



Second Quarter 2026

Fixed-Income Sector Views

Scorecard

Yield Matrix

	AAA	AA	A	BBB	BB	B
Corporate Bonds	5.0%	4.9%	5.0%	5.3%	6.2%	7.7%
Asset-Backed Securities	4.4%	4.9%	5.5%	6.4%	-	-
Collateralized Loan Obligations	4.8%	5.3%	5.6%	7.1%	12.0%	-
Non-Agency CMBS	4.8%	5.8%	7.1%	10.5%	-	-
Taxable Munis	4.7%	4.9%	5.1%	6.0%	-	-
Tax-Free Munis	3.6%	3.6%	4.0%	4.6%	5.2%	5.5%

Spread and Performance

Index / Sector	Spread / Discount Margin / Muni Ratio	QOQ Change bps	YOY Change bps	Spread Percentile (Decade)	1Q26 Return %
Bloomberg U.S. Aggregate Bond Index	30 bps	7	-9	8%	0.0%
Bloomberg Investment-Grade Corporate Bond Index	89 bps	16	-17	22%	-0.5%
Bloomberg High Yield Index	320 bps	57	-64	29%	-0.5%
S&P UBS Leveraged Loan Index	514 bps	34	0	68%	-0.6%
Palmer Square CLO Index AAA	119 bps	21	-15	19%	1.1%
ICE BofA AA-BBB US ABS Index	173 bps	9	-28	45%	0.5%
Bloomberg Taxable Municipal Bond Index	71 bps	-1	-21	2%	0.4%
Bloomberg Tax-Free Municipal Bond Index	89%	4%	-12%	26%	-0.2%
Bloomberg U.S. Agency MBS Index	24 bps	8	-19	17%	0.4%
Bloomberg U.S. Agg-Eligible Non-Agency CMBS Index	119 bps	7	-35	52%	0.3%

Sector Pairs (Spread and Return Differences)

BBB-A Corp.	36 bps	5	-8	21%	0.0%
BBB-BB Corp	87 bps	19	-31	36%	0.3%
BB-B Corp	148 bps	24	15	65%	-0.4%
AAA CLO - IG Corp	31 bps	5	2	36%	1.6%
AA/BBB ABS - IG Corp	84 bps	-7	-11	53%	0.0%

Source: Guggenheim Investments, Bloomberg, S&P UBS, ICE Index Services, Palmer Square. Data as of 3.31.2026. Municipal bond valuations are commonly measured as the ratio between their yield and a comparable-maturity U.S. Treasury yield. This methodology accounts for munis' tax-exempt interest, which typically results in lower nominal yields compared to taxable Treasuries. This contrasts with corporate bonds, where valuation is primarily expressed as a spread over Treasuries.

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Staying Focused Amid Geopolitical Uncertainty

Attractive yields and defensive positioning offset heightened geopolitical and economic risks.

Despite geopolitical volatility and the evolving energy supply shock caused by the conflict in the Middle East, our macroeconomic view remains intact for now. Our baseline U.S. outlook calls for solid real gross domestic product (GDP) growth near 2 percent this year, supported by artificial intelligence-driven (AI) business investment and consumer spending, with tax cuts helping offset the drag from higher energy prices. We expect core inflation to remain elevated in the first quarter before gradually decelerating as tariffs mark their anniversary, the oil shock fades, and housing and wage pressures moderate, enabling the Federal Reserve (Fed) to cut rates twice in the second half of the year. Still, persistently high oil prices remain a key risk to our economic outlook, eroding disposable income and consumer sentiment.

Credit and Risk Positioning

Our investment approach is guided by key market dynamics: All-in yields remain attractive and the Fed will likely resume easing later this year; credit spreads have widened modestly from historically tight levels, providing some additional opportunities; and credit fundamentals are strong but diverging among industries more exposed to tariffs, technology shifts and interest rates.

In this environment, our credit positioning remains primarily defensive, prioritizing income generation and diversification. We are neutral to our long-term credit beta targets and have overlaid some hedges in this period of heightened volatility. We prefer high carry instruments within defensive sectors, including senior ABS and non-Agency RMBS. Within corporate credit, our high grade strategies still lean long financials, and within high yield strategies we remain up in quality and selective within industries that are experiencing volatility in earnings and in longer-term business prospects. Across all strategies, we want to emphasize having some dry powder and room in our risk budgeting to withstand a range of outcomes and take advantage of dislocations when they occur.

