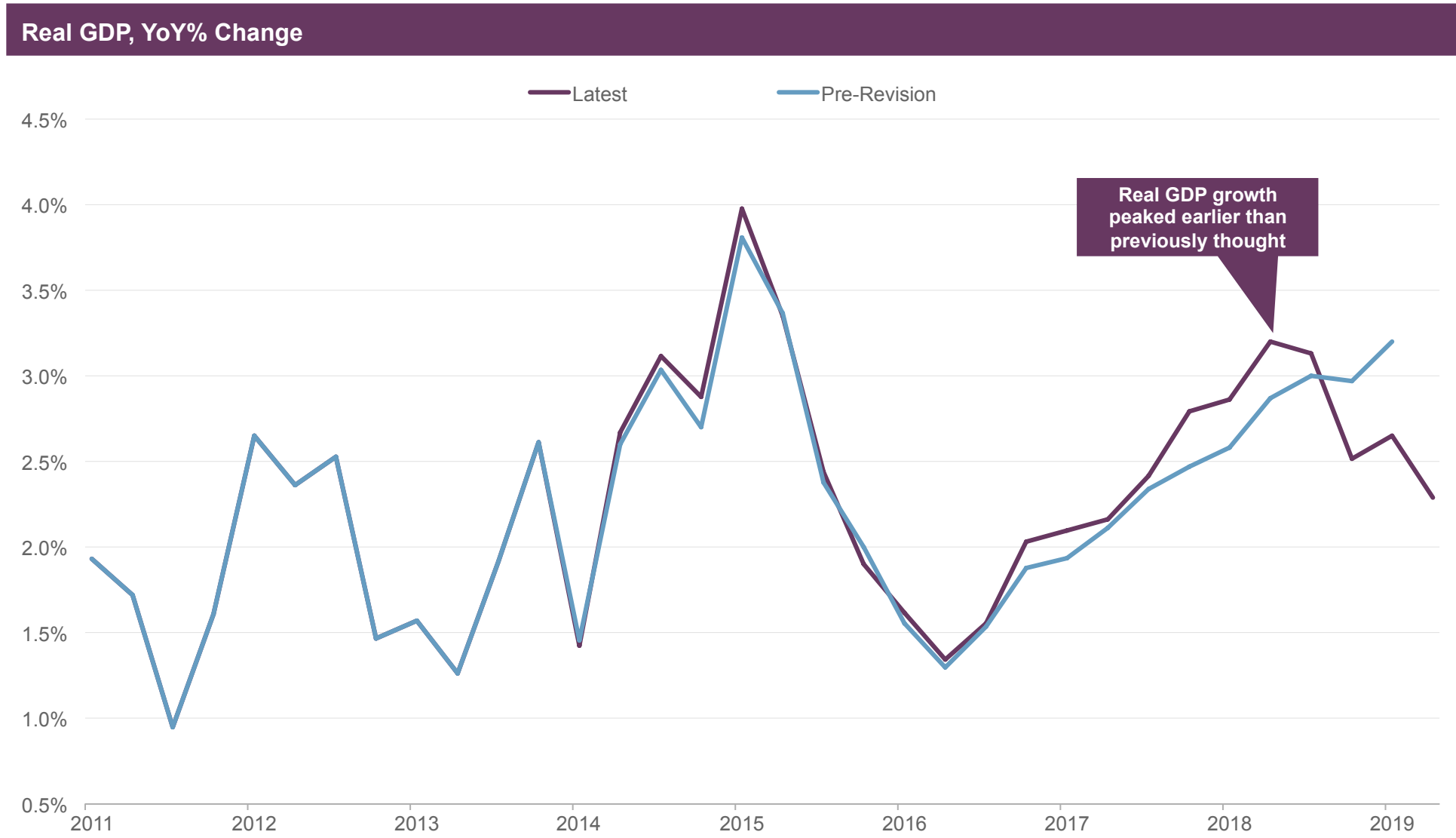
Macro Themes

- The U.S. **economy is slowing** as headwinds mount and tailwinds fade
- The **labor market is tight** but is beginning to lose momentum, a clear late-cycle signal
- Our research continues to point to a **recession beginning in H1 2020**
- The next recession could be prolonged due to **limited policy space** at home and overseas
- A looming recession means **reducing risk, upgrading credit quality and extending duration**

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Where Are We Now?

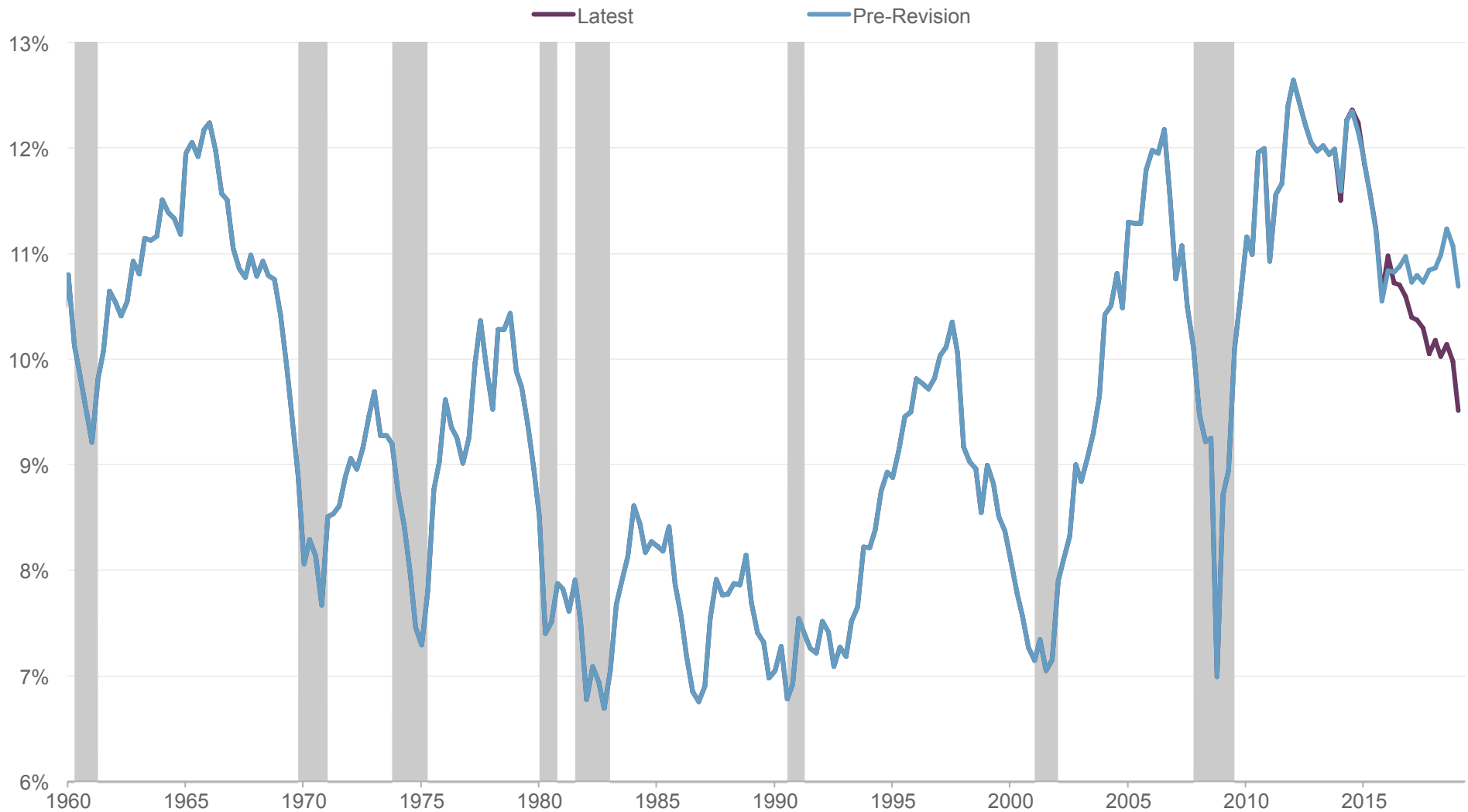
Revisions Show GDP Growth Has Peaked



Source: Guggenheim Investments. Haver Analytics. Data as of 06/30/2019.

Downward Revision to Profit Margins Is Negative for Hiring and Capex Outlook

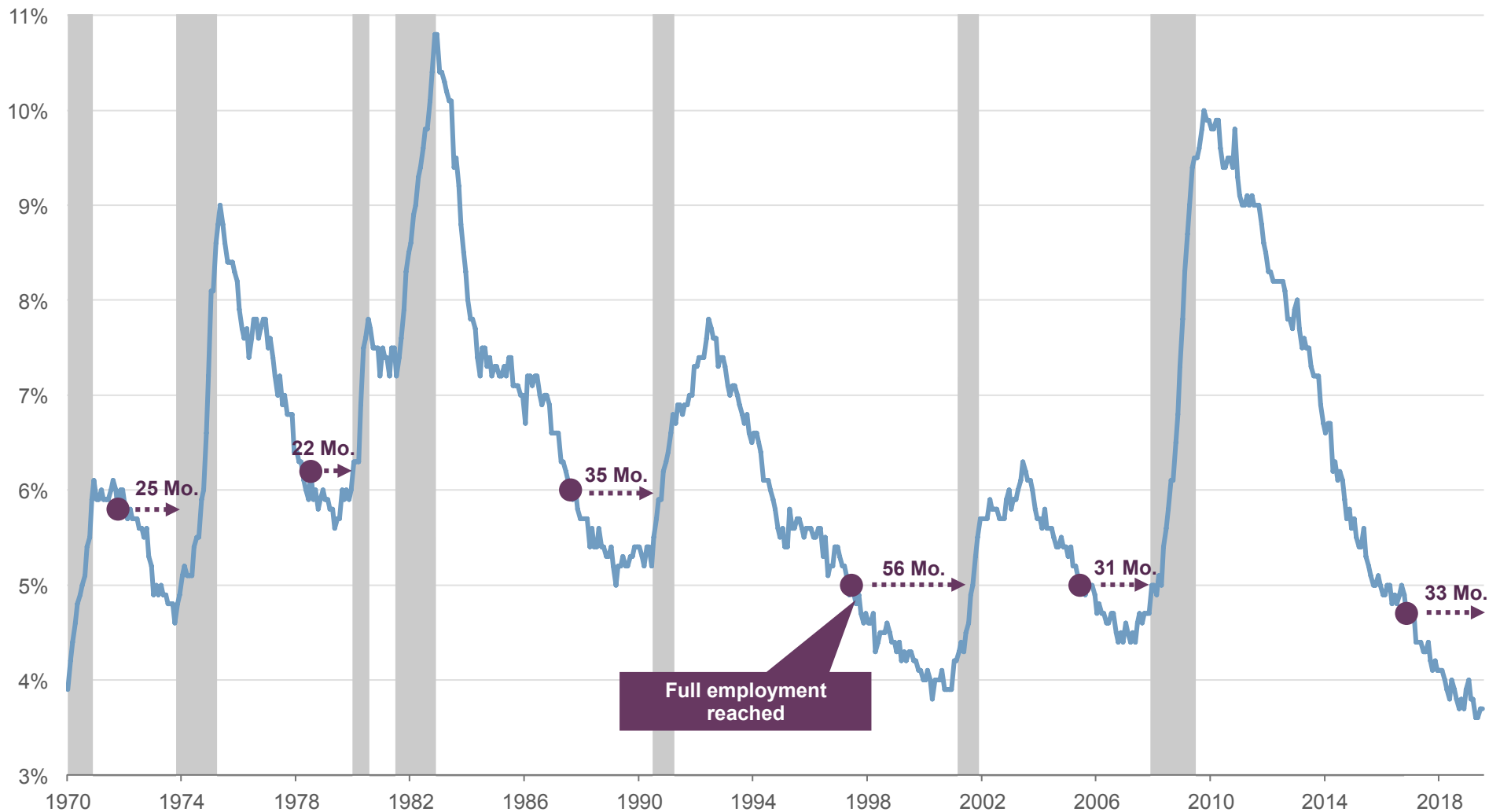
Corporate Profits with Inventory Valuation and Capital Consumption Adjustments, % of GDP



Source: Guggenheim Investments. Haver Analytics. Data as of 03/31/2019. Shaded areas represent periods of recession.

The Strong Labor Market Tells Us We Are Late Cycle

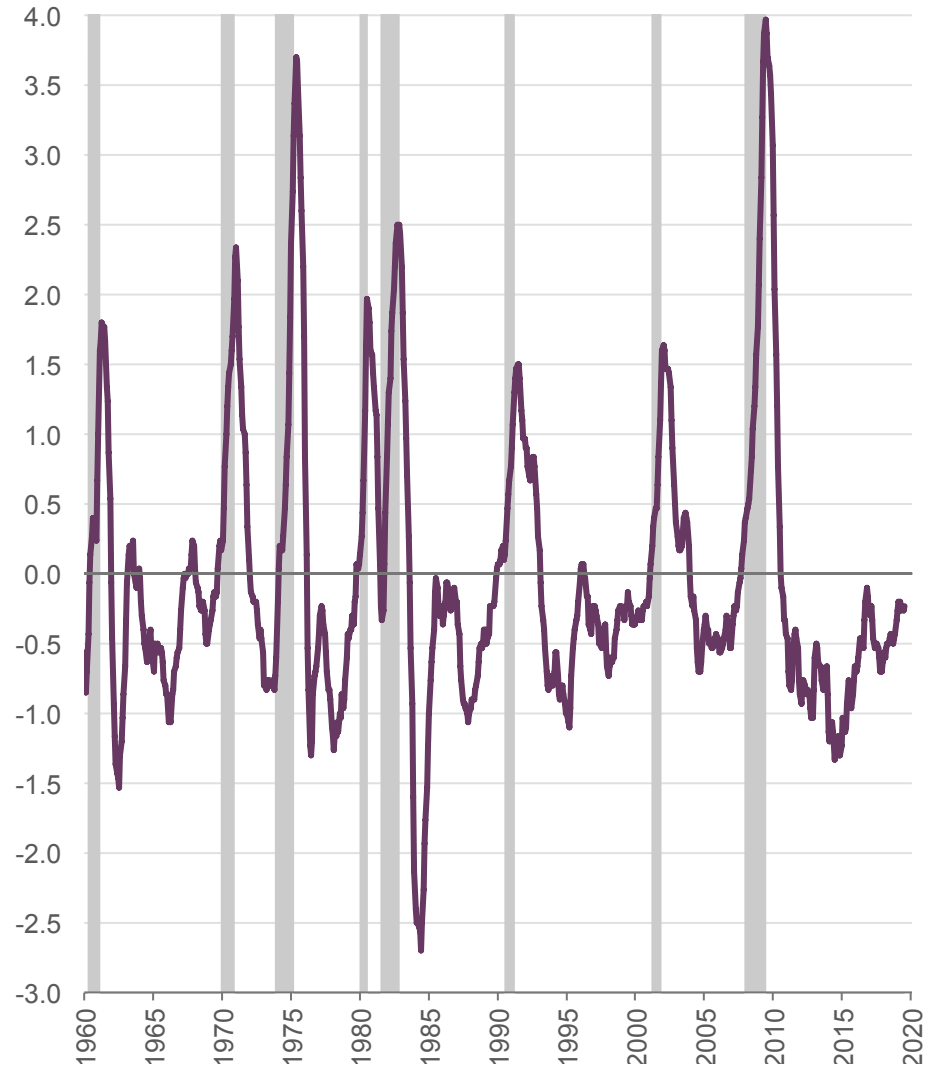
U.S. Unemployment Rate, with Months to Start of Next Recession After Full Employment Was Reached