By Anne Walsh, Steve Brown, Adam Bloch, and Evan Serdensky

Duration and Interest Rate Views

Since the onset of the Iran conflict, the Treasury yield curve has flattened as the front end moved higher, while upward pressure from growing fiscal deficits keeps long rates elevated and the 10-year Treasury yield rangebound between 3.75 and 4.5 percent. We remain focused on the belly of the curve, adding exposure in the 2- to 5-year segment, where starting yields near 4 percent are attractive, while tactically rotating in and out of the 10-year tenor as it moves within its range. We continue to favor Treasury Inflation-Protected Securities (TIPS), though we took some profits following the move after the Iran war began. Divergent global central bank policies create additional opportunities in sovereign markets outside the United States.

As the Fed balances the potential duration of the oil shock against a vulnerable labor market and downside economic risks, higher quality credit offers attractive yields, potential price appreciation, and portfolio diversification. Still, amid heightened uncertainty and diverging credit performance, active selection and risk management are critical.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Growth Resilience Meets Geopolitical Risk

While the U.S. economy remains relatively stable, it is vulnerable to sustained hostilities in the Middle East.

The U.S. economy entered 2026 on reasonably firm footing, with tailwinds from fiscal policy, AI investment, and relatively easy financial conditions. The labor market showed signs of stabilization to start the year, and disinflation looked poised to resume as tariff effects faded.

That narrative has been challenged with the war in Iran and the energy supply shock. Our base case remains that hostilities will ultimately be contained and relatively short-lived, allowing oil prices to trend down from above \$100 per barrel to around \$80 by year end. In that case, the economic impact should be manageable. This scenario would see a modest hit to growth, a large but temporary spike in headline inflation, and limited passthrough into core consumer prices.

The more concerning scenario involves a prolonged conflict that moves beyond disrupting energy transport and further damages production capacity. While we think it unlikely, in that case, crude prices could remain well above \$100 per barrel for several months. The knock-on effects would be significant: a jump in headline inflation that spills over into core inflation, a squeeze on consumer purchasing power, disruptions to global supply chains, and amplification of the shock through tightening financial conditions and a softer labor market. The United States is better insulated than most other countries in this scenario, but it would lead to a meaningfully higher probability of recession.

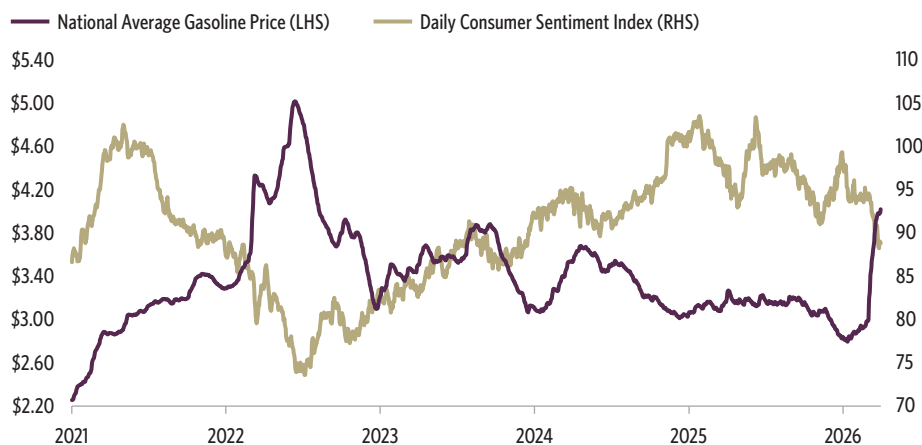
For now, we expect the economic impacts of the war to be moderate. Real GDP growth in 2026 is expected to be around 2 percent, with tax cuts cushioning the hit to consumers from higher gas prices, and AI capital expenditure (capex) generating a sizable impulse to growth. The labor market remains a watchpoint. While unemployment has leveled off, hiring rates are historically subdued. This thin buffer means even a modest uptick in layoffs could mean a quick rise in the unemployment rate. An intensifying energy shock could be a catalyst for such layoffs, as could disruptive AI impacts.

Year-over-year core personal consumption expenditures inflation is expected to stay sticky this year, driven by hot first quarter readings and near-term impacts from oil passthrough. However, we expect sequential measures will show more disinflation in the second half as tariff and energy impacts fade. The jump in energy prices has generated volatility in expectations for Fed policy, amid conflicting risks to inflation and the labor market. The Fed will likely remain on hold for the next few meetings given the uncertain environment. However, in the second half, we expect fading inflation, along with risks to slower growth and a softer labor market, to ultimately influence Fed policy. We continue to view two rate cuts beginning in the second half of 2026 as the most likely scenario.

By Matt Bush and Maria Giraldo

If crude prices remain well above \$100 per barrel and stay elevated for at least several months, the knock-on effects would be significant: a sharp jump in headline inflation that spills over into core inflation, a squeeze on consumer purchasing power, disruptions to global supply chains, and amplification of the shock through tightening financial conditions and a softer labor market.