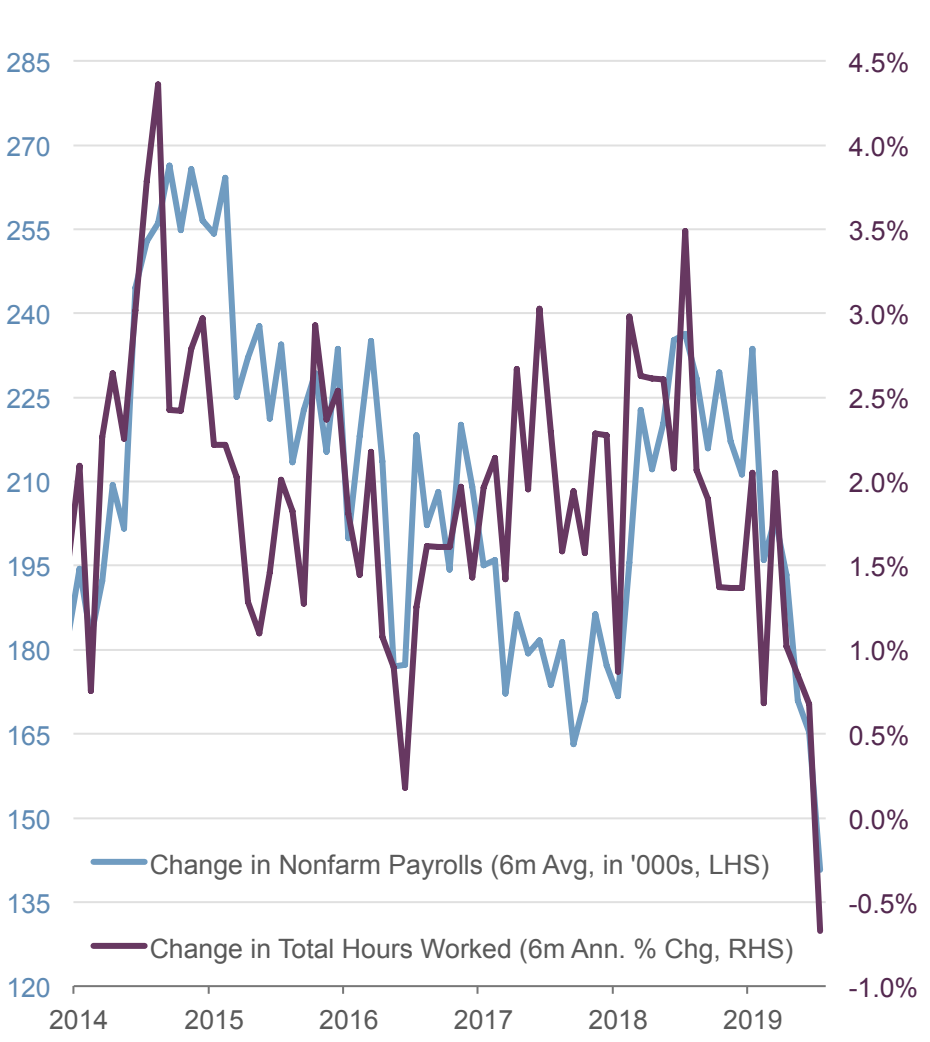
Source: Guggenheim Investments, BLS, Haver Analytics, Congressional Budget Office. Data as of 07/31/2019. Shaded areas represent periods of recession.

Slowing Pace of Labor Market Improvement Is Another Late-Cycle Signal

12-Month Change in the Unemployment Rate, in Percentage Points (3-Month Moving Average)



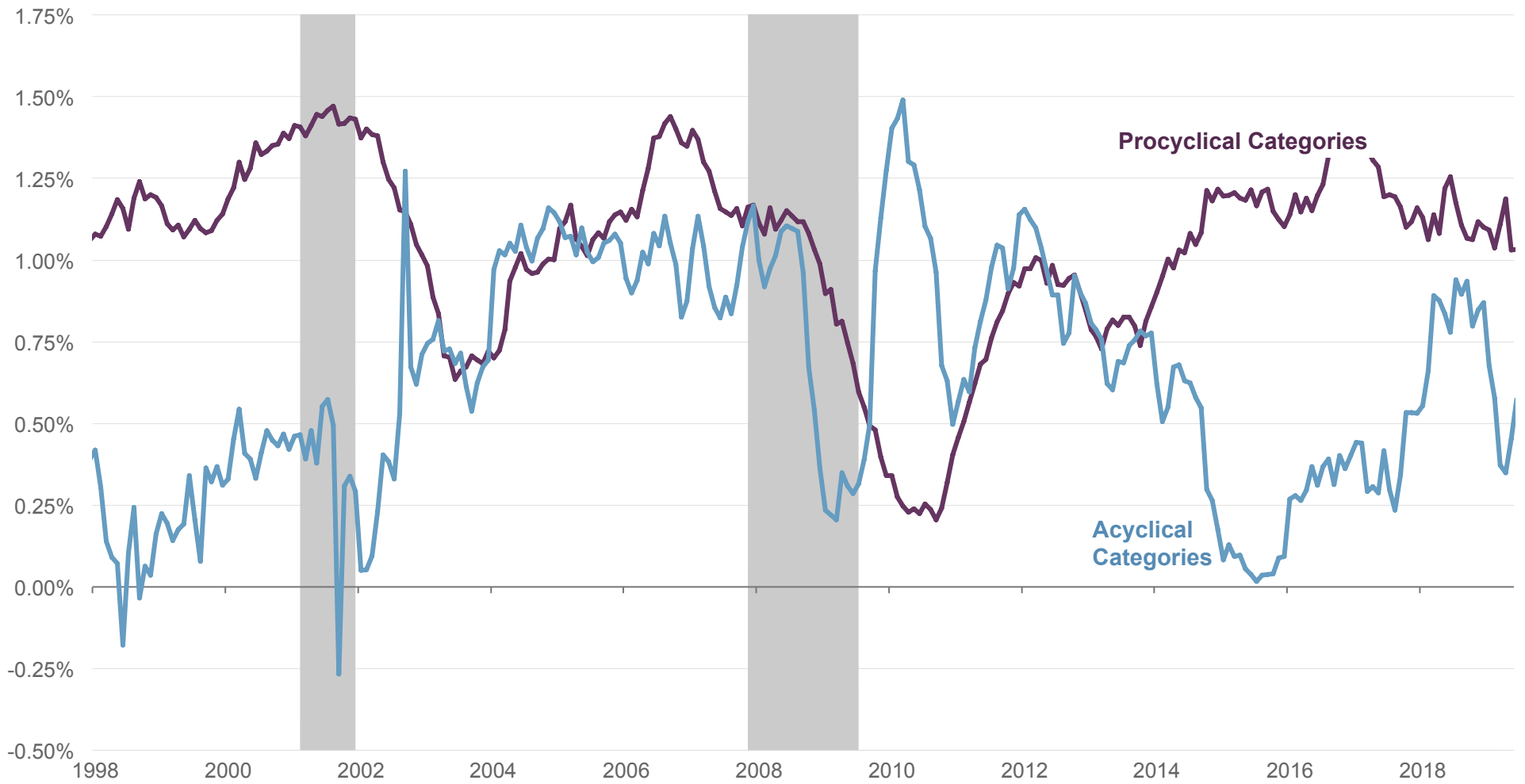
Payroll Gains and Hours Worked Have Slowed Sharply



Source: Guggenheim Investments, Haver Analytics, BLS. Data as of 07/31/2019. Shaded areas represent periods of recession.

Idiosyncratic Factors Are Dominating the Inflation Story

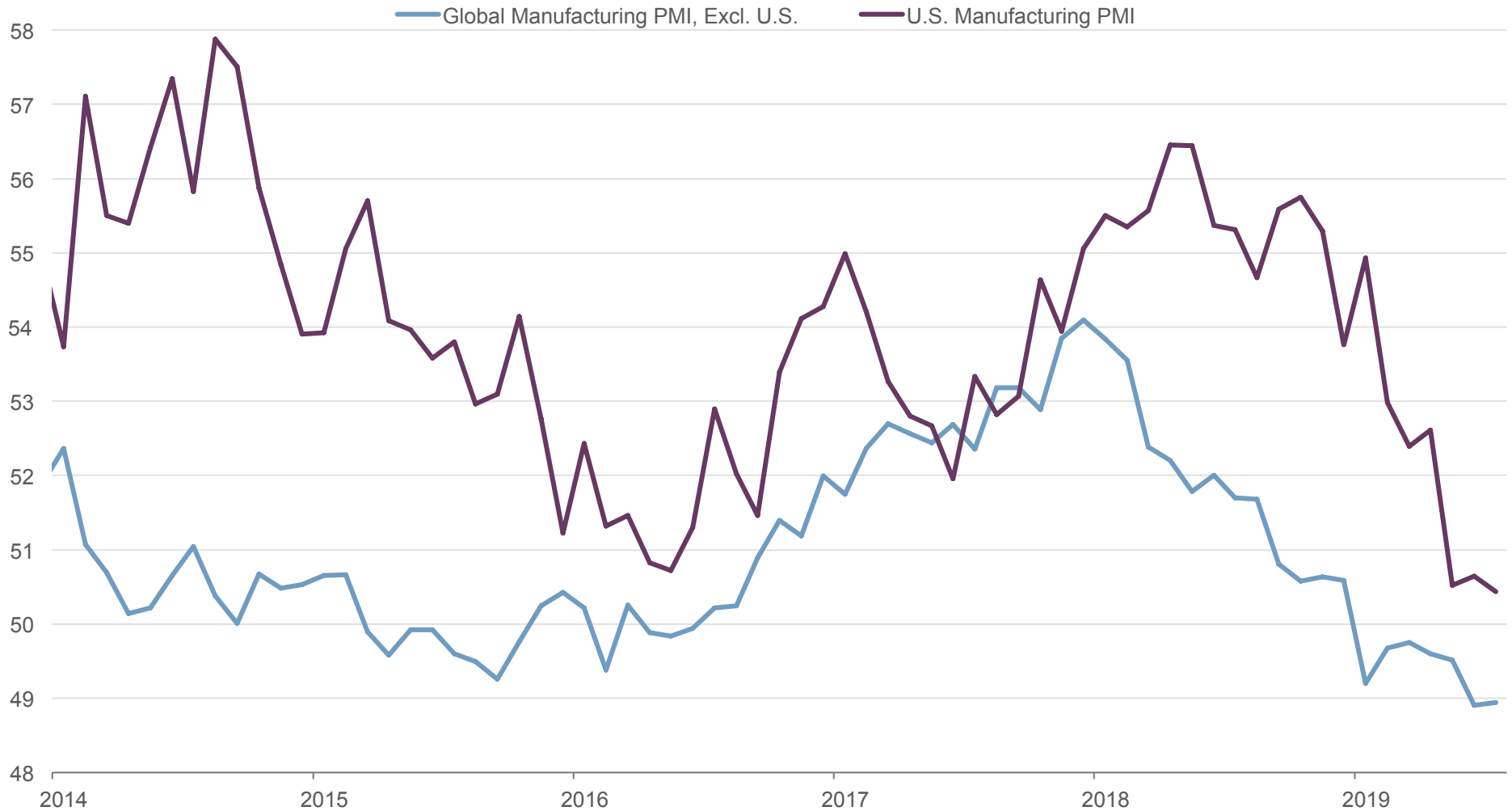
Contribution of Procyclical and Acyclical Categories to Core PCE YoY% Change



Source: Guggenheim Investments, Haver Analytics. Data as of 06/30/2019. Shaded areas represent periods of recession.

Weak Global Growth Is Increasingly Weighing on the U.S.

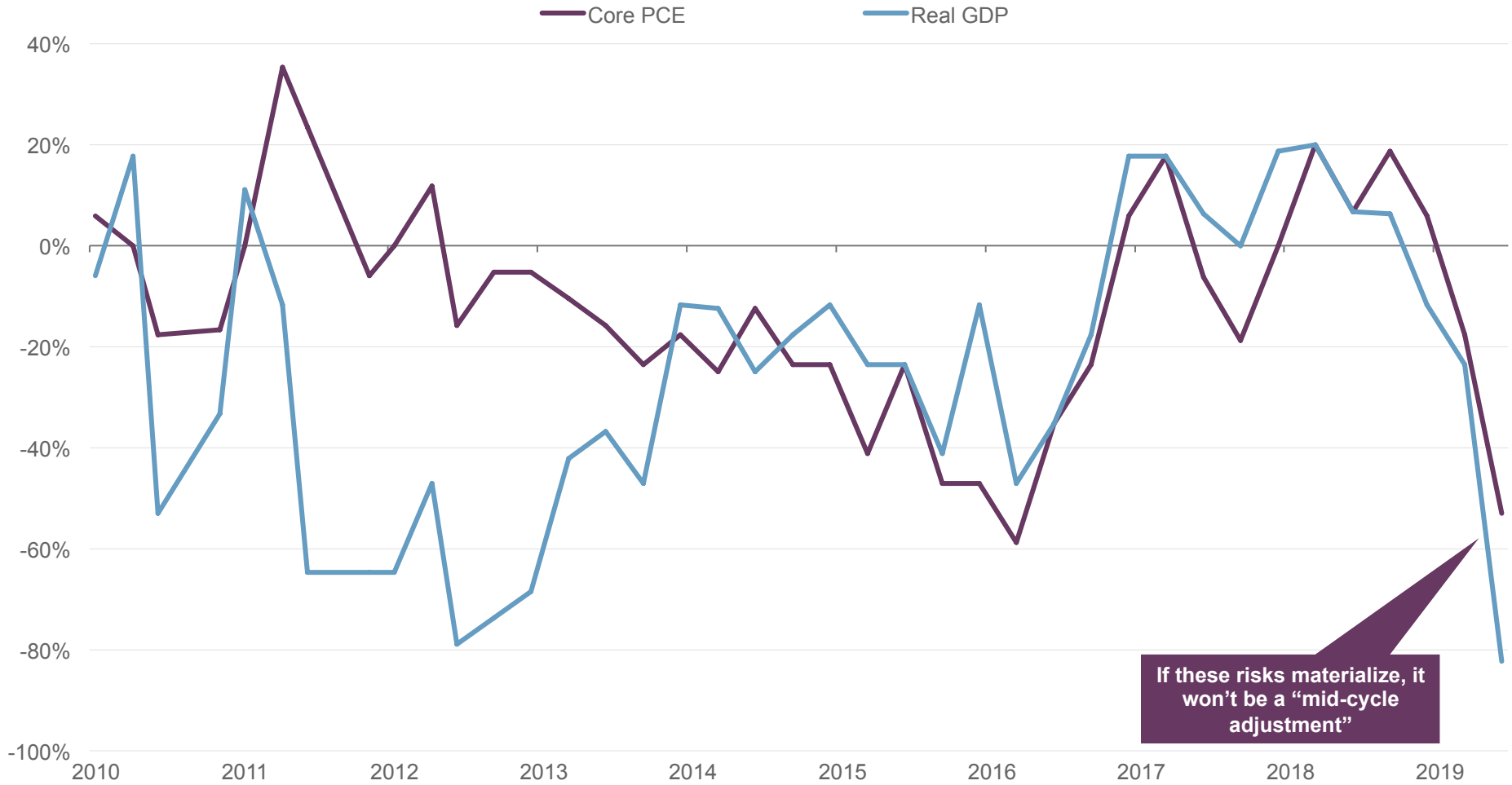
Markit U.S. Manufacturing PMI vs Global Manufacturing PMI (Excluding the U.S.)