Surging Gas Prices Could Eat Away at Consumer Tax Cut Benefits



Source: Guggenheim Investments. Bloomberg. Data as of 3.30.2026.

End of Low Volatility Presents New Opportunities

Geopolitical tensions and energy prices drive yields, creating opportunities in G10 sovereign bonds.

While fixed-income markets began 2026 on a robust note, the Middle East conflict and surging energy prices sharply repriced inflation expectations, pushing sovereign yields higher and flattening curves. We believe that a prolonged conflict will shift market focus from inflation to growth risks, supporting lower yields and resumed Fed easing. In this environment, we are opportunistically managing duration within trading ranges, targeting short-term Treasurys, and capitalizing on attractive relative value opportunities in G10 sovereign markets, including Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.

Sector Commentary

- The first two months of 2026 started out strong with fixed-income returns of 1–2 percent, supported by subdued labor market growth, contained inflation expectations, and anticipated Fed easing all driving Treasury yields lower.
- In March, market focus quickly shifted to the outbreak of war in Iran. Surging energy prices followed the Strait of Hormuz closure and repriced short-term inflation expectations sharply higher.
- As energy prices skyrocketed, global sovereign yields surged higher, yield curves flattened, and central bank expectations pivoted from an easing regime to a potential tightening regime amid short-term inflation pressures.
- We believe that a prolonged conflict would see fixed-income markets shift focus from the short-term inflation impact to the longer-term negative growth impact, supporting lower Treasury yields and a resumption of Fed easing.

Investment Themes

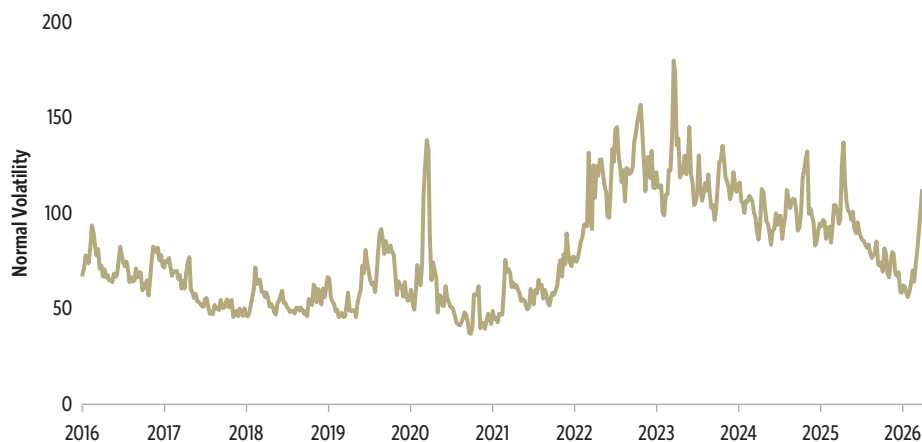
- Treasury yields remain in a trading range, which allows us to opportunistically reduce duration when yields reach the lower end of the range and add duration as yields move to the higher end.
- We expect that the Fed will likely resume easing, but later than we previously forecast. Short-term Treasurys trading above the fed funds rate offer compelling value, in our opinion, and we will take advantage of this trading opportunity in various ways.
- The global selloff in sovereign bonds has created attractive relative value investment opportunities to own duration exposure in other G10 countries with strong fiscal positions.
- Interest rate volatility has surged, prompting investors to move to the sidelines. This volatility, combined with elevated yields, has made for attractive coupons in callable Agency bonds.

By Kris Dorr and Tad Nygren

In this environment, we are opportunistically managing duration within trading ranges, targeting short-term Treasurys, and capitalizing on attractive relative value opportunities in G10 sovereign markets.

Increased Volatility and Elevated Yields Enhance Opportunities in Treasury Market

1-Month Implied Option Volatility on Interest Rate Swaps



Source: Guggenheim Investments, Bloomberg, BofA ICE MOVE Index. Data as of 3.29.2026.

Spreads Widen Amid Record Supply, Geopolitical Tensions

Sector selection and duration positioning remain key amid market shifts.

Investment-grade credit spreads widened and finally broke out of their historically tight trading range in the first quarter as record primary supply, shifting rate expectations, concerns around private credit, and geopolitical tensions increased risk premiums in corporate spreads. Nonfinancial issuance surged while the financial sector felt pressure from business development company (BDC) redemptions stemming from AI disruption concerns. Despite elevated volatility, technicals remained resilient as institutional demand absorbed heavy issuance without significant dislocation. The quarter highlighted the importance of sector selection.