Source: Guggenheim Investments, Federal Reserve Board, Markit, Bloomberg. Note: PMI data are GDP-weighted. PMI data as of 07/31/2019.

Mounting Downside Risks Drove the Fed Into Easing Mode...

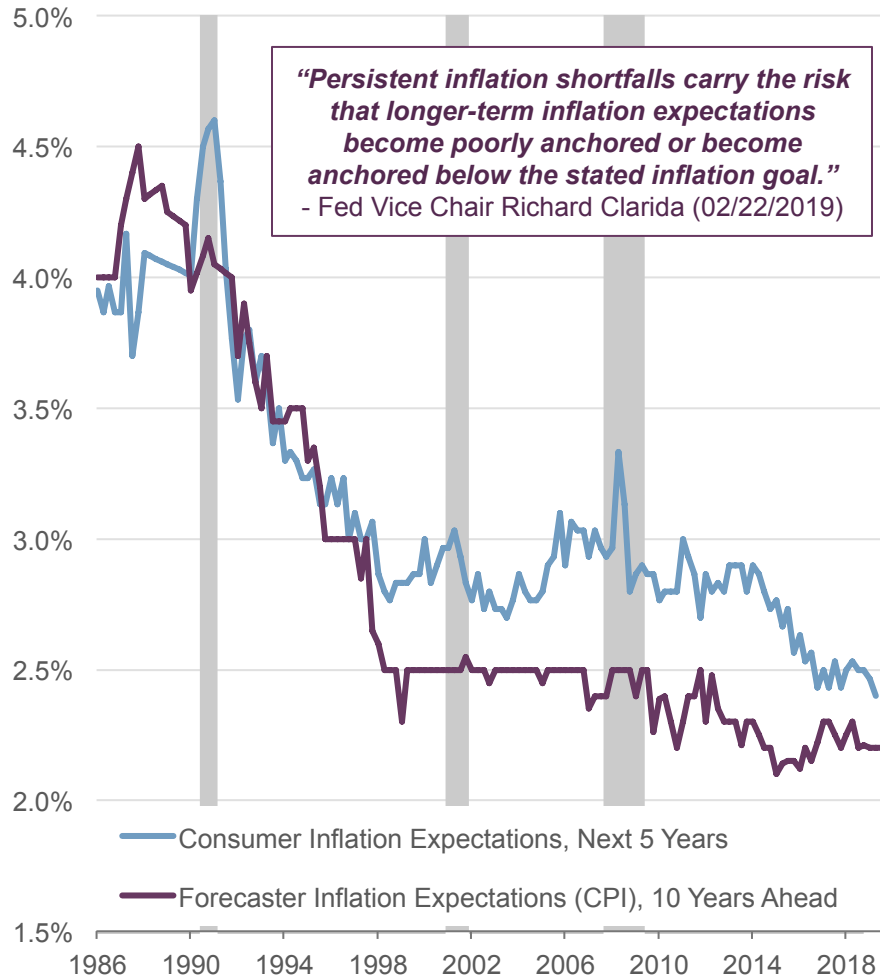
Net Upside/Down Risk to Economic Projections: % of FOMC Participants



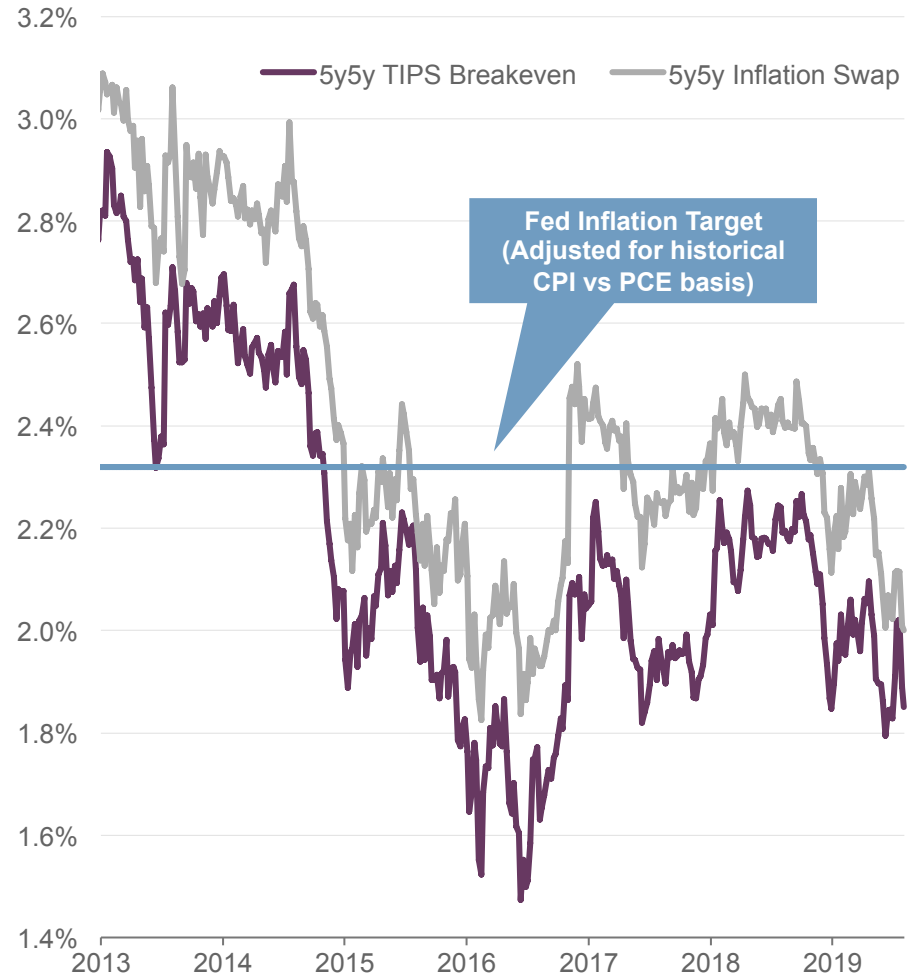
Source: Guggenheim Investments, Haver Analytics. Data as of 06/19/2019.

...But With Inflation Expectations Slipping, More Easing Will Be Needed

Survey Measures of Inflation Expectations Have Softened in This Cycle



Market-Based Inflation Expectations Are Too Low for Comfort



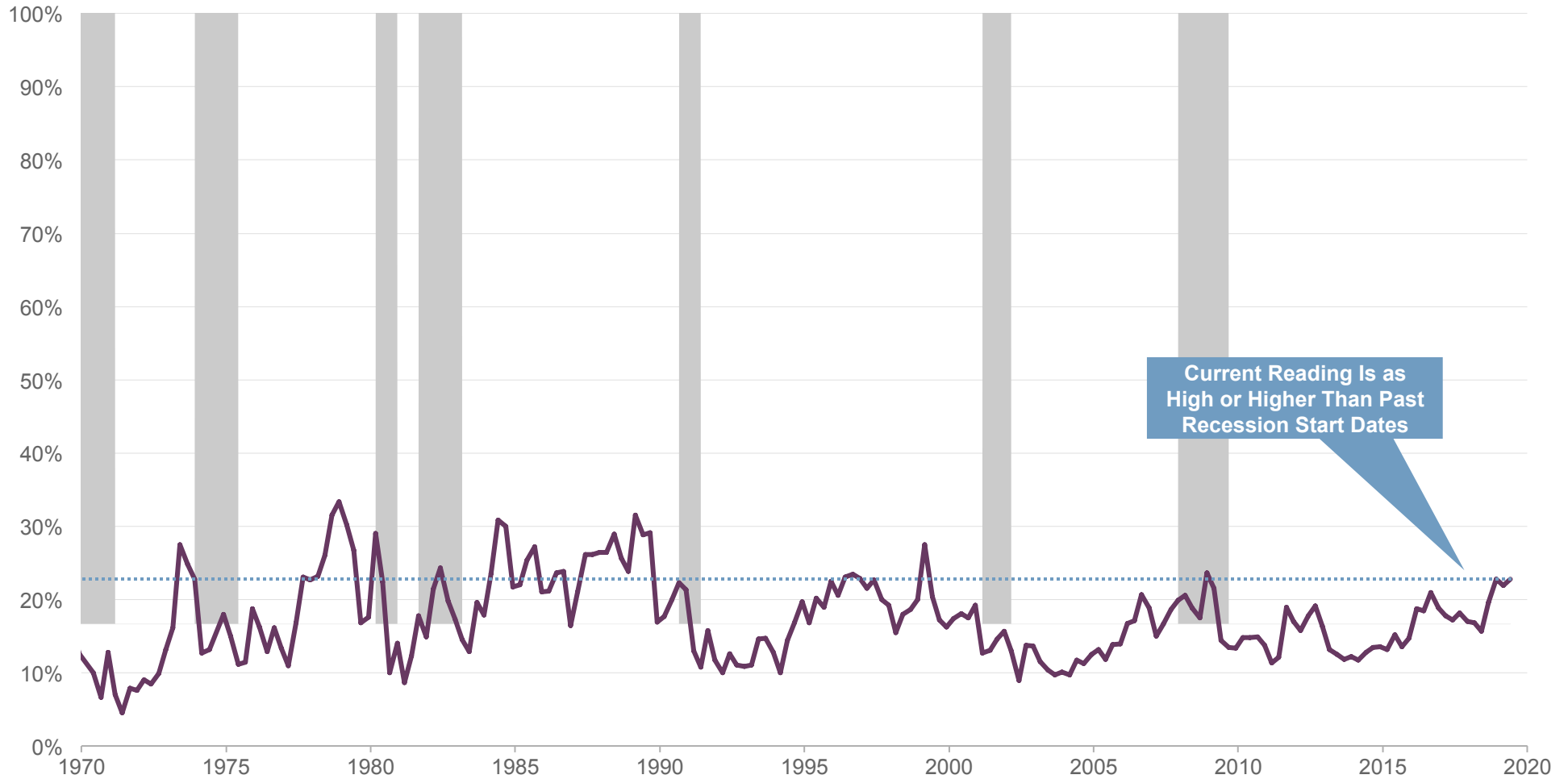
Source: Guggenheim Investments, Bloomberg, Haver Analytics. Survey data as of Q2 2019. Market data as of 08/09/2019.

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When Will the Next Recession Begin?

Economists Have a Poor Track Record of Forecasting Recessions

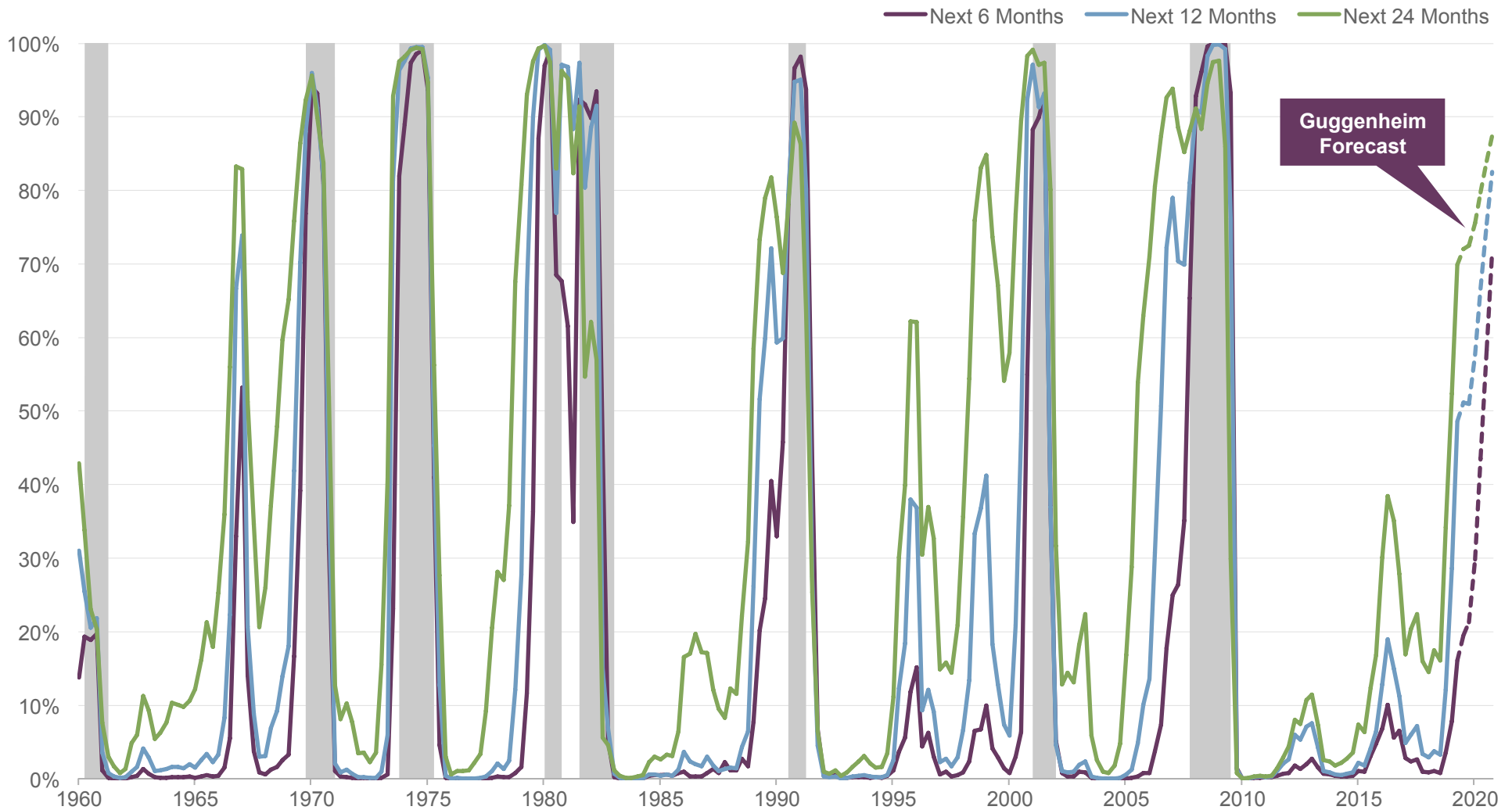
Survey of Professional Forecasters: Probability of a Decline in Real GDP 4 Quarters Ahead



Source: Guggenheim Investments, Haver Analytics, Bloomberg. Data as of 05/29/2019. Shaded areas represent periods of recession.

Our U.S. Recession Probability Model Indicates Recession Risks Are Rising

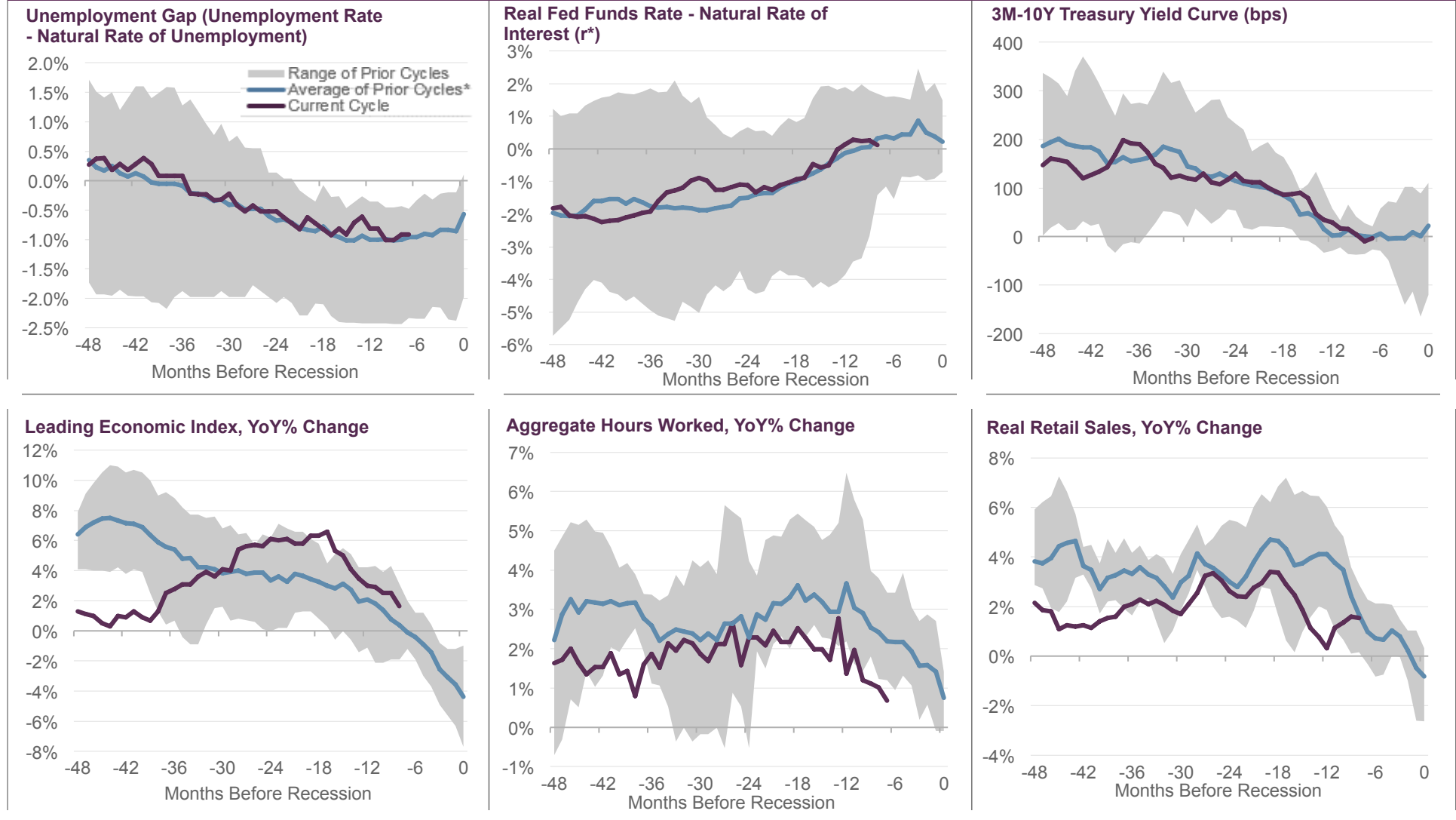
Model Based Recession Probability



Source: Guggenheim Investments, Haver Analytics, Bloomberg. Data as of 06/30/2019. *Hypothetical Illustration. The Recession Probability Model is a new model with no prior history of forecasting recessions. Actual results may vary significantly from the results shown. Shaded areas represent periods of recession.

Our U.S. Recession Dashboard Points to Recession Starting by Mid-2020

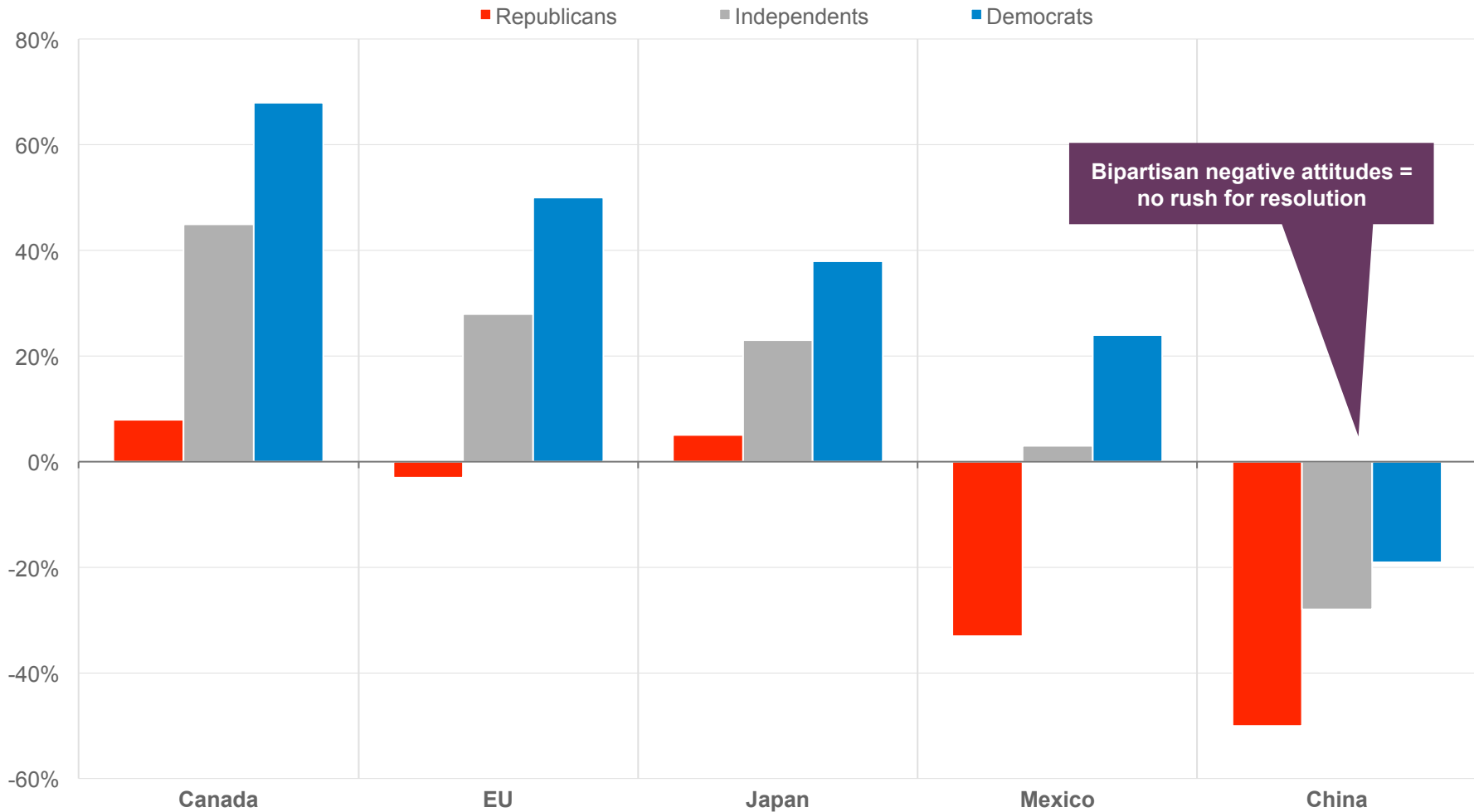
Assumes Current Cycle Ends in February 2020



Source: Guggenheim Investments, Haver Analytics, Bloomberg. Data as of 06/30/2019 for real fed funds, LEI and retail sales, 07/31/2019 for unemployment, yield curve, and hours. *Note: includes cycles ending in 1970, 1980, 1990, 2001, and 2007.

U.S.-China Tensions Are Here to Stay

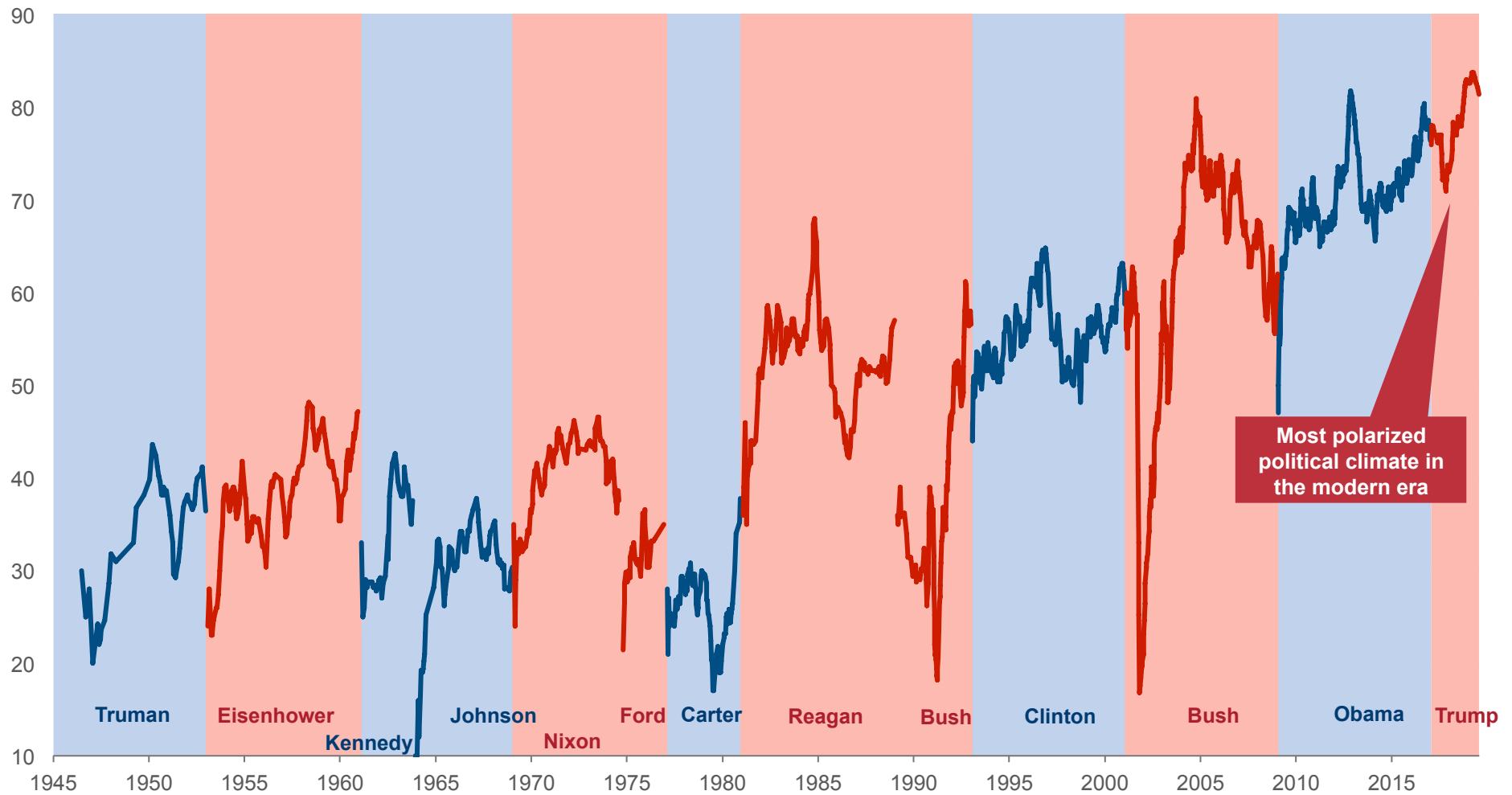
Net % of Americans Viewing Trade With Country as Fair/Unfair by Party (June 2018 Poll)



Source: Guggenheim Investments, Gallup. Polling data as of 06/24/2018.

Rising Policy Uncertainty Could Undermine Confidence Heading Into 2020

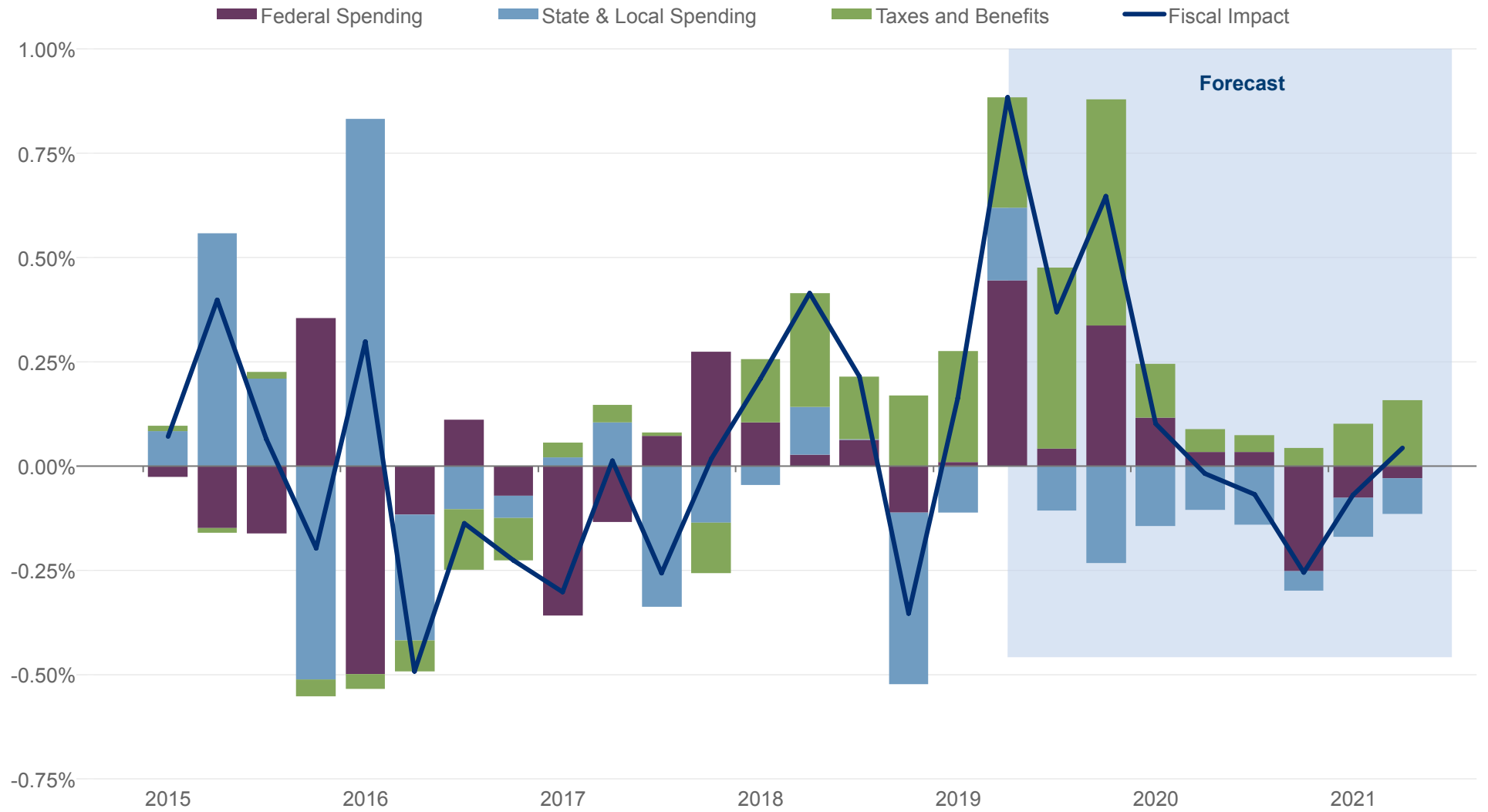
Presidential Approval: Spread Between President's Party and Opposition Party Voters, in Percentage Points



Source: Guggenheim Investments, Gallup. Data as of 07/31/2019.