Sector Commentary

- First quarter issuance represented the highest first quarter and the second highest quarter of all time with gross supply reaching \$640 billion, up 19 percent year over year, driven largely by nonfinancial issuers (up 25 percent vs. 2025). March alone saw \$240 billion in primary supply.
- The BBB/A spread reached year-to-date wides of 38 basis points by late March, while the BB/BBB spread hit a four-month wide of 105 basis points. This decompression was driven by repriced Fed rate paths and growth expectations rather than specific credit deterioration.
- The investment-grade long/short ratio, measured by prime brokerage firms, fell to a multi-year low of 0.94 in early March. This implies a net short position for the investor base, the first in over two years. However, the reduction in exposure was not a result of selling risk but by shorting ETFs while maintaining cash long positions.

Investment Themes

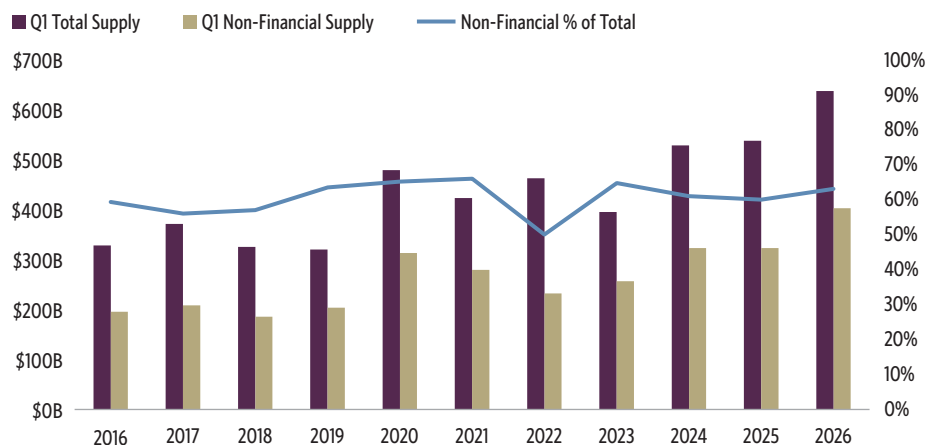
- Banks and insurance companies offer stronger fundamentals and more predictable supply calendars. Nonfinancial issuance has surged 44 percent year to date, creating technical headwinds, while software and AI-vulnerable credits face ongoing pressure from hyperscaler capital expenditure disruption.
- Utility hybrids benefit from coupon floors and structural support, while insurance and industrial hybrids offer compelling risk-adjusted yields.
- Long-duration corporates are attractive when all-in yields approach 6 percent. Demand from insurance and pension buyers continues to support the long end, and we see value in adding duration on rate backups to lock in elevated yields.
- Rate and spread backups over the quarter have improved entry points for shorter-duration risk. Additionally, we favor expressing long investment-grade risk via the CDX North American Investment-Grade Index.

By Justin Takata

First quarter issuance represented the highest first quarter and the second highest quarter of all time with gross supply reaching \$640 billion, up 19 percent year over year, driven largely by non-financial issuers.

First Quarter Investment-Grade Issuance Sets a New Record

Q1 Supply: Non-Financial vs. Total Gross Issuance (2016-2026)



Source: Guggenheim Investments, J.P. Morgan. Data as of 3.31.2026.

From Compression to Dispersion

Prolonged geopolitical disruption could pressure more cyclically exposed issuers.

High yield experienced negative quarterly performance for the first time since 2022 amid rising geopolitical concerns, reversing much of the spread tightening in 2025. Sector dispersion, which was benign in 2025, became more prevalent. Energy was a top performer, while rate sensitive sectors faced headwinds. Technology underperformed on concerns around AI disruption. The primary market was active, though pulled back during periods of volatility.

Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index rose in the first quarter to 328 basis points.
- The high yield index posted a -0.5 percent total return for the first quarter, the first negative quarterly performance since 2022.
- Quarterly returns highlight outperformance by higher quality credit, with BB-rated, B-rated, and CCC-rated bonds returning -0.3 percent, -0.7 percent, and -1.3 percent, respectively.
- New issuance totaled \$80 billion in the first quarter, with approximately 60 percent allocated to refinancing activities. There were a few large merger and acquisition deals, which made up approximately 25 percent of issuance.