Even With the Budget Deal, Fiscal Stimulus Is Set to Fade

Contribution of Fiscal Policy to Real GDP Growth

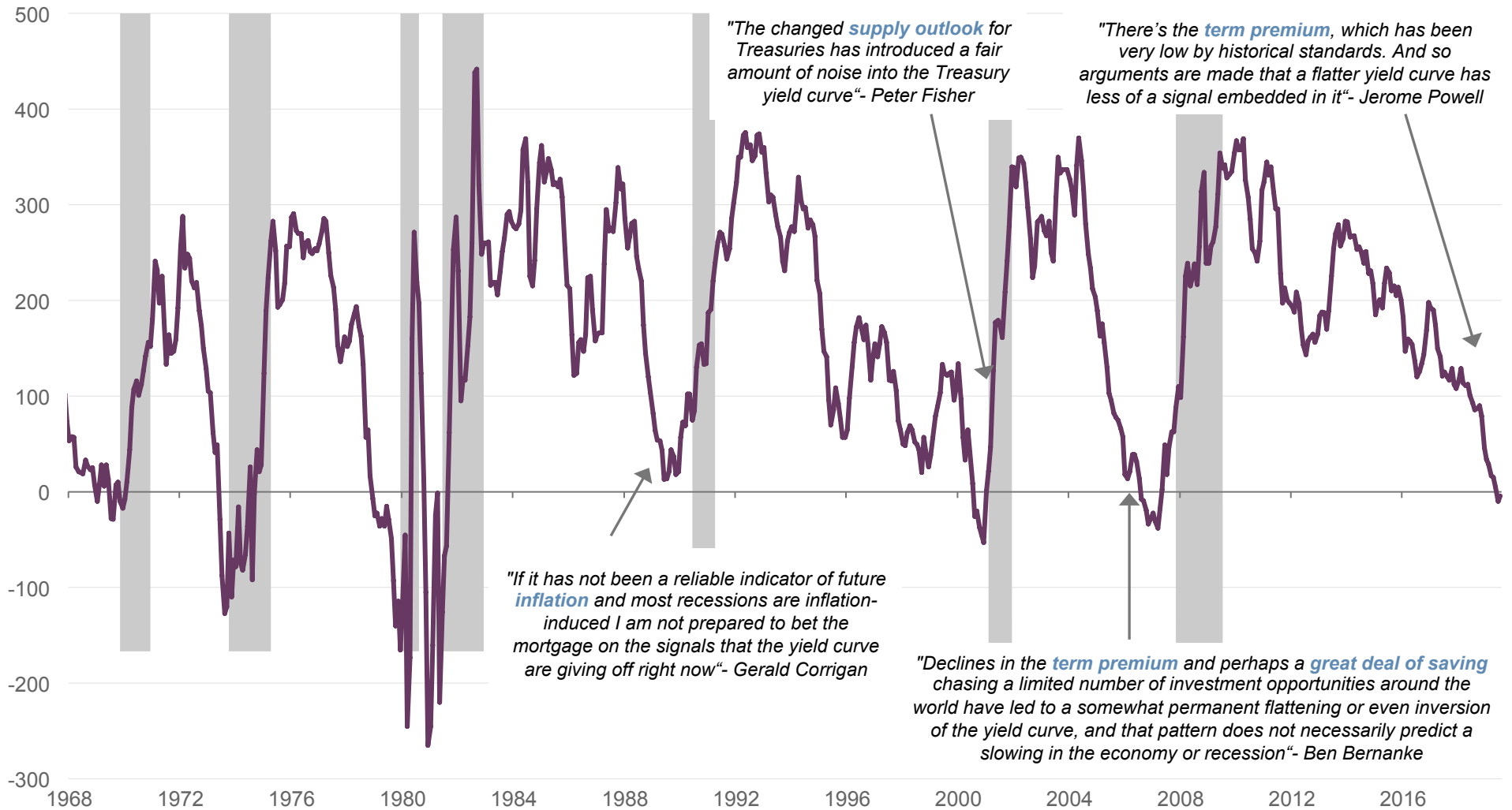


Source: Guggenheim Investments, Hutchins Center. Actual data as of 06/30/2019.

Can We Trust the Recessionary Signal of an Inverted Yield Curve, or Is it Distorted by QE?

The Yield Curve as a Recession Signal: This Time Is Always Different

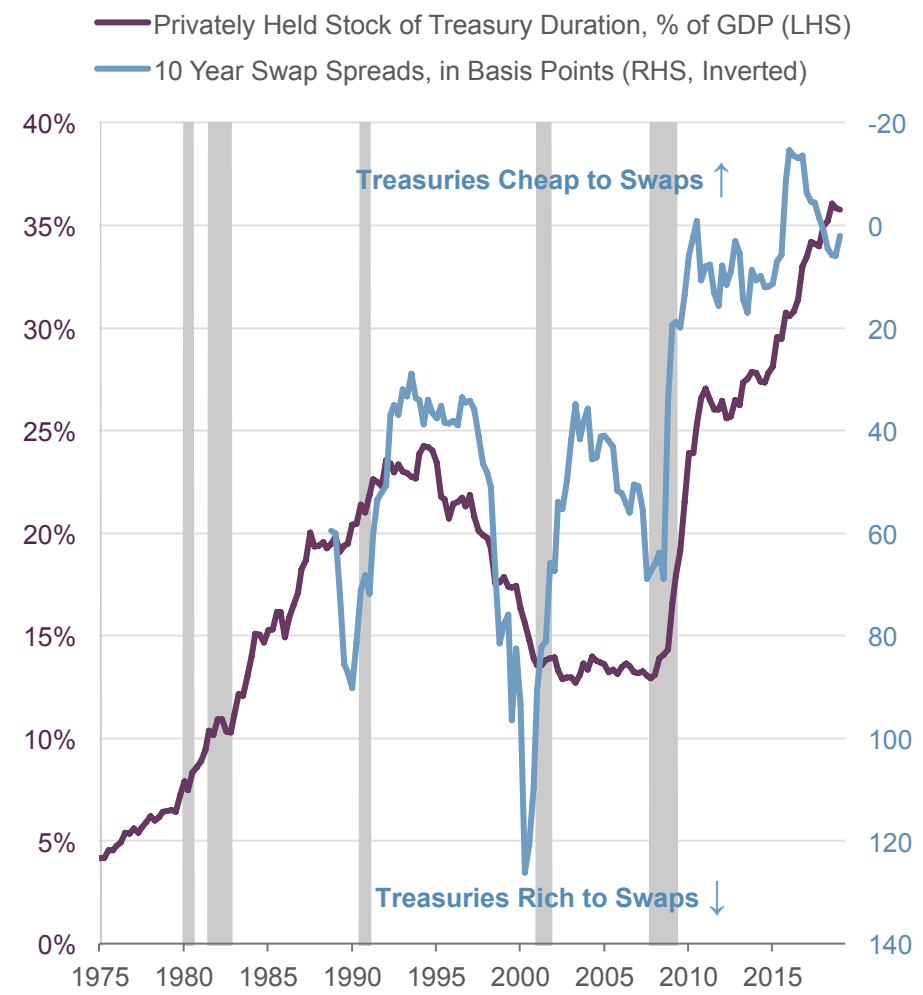
3m10y Treasury Yield Curve (bps)



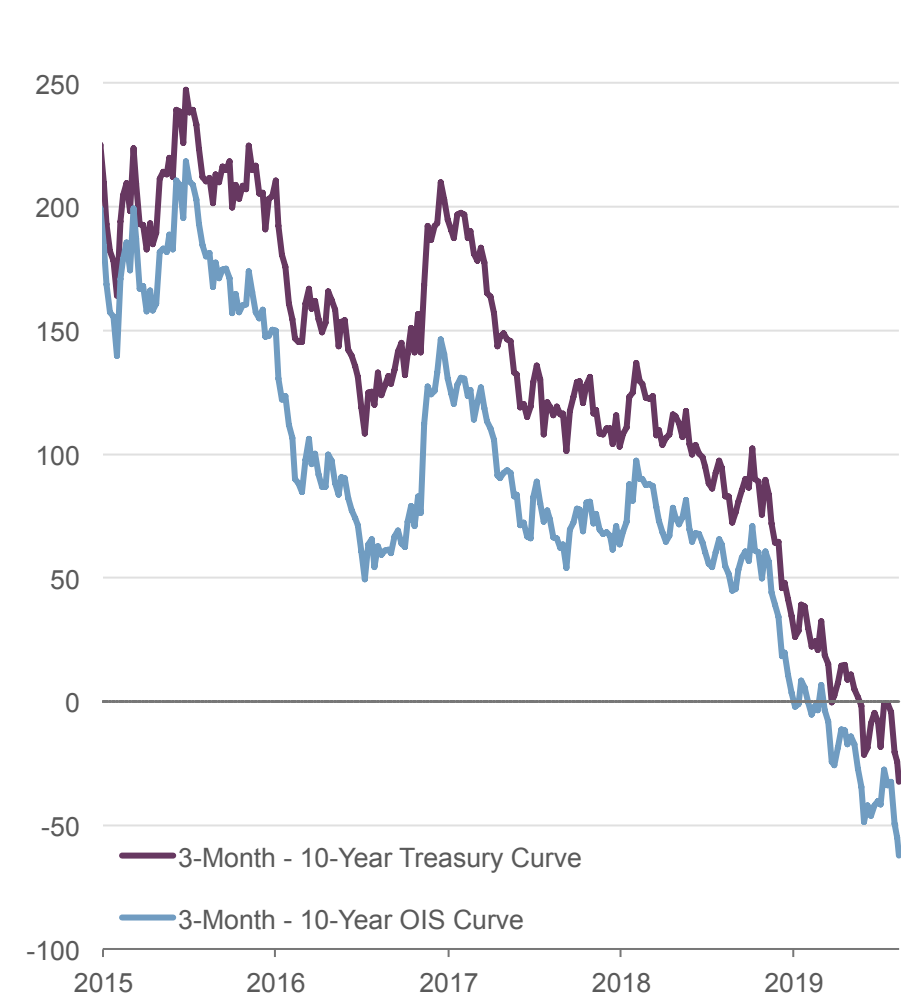
Source: Guggenheim Investments, Haver Analytics, Federal Reserve, Bloomberg. Data as of 07/31/2019. Shaded areas represent periods of recession.

The Treasury Curve Is Actually Unduly *Steep* Today Due to Massive Net Issuance

**Privately Held Treasury Supply Outstanding
In 10 Year Duration Equivalents (% of GDP)**



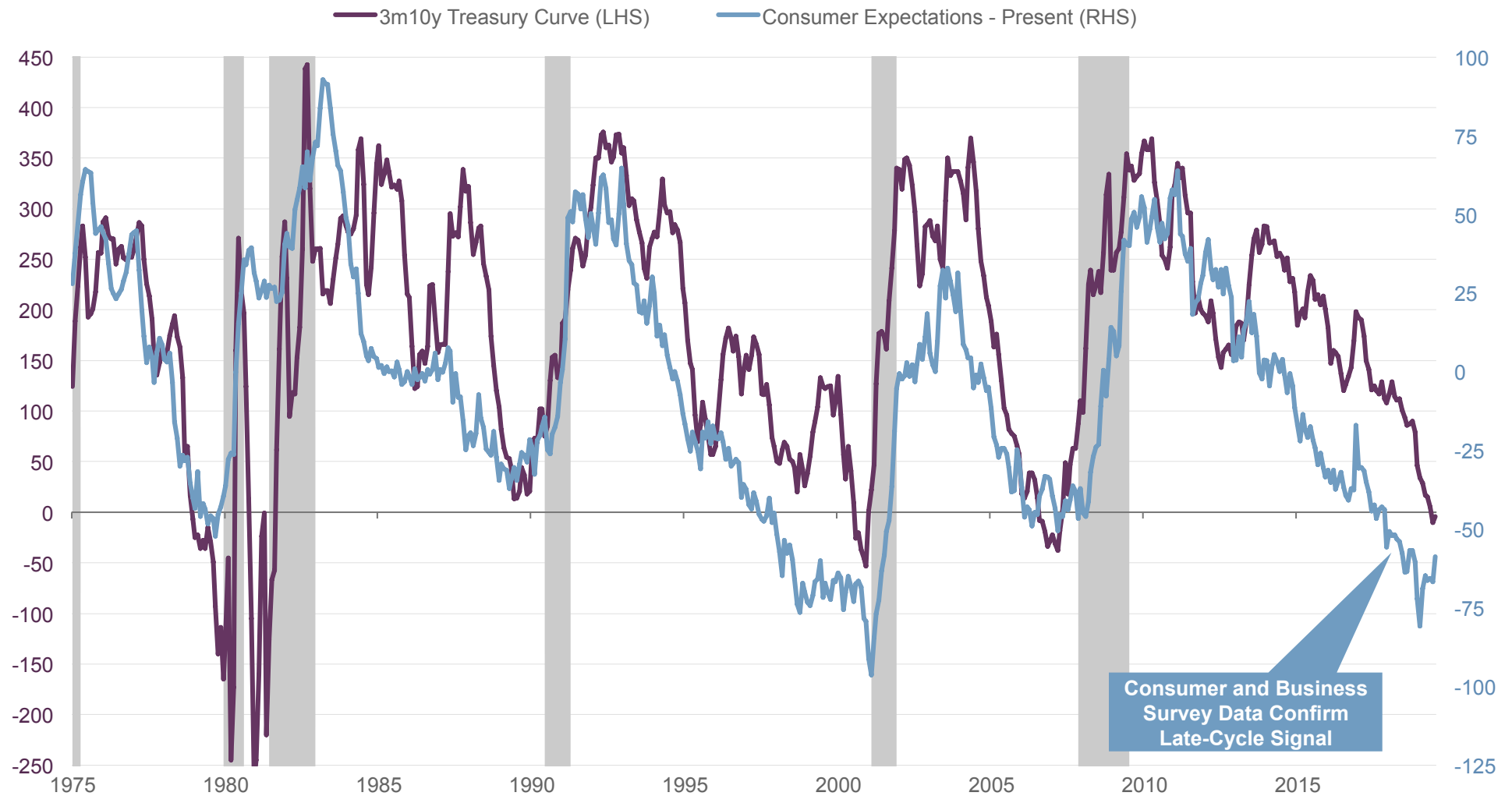
**Treasury Curve is Steeper Than the Swap Curve
In Basis Points**



Source: Guggenheim Investments, U.S. Treasury Department, BEA, Bloomberg. Data in left chart as of 03/31/2019. Shaded areas represent periods of recession. Data in right chart as of 08/12/2019.

Survey Data Reveal Dimmer Views of Future, Affirming Yield Curve Message

3m10y Treasury Yield Curve and Conference Board Consumer Expectations Minus Present Situation



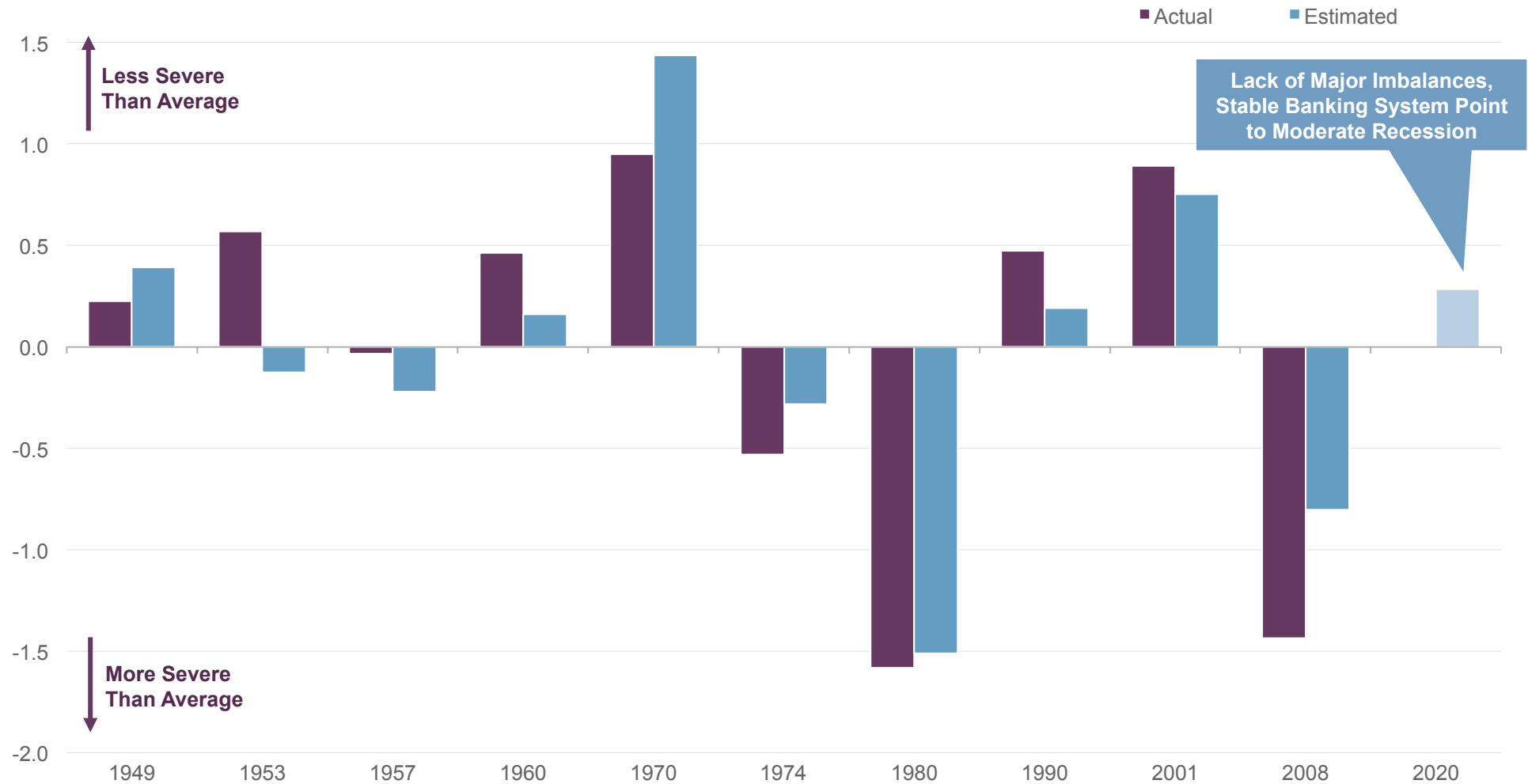
Source: Guggenheim Investments, Haver Analytics, Bloomberg. Data as of 07/31/2019. Shaded areas represent periods of recession.

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How Severe Will the Next Recession Be for the
Economy and Markets?

Fundamentals Suggest the Severity of the Next Recession May Be Average...

Guggenheim Recession Severity Indicator



Source: Guggenheim Investments, Haver Analytics. Data as of 12/31/2018. Hypothetical Illustration. The Recession Severity Indicator is a new model with no prior history of forecasting the severity of recessions. Actual results may vary significantly from the results shown. The model measures severity in terms of the length of economic downturn, peak-to-trough decline in real GDP, change in the output gap, and is trough-to-peak increase in the unemployment rate. A negative number indicates a more severe than average recession.

...But the Fed Will Have Less Room to Cut Rates...

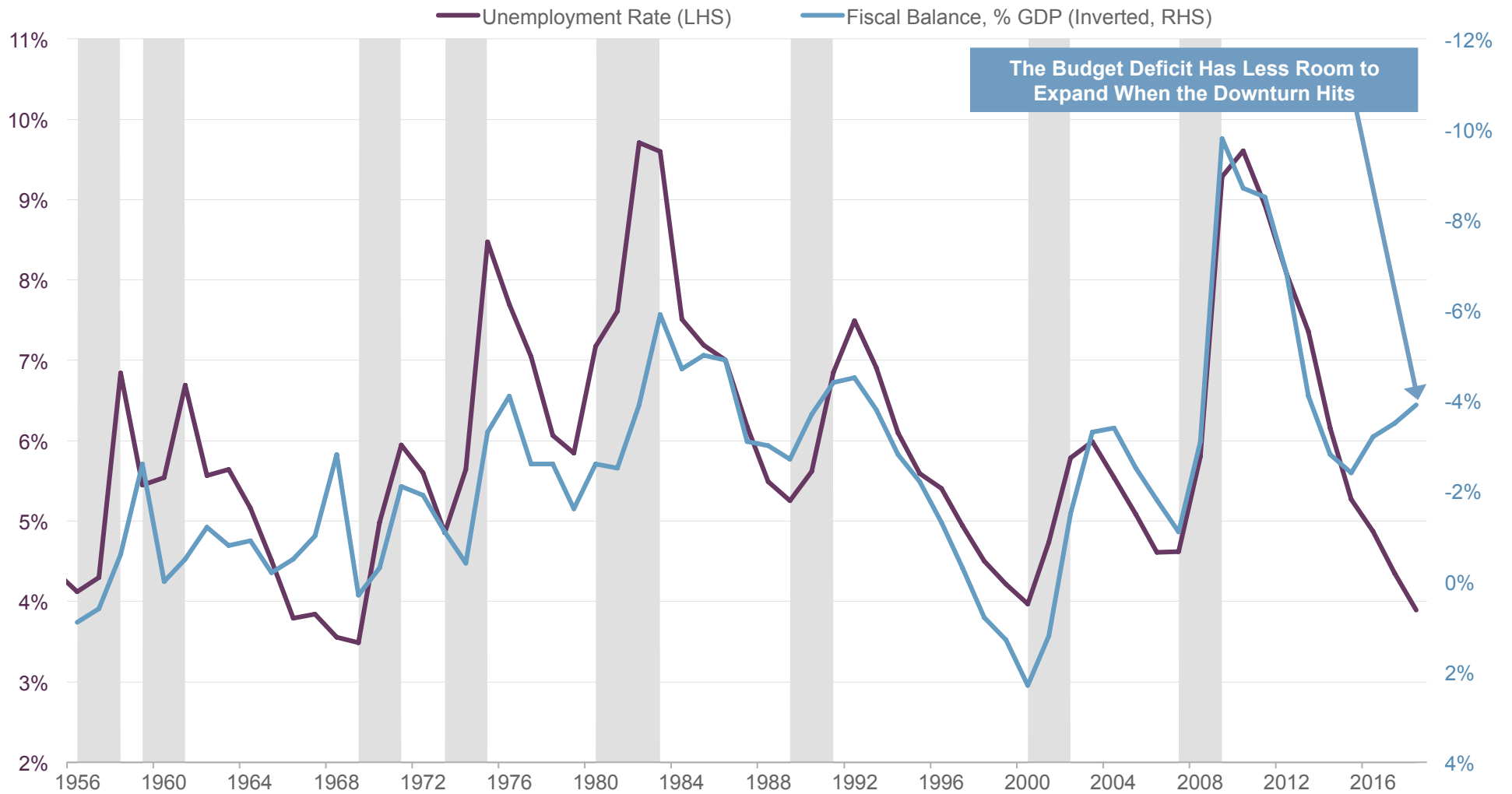
Change in Fed Funds Rate During Past Recessions, in Percentage Points*

Recession	Total Rate Cuts	Funds Rate Trough vs Natural Rate
August 1957 - April 1958	-2.9	---
April 1960 - February 1961	-2.8	---
December 1969 - November 1970	-5.5	-5.0
November 1973 - March 1975	-7.7	-4.7
January 1980 - July 1980	-4.8	-1.6
July 1981 - November 1982	-10.4	-3.3
July 1990 - March 1991	-5.3	-3.6
March 2001 - November 2001	-4.8	-2.8
December 2007 - June 2009	-5.1	-3.2
Average	-5.5	-3.5

Source: Guggenheim Investments, BCA, Janet Yellen, "The Federal Reserve's Monetary Policy Toolkit: Past, Present, and Future". *For recessions prior to 1990, the total amount of easing is the difference between the maximum and the minimum monthly average of the effective federal funds rate in a period extending from six months prior to the start of the recession to six months after it ends. For the last three recessions, the periods of continuous reductions in the intended federal funds rate are June 1990 to September 1992, December 2000 to January 2002, and August 2007 to December 2008. Uses the Laubach-Williams natural rate estimate.

...And Fiscal Policy Will Also Be More Constrained

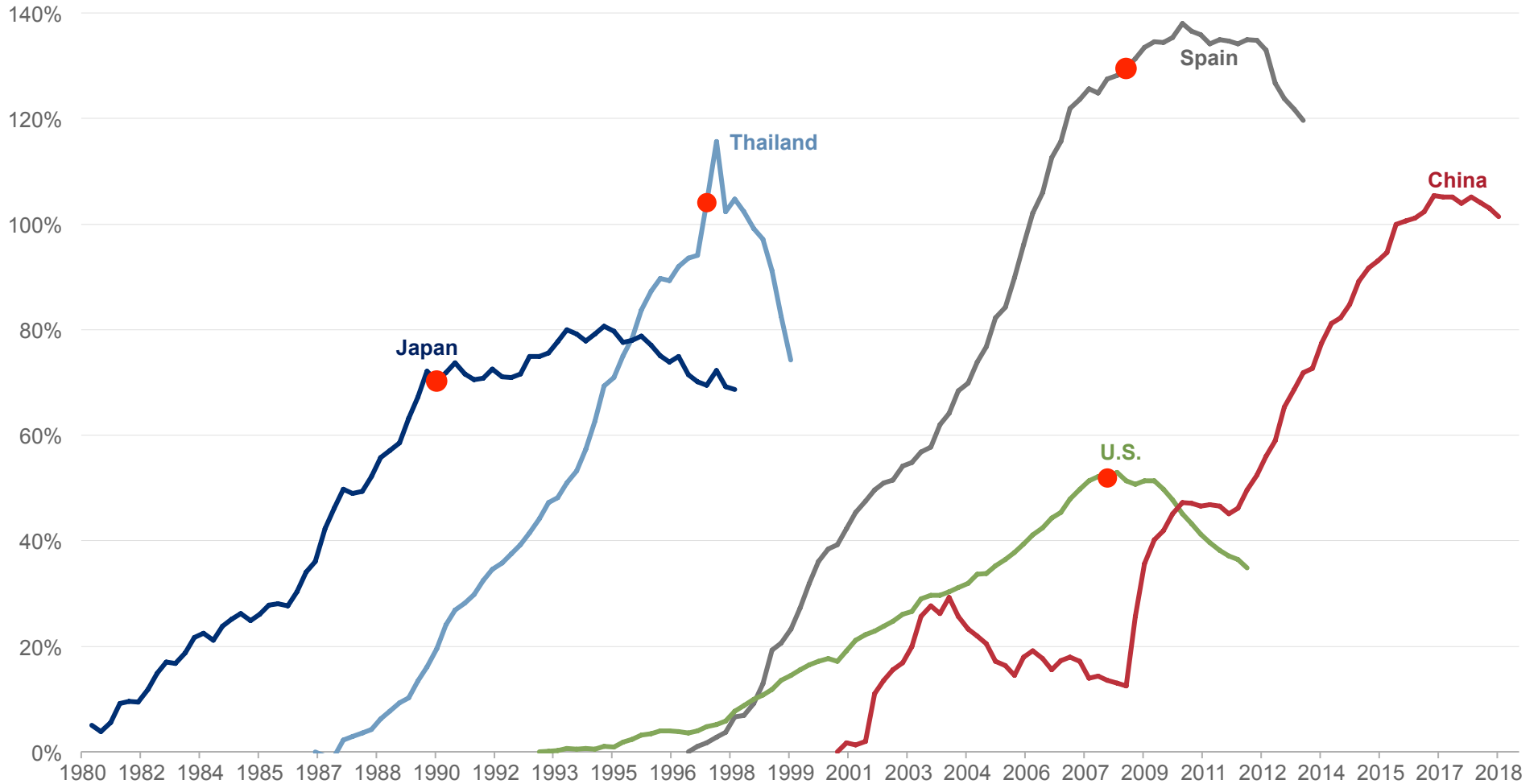
Unemployment Rate and Fiscal Balance as a Percent of GDP



Source: Guggenheim Investments, Haver Analytics, CBO. Data as of 12/31/2018. Shaded areas represent periods of recession.