Investment Themes

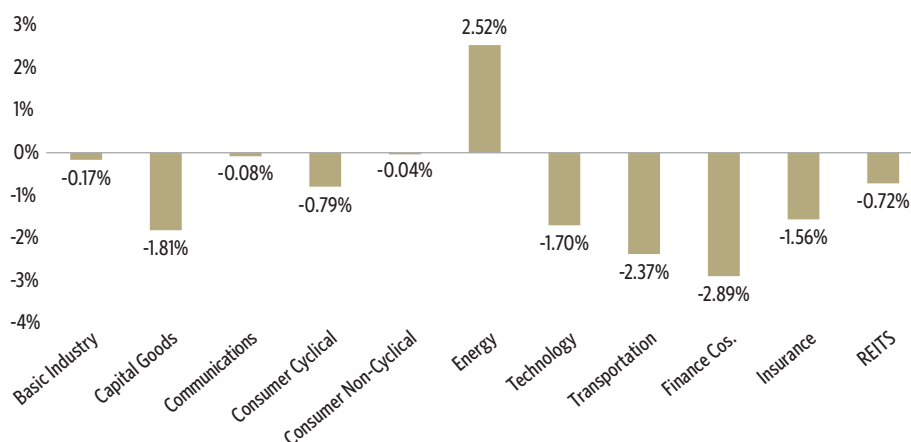
- High yield experienced \$8.5 billion in net mutual fund outflows in the first quarter of 2026, mainly from ETFs.
- Despite negative total returns, coupon income partially offset price declines, reinforcing carry as the primary return driver.
- Refinancing activity dominated primary issuance, constraining net supply, though spreads widened from relatively tight levels as geopolitical risks intensified. This dynamic supports selective investment opportunities.
- Roughly two-thirds of the high yield market is trading at spreads inside 300 basis points, a level that remains tight relative to historical averages.
- Fundamentals remain strong, with the trailing 12-month par-weighted default rate of 1.2 percent well below the 20-year average of 3.5 percent. The distress rate remains modest and we expect defaults to remain subdued, though prolonged geopolitical disruption could pressure more cyclically exposed issuers.

By Thomas Hauser and Ravi Tamboli

Sector dispersion, which was benign in 2025, became more prevalent. Energy was a top performer, while rate sensitive sectors faced headwinds. Technology underperformed on concerns around AI disruption.

High Yield Energy Was the Only Positive Performer in the First Quarter

High Yield Corporate Bond Index Q1 2026 Total Return, by Industry



Source: Guggenheim Investments, Bloomberg. Data as of 3.31.2026.

BANK LOANS

Software Selloff Leads Loans Negative for Q1

Prices are lower and spreads are wider as the market reassesses AI risk.

The S&P USB Leveraged Loan Index returned -0.6 percent for the first quarter, breaking the streak of 14 consecutive positive quarters for bank loans. Fears of AI-driven deflationary pressure on valuations drove technology and other AI-sensitive sectors lower for the quarter. Coupon helped to offset the 2 percent price return of the index, and the floating rate nature of loans insulated the asset class from rate moves that impacted more rate-sensitive asset classes. The distress ratio almost tripled quarter over quarter, finishing at 6.2 percent, and we remain cautious about low recovery rates, particularly in technology.

Sector Commentary

- The technology sector, representing 17 percent of the index (software 13 percent), was a material drag on performance with the sector down 4.15 percent for the period.
- Looking at the index broadly, three-year discount margins widened 59 basis points, finishing at 514 basis points. Three-year yields rose 0.84 percent, finishing at 8.70 percent, and the weighted average price of the index was down 2.1 points, closing at 93.81.
- The tech-driven volatility, amplified by the conflict in Iran, put a damper on new issuance. High quality and non-tech deals were able to get done, though somewhat sparingly. February and March saw just \$33 billion each in primary activity, well below the 2025 average of \$86 billion per month.
- On the demand front, CLO issuance did not seem all that impacted by the volatility, with a strong quarterly tally of \$49 billion. Retail flows were impacted, however, with \$7.5 billion of outflows from loan funds.

Investment Themes

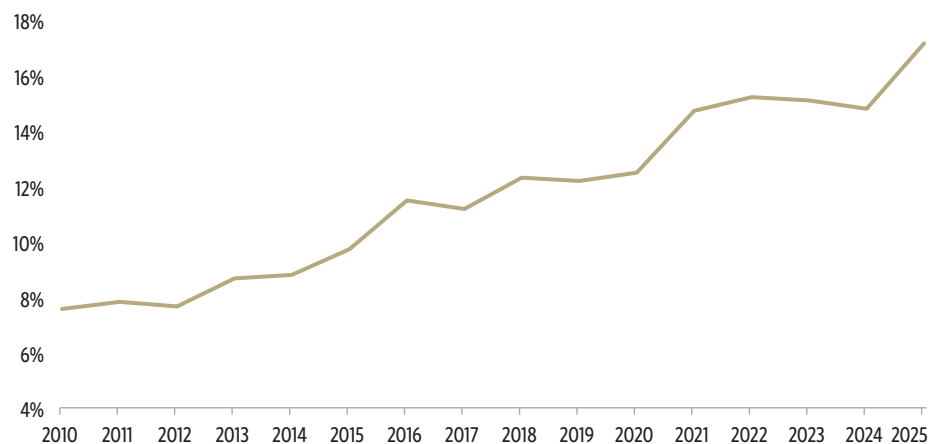
- Credit selection was highlighted during the quarter as the market looks to differentiate between winners and losers in the AI-efficiency race. Sector and subsector dispersion was the highest in some time.
- Our base case is for volatility to persist for the foreseeable future as the market will need to work to refinance more than \$150 billion of the lowest rung of B-rated issuance maturing in 2028 and as liability management exercises continue to erode first lien recoveries.
- In terms of positioning, we maintain our up in quality bias given the tail risk in the market and macro uncertainty. For businesses we view as insulated from some of these risks with appropriate capital structures, we will look to add to positions on weakness.

By Thomas Hauser, Alastair McKeever, and Brian McAuliff

The technology sector, representing 17 percent of the index (software 13 percent), was a material drag on performance with the sector down 4.15 percent for the period.

Technology, at 17% of the Index, Was a Significant Drag on Loans in Q1

S&P UBS Leveraged Loan Index Technology Weight



Source: S&P UBS Leveraged Loan Index. Data as of 12.31.2025.

PRIVATE DEBT

Fewer Deals, Bigger Dollars

Larger deals support volume as deal count slows.

The fourth quarter marked \$56.6 billion in direct lending volume across 189 transactions in the United States, the lowest volume in two years and fewest deals since the third quarter of 2023. While private credit default rates remain below historical averages, we continue to closely monitor borrower performance across the market as the cumulative effects of elevated borrowing costs and slower economic growth take hold.

Sector Commentary

- Trailing three-month direct lending volume reached its highest level since the third quarter of 2024, driven by a cluster of jumbo transactions in January, even as overall deal count declined. Vantage Data Centers' \$2.4 billion Ares-led facility exemplified sustained lender appetite for AI and cloud infrastructure.
- Year-to-date leveraged buyout (LBO) deal count in 2026 is sharply lower versus last year, yet aggregate volume remains stable, indicating sponsors are pursuing fewer but larger transactions.
- Direct lending continues to capture LBO fundings. While broadly syndicated loans have outpaced direct lending in overall sponsor-backed issuance, direct lenders continue leading LBO-specific volume, reflecting sponsor preference for execution certainty in control-oriented transactions.
- Payment-in-kind (PIK) toggles and amendment activity have increased in BDCs, signaling pockets of stress that warrant cautious underwriting and active monitoring.

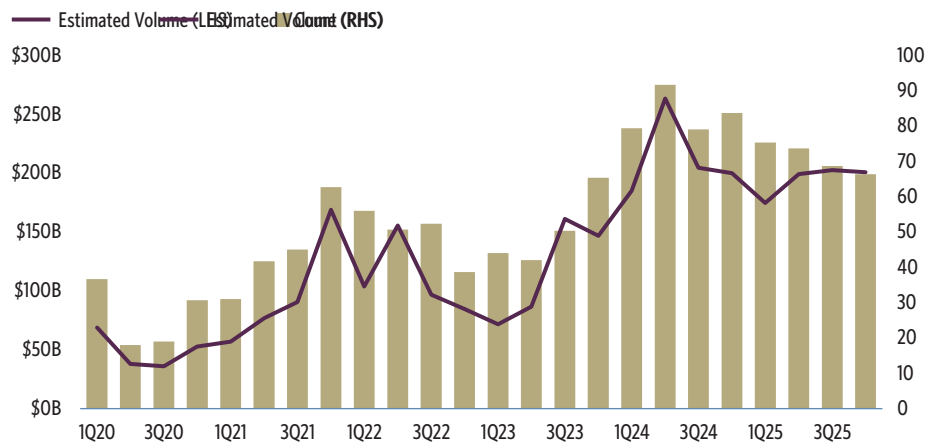
Investment Themes

- Over the past 12 months, the share of new-issue LBO spreads in the 450–499 basis point range rose 38 percent while the 500–600 basis point share declined 33 percent, signaling meaningful pricing compression among new issues.
- Recent weakness in leveraged loan prices, sliding to April 2025 lows amid geopolitical and AI-related concerns, could suggest widening in private credit spreads if sustained, potentially reversing the compression trend.
- Investor sentiment toward software borrowers has softened as AI disruption concerns mount, prompting closer examination of BDC portfolios. While the majority of software loans in BDCs remain marked near par, the market is adopting a more cautious stance.

By Joe McCurdy and Mark Pridmore

Trailing three-month direct lending volume reached its highest level since the third quarter of 2024, driven by a cluster of jumbo transactions in January, even as overall deal count declined.

Deal Count Declines as Larger Deal Volumes Rise



Source: Guggenheim Investments, Pitchbook. Data as of 12.31.2025.

ABS Holds Steady as CLO Spreads Widen

ABS issuance remains steady and we expect senior and near-senior CLO tranche spreads to remain stable.

ABS credit spreads have been slow to respond to broader market weakness. The spread differential relative to investment-grade corporates compressed to its 53rd percentile from its 74th percentile as of year-end 2025. First quarter ABS issuance was \$90 billion, in line with last year's record levels, with refinancings accounting for most issuance. CLO spreads widened in line with corporate credit markets in the first quarter and higher CLO borrowing costs dampened new issuance. We expect senior and near-senior CLO tranche spreads to remain stable.

Sector Commentary

- ABS:** New issuance has been concentrated in digital infrastructure deals backed by data centers and fiber networks, as well as aircraft and whole business royalties. Data center ABS issuance reached over \$14 billion in 2025 and is up 27 percent year-over-year in the first quarter. We expect supply to remain elevated to support the secular digital infrastructure buildout. Supply of fiber network-backed deals has also increased as companies seek to diversify funding sources from the traditional corporate markets.
- CLOs:** CLO spreads widened in step with corporate credit markets in the first quarter. Underlying loan prices saw declines with movement concentrated in AI-disintermediation exposed industries. CLO manager views on obligor health remains cautiously optimistic in aggregate but idiosyncratic credit issues exist. CLO overcollateralization ratios and exposure to lower rated collateral are at a favorable starting point to buffer credit headwinds in selected underlying industries.

Investment Themes

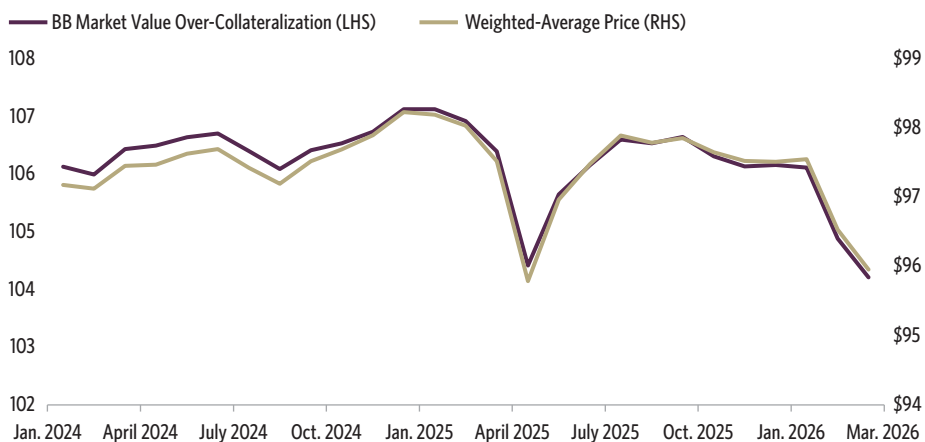
- ABS:** We favor senior tranches in commercial ABS backed by stable, cash-generative collateral including franchise royalties, fiber networks, and aircraft. In consumer ABS, subsectors such as home improvement loans offer exposure to higher quality borrowers with structural downside protection through amortization and credit enhancement. In digital infrastructure, selectivity is increasingly important as unprecedented capital expenditures drive large ABS supply and new capacity. Our focus is on supply/demand dynamics and the impact of technological advances on legacy assets.
- CLOs:** Attractive relative value and structural protection against weaker loan fundamentals support our constructive view of CLOs, especially for AAA–BBB rated tranches. In the near term, we expect the market to approach BB and equity CLO tranches tentatively as it digests idiosyncratic risks emanating from the software sector and the Middle Eastern conflict. The cautious sentiment should dampen new CLO creation in the near term.

By Karthik Narayanan, Michael Liu, and Scott Kanouse

In the near term, we expect the market to approach BB and equity CLO tranches tentatively as it digests idiosyncratic risks emanating from the software sector and the Middle Eastern conflict.

We Expect Caution Around BB and Equity Tranches Amid Volatility

Weighted-average loan price vs. CLO BB market value over-collateralization



Source: Guggenheim Investments, Intex. Data as of 3.31.2026.

Supportive Technicals with Persistent Credit Stress

Careful security selection and active portfolio management are critical.

CMBS excess returns outperformed investment grade in the first quarter, driven by supportive technicals, continued investor demand, and emerging sector-specific risks in other credit markets. However, the sector continues to contend with persistent legacy credit issues and remains exposed to interest rate volatility. Targeted deployment into higher quality pockets of the broader CMBS asset class—notably commercial real estate (CRE) CLOs—remains our focus for durable yield. Dispersion in outcomes for maturing legacy conduit and single asset/single borrower (SASB) transactions remains elevated—highlighting the importance of active management.

Sector Commentary

- Non-Agency U.S. CMBS issuance is robust at over \$48 billion year to date, on pace to meet or exceed last year’s volume. Floating-rate SASB transactions lead issuance at \$19 billion, followed closely by CRE CLO transactions at \$15 billion.
- Record fixed annuity sales of \$317 billion in 2025 and persistent investment-grade inflows should sustain strong demand for higher quality CMBS, given attractive all-in yields relative to liquid credit alternatives.
- Legacy credit remains a drag on investor sentiment: only 49 percent of conduit loans scheduled to mature thus far this year have paid off, down from 72 percent in 2025.
- The backlog of specially serviced loans has grown further as resolution timelines have extended.

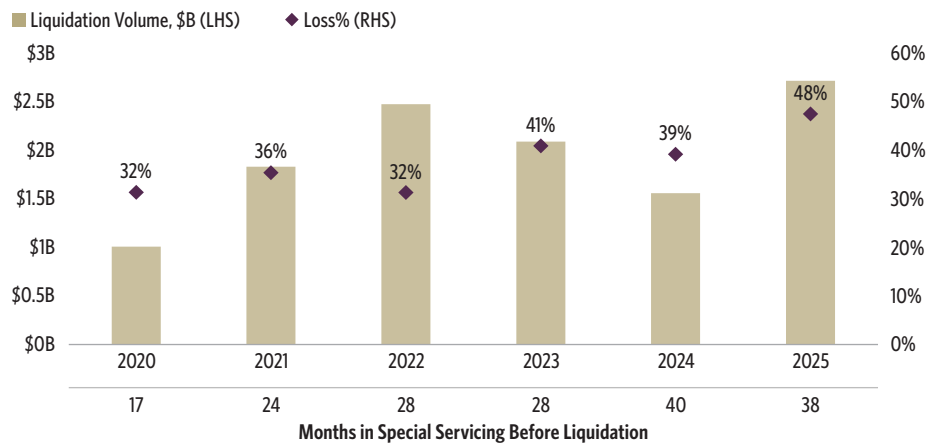
Investment Themes

- Credit dispersion is evident in the CMBS market, where losses on investment-grade bonds (including those originally rated AAA) have been realized in recent years. Careful security selection and active portfolio management are critical.
- Credit issues persist in corners of the CRE market, including various office submarkets and poorly positioned lodging properties. Lower quality CMBS—including many conduit mezzanine bonds and other higher beta names—remain at risk of meaningful underperformance.
- Traditional credit structuring and underwriting remain our focus across markets and property types. We prefer credit-enhanced CMBS securities collateralized by high quality and/or diverse collateral and supported by capable sponsors, especially in the CRE CLO and SASB markets. We also favor multifamily CMBS credit.

By Tom Nash, Hongli Yang, and Zach Johnson

Workouts are taking longer, with the average number of months spent in special servicing prior to liquidation increasing to 38 months in 2025 from the 2020 low of just 17 months. Longer resolution timelines generally correlate with deeper losses as carrying costs accrue and collateral values tend to deteriorate during extended workout periods.

Loan Workouts Are Taking Longer and Exhibiting Higher Loss Severities



Source: Guggenheim Investments, Deutsche Bank Research, Data as of 12.31.2025.

Defensive Income Opportunity in Non-Agency RMBS

Current market dynamics strengthen the case for senior positioning.

Geopolitical tensions in the Middle East and the ripple effects on oil prices have reignited inflation concerns, causing an increase in Treasury yields and primary mortgage rates. Rising rates should further limit housing demand, providing a headwind for home price growth. However, tight lending standards, substantial home equity cushions, and labor market strength underpin stable mortgage credit performance. Favorable credit fundamentals, reduced interest-rate sensitivity, and appealing valuations reinforce our preference for senior non-Agency RMBS securities, which remain attractive for investors prioritizing income.

Sector Commentary

- New-issue volume in the first quarter reached \$60 billion, up 20 percent year over year. Credit spreads narrowed to start the year after the announcement to raise government-sponsored enterprise (GSE) investment caps but have since widened as the initial momentum of the announcement waned and geopolitical tensions drove market uncertainty. Non-qualified mortgage (QM) AAA spreads, which ended 2025 at 130 basis points, tightened to a low of 105 basis points before widening to 140 basis points by quarter end.
- Elevated oil