China's Deleveraging Will Further Pressure the Global Economy

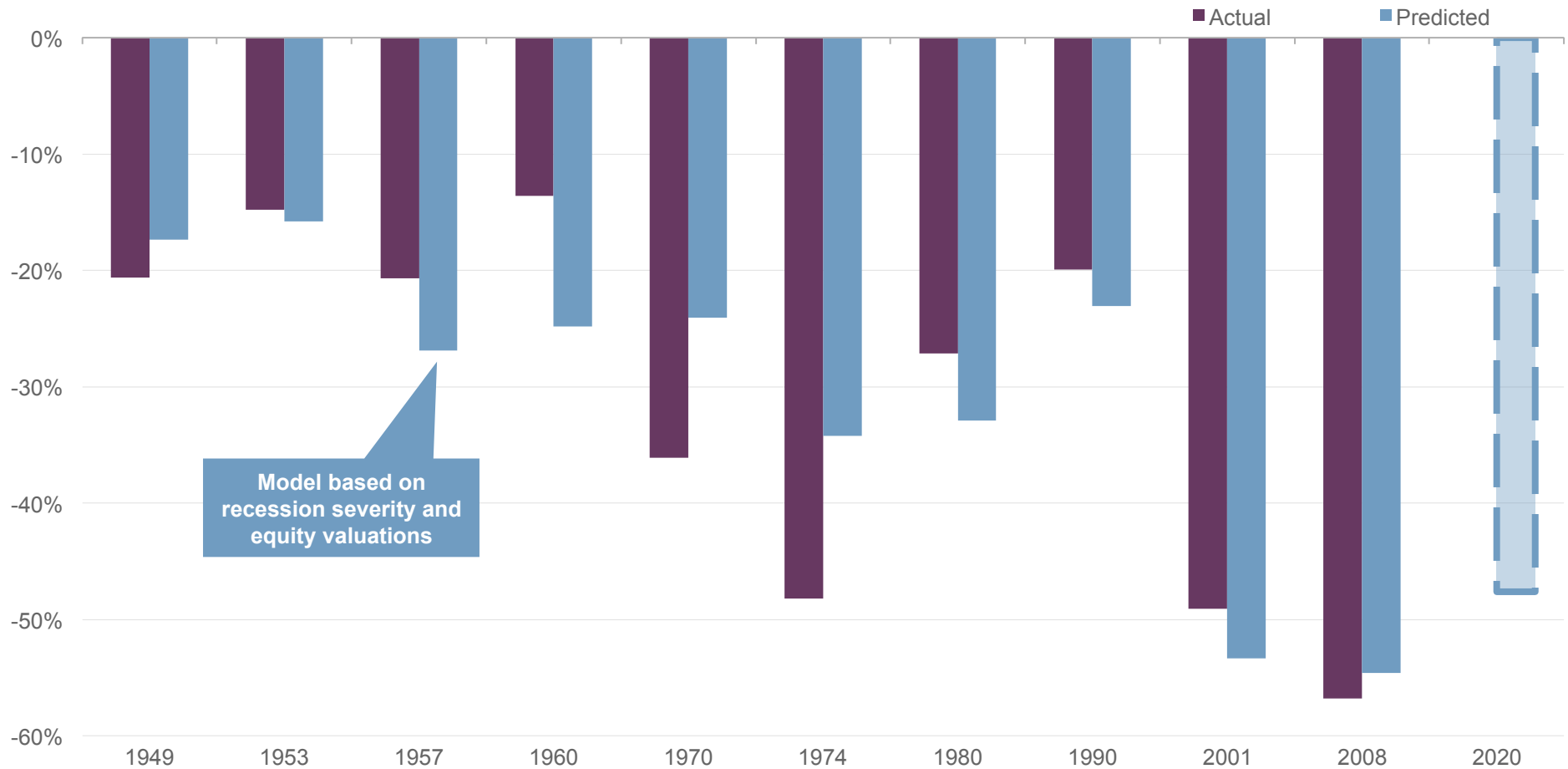
Credit to the Household and Nonfinancial Corporate Sector as a % of GDP: Cumulative Change in the Lead Up to Crisis



Source: Guggenheim Investments, Haver Analytics, BIS. Data as of 12/31/2018.

Prepare for a Large Drawdown in Stocks During the Next Recession

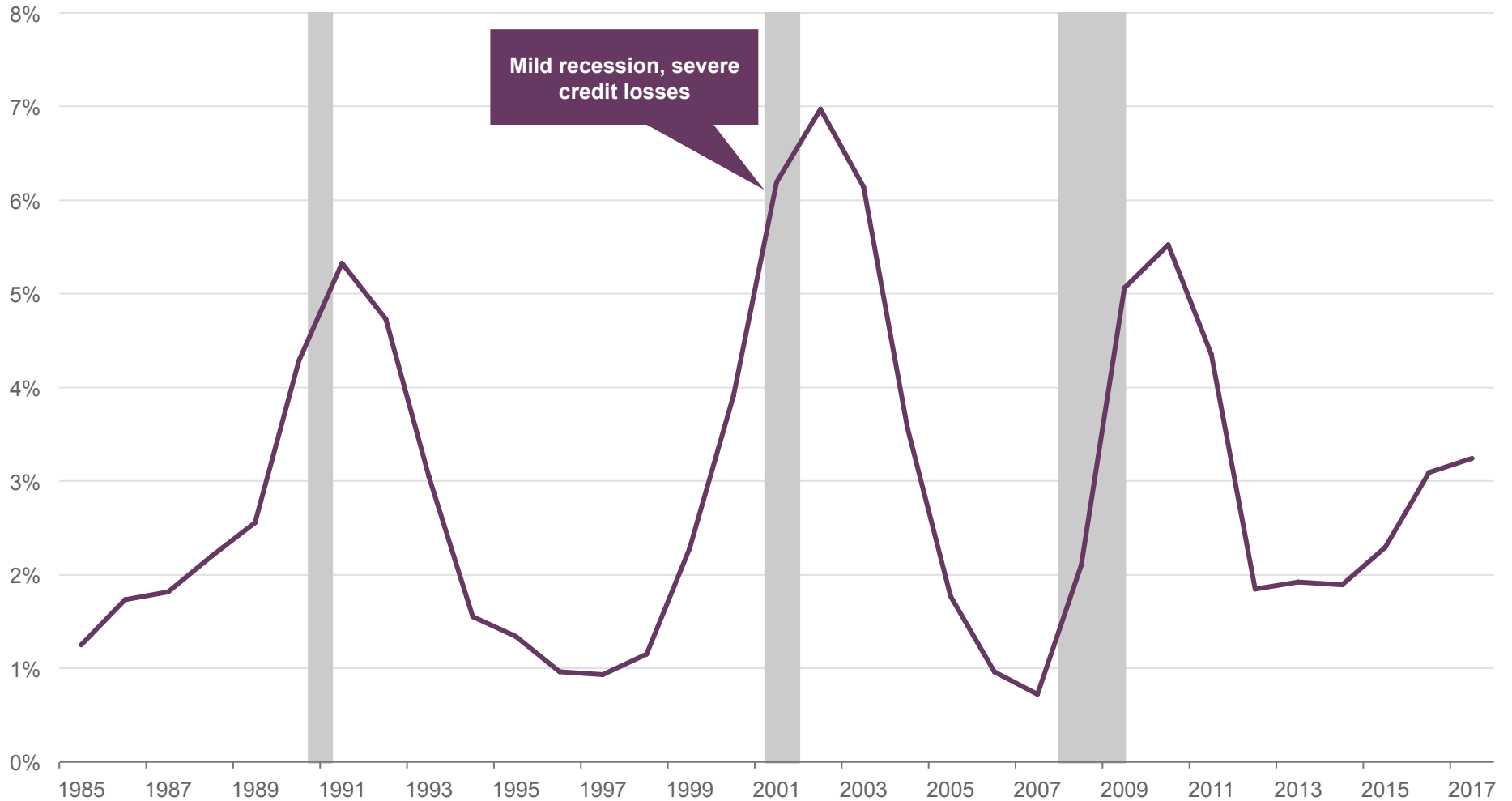
S&P 500, Peak to Trough Declines in Recessions: Actual vs. Guggenheim Model Predicted



Source: Guggenheim Investments, Bloomberg. Data as of 04/17/2018. Hypothetical Illustration. The Guggenheim Model is a new model with no prior history of predicting recession severity and equity valuations. Actual results may vary significantly from the results shown.

Cumulative Credit Losses May Be Greater Than 2008-09...

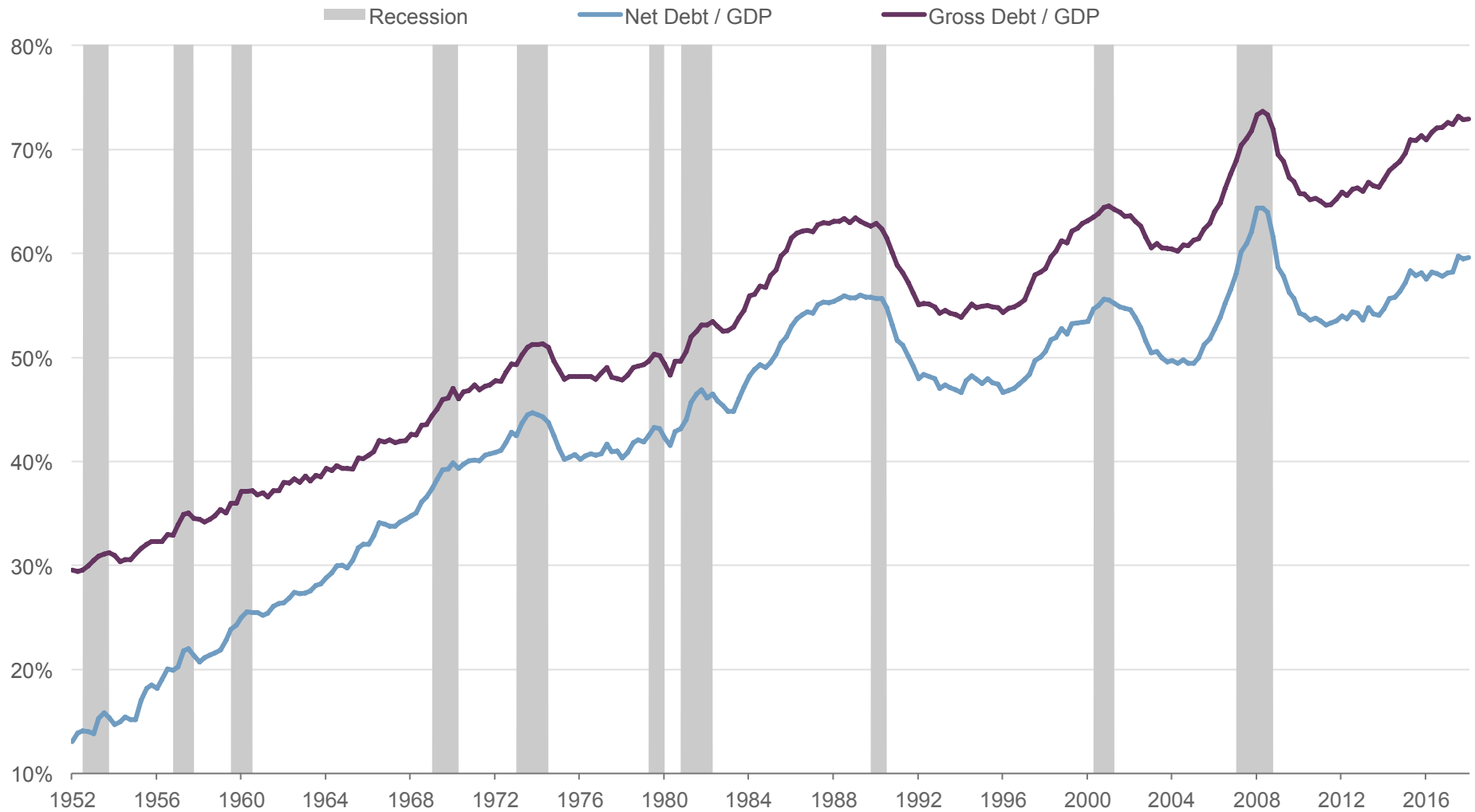
Cumulative 3-Year Credit Loss Rate



Source: Guggenheim Investments, Moody's. Data as of 12/31/2017. Based on issuer-weighted average default rates and issuer-weighted senior unsecured bond recovery rates. Shaded areas represent periods of recession.

...Given Record Corporate Leverage...

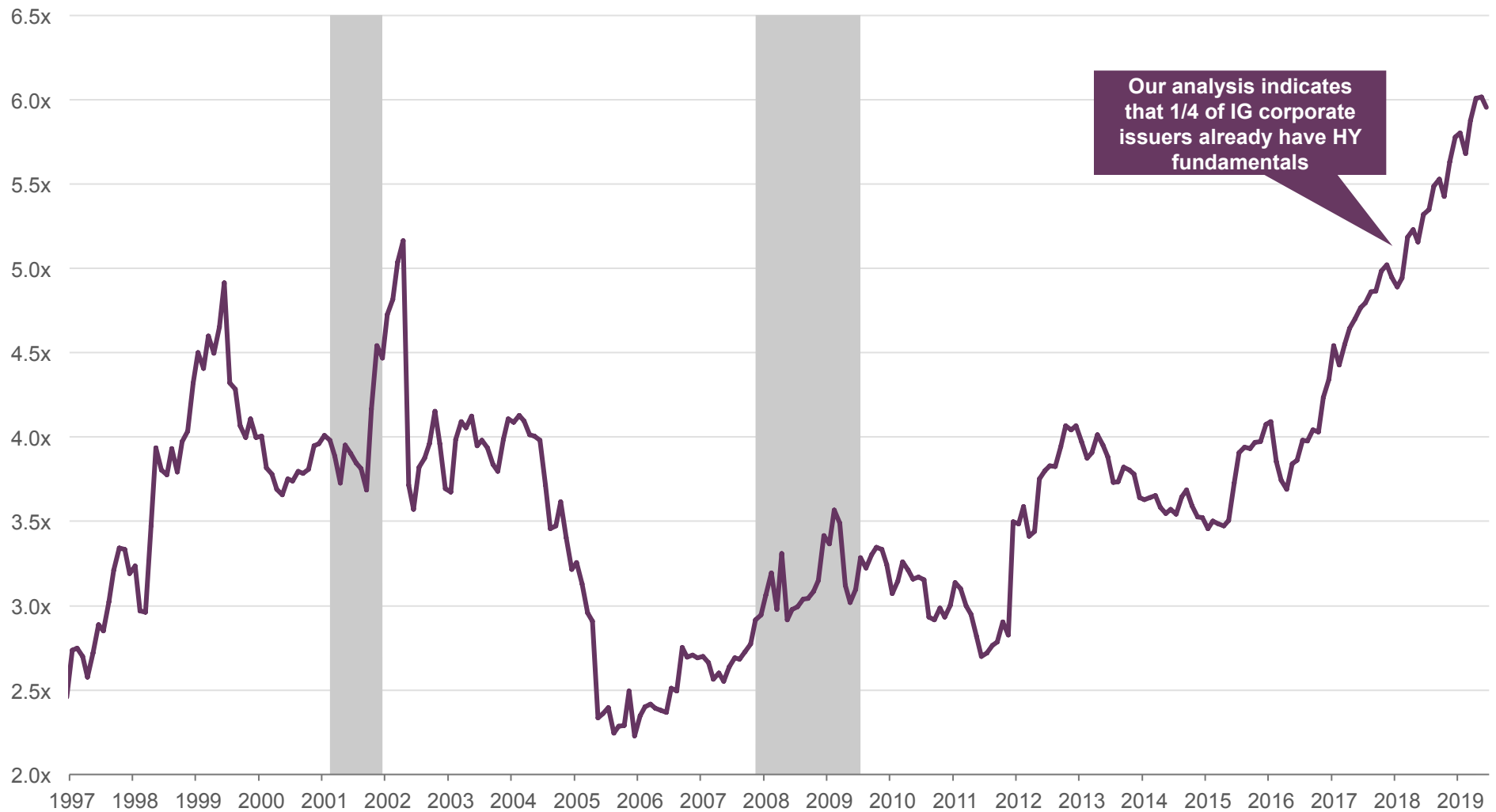
Nonfinancial Business Gross and Net Debt as a Share of U.S. Gross Domestic Product



Source: Guggenheim Investments, Haver Analytics. Monthly data as of 12/31/2018.

...And a Looming Fallen Angel Wave

Ratio of BBB-Rated to BB-Rated Corporate Bonds Outstanding

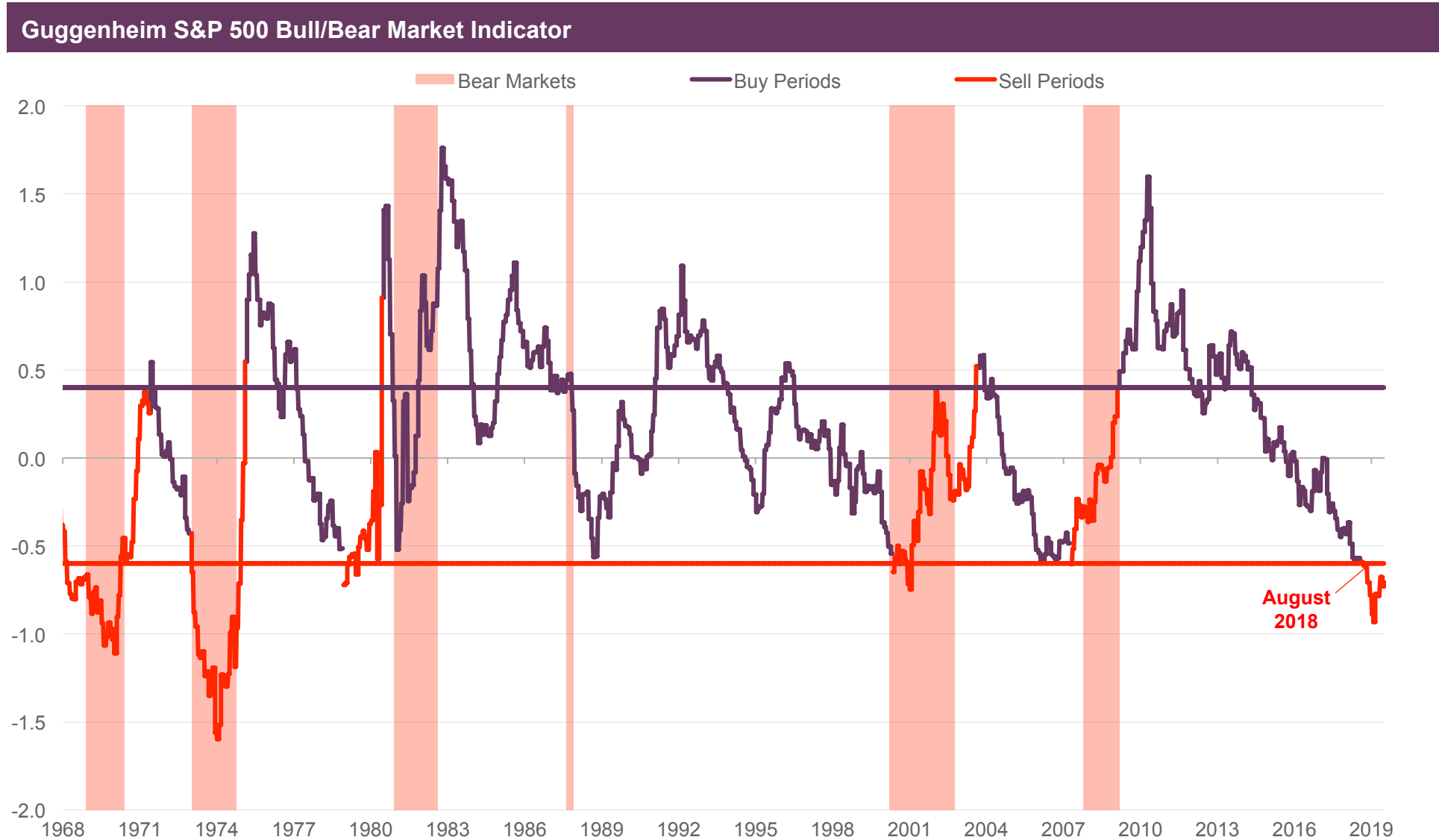


Source: Guggenheim Investments, ICE BofA Merrill Lynch. Data as of 06/30/2019. Shaded areas represent periods of recession.

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How Should Investors Position in This Environment?

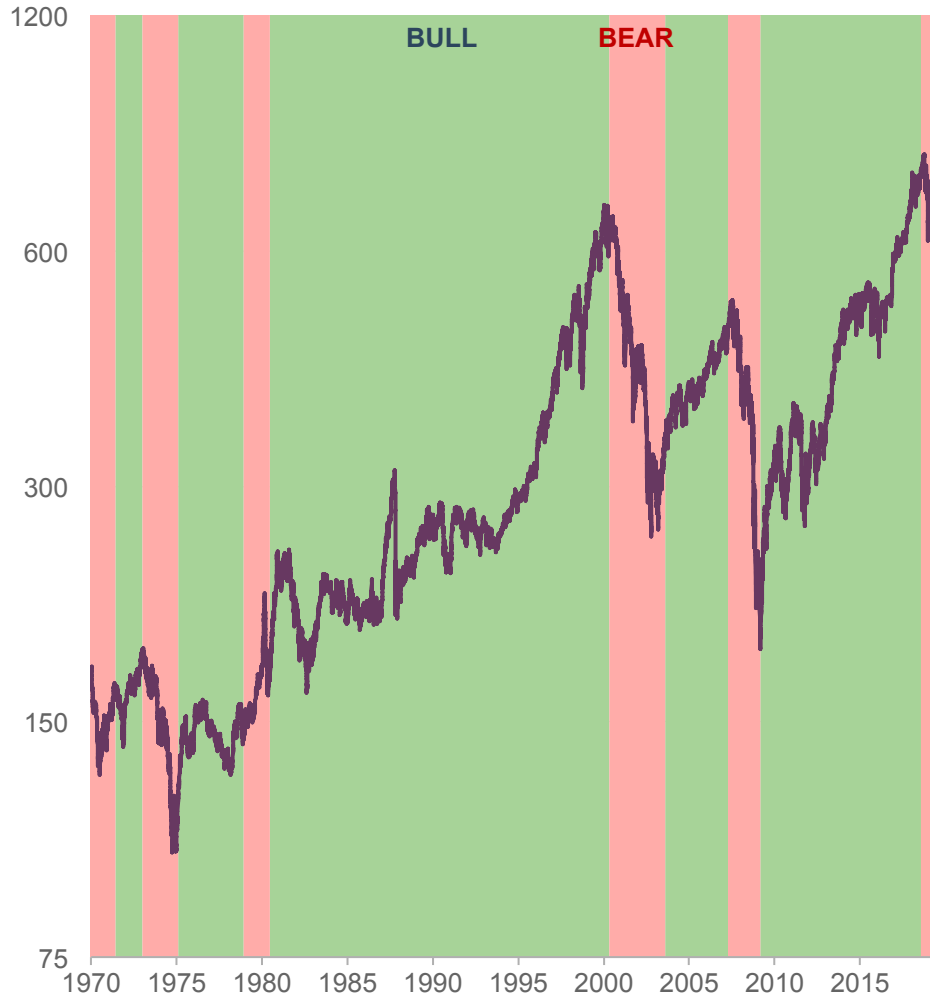
Our S&P 500 Bear Market Indicator Has Been Triggered...



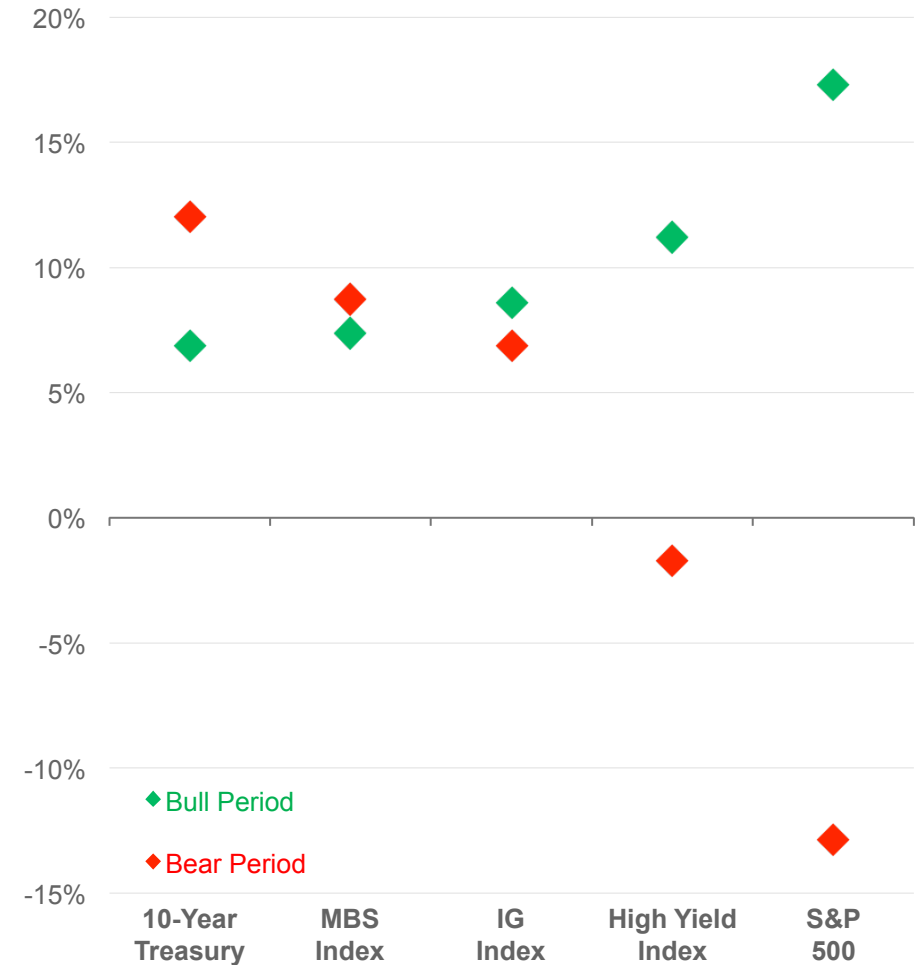
Source: Guggenheim Investments, Bloomberg. Data as of 07/05/2019.

...Pointing to Pain Ahead for Risk Assets

S&P 500 TR Index Relative to 10y Treasury TR Index, Log Scale
Shading Represents Signal from Guggenheim Bull/Bear Market Indicator



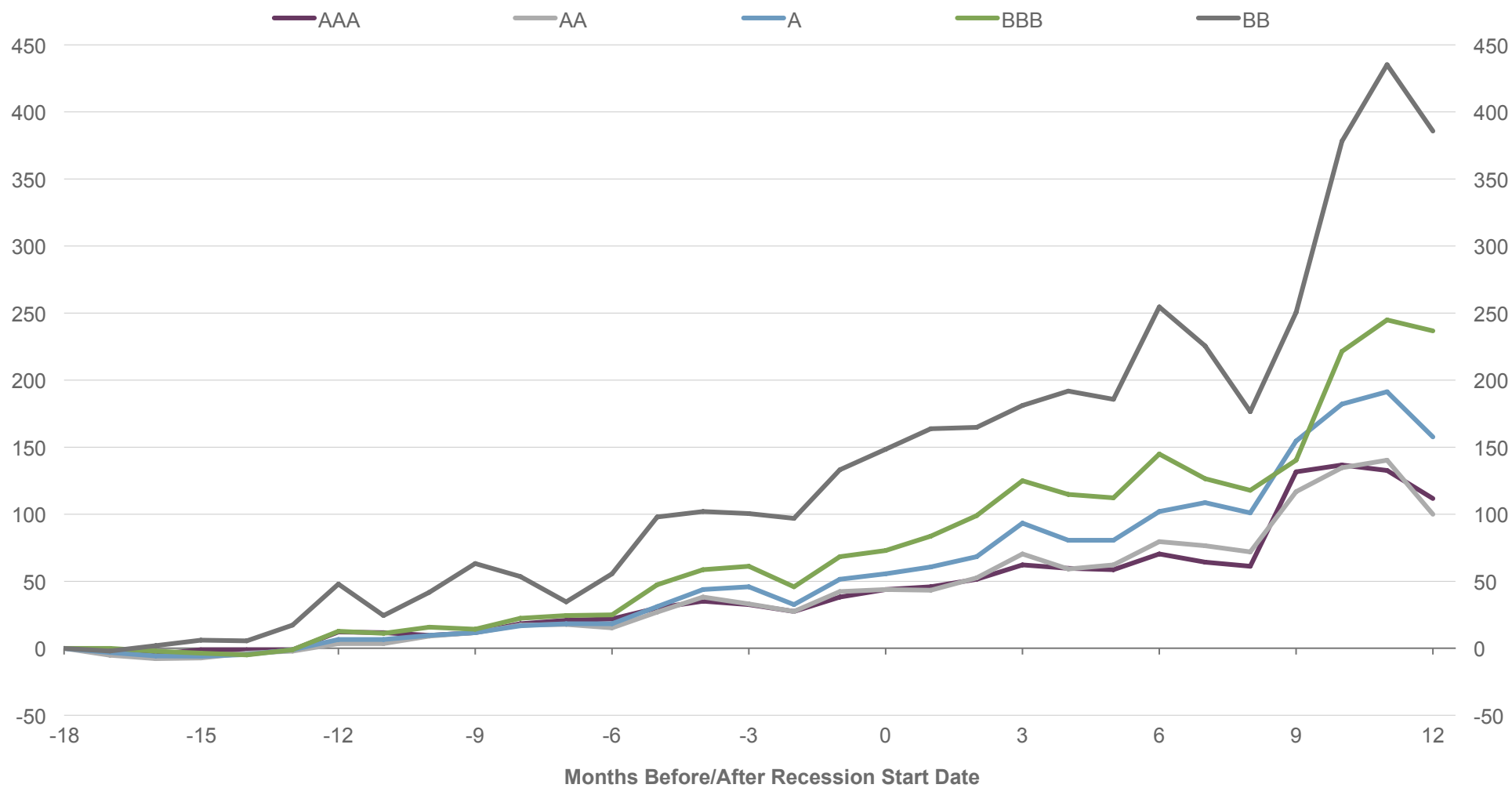
Total Return in Guggenheim Bull/Bear Market Indicator Regimes
Annualized Returns Since 1980*



Source: Guggenheim Investments, Haver Analytics, Bloomberg. Data as of 08/02/2019. *Note: high yield returns since July 1983.

Expect Credit Spread Widening as Recession Approaches

Corporate Spread to Treasuries by Rating: Cumulative Change in Basis Points Around Recessions, Average of Last Three Cycles*



Source: Guggenheim Investments, Bloomberg. Data as of 08/02/2018. *Note: includes recessions beginning in 1990, 2001, and 2007. 1990 cycle data begins at -13 months for AAA, AA, A, and BBB due to data availability.

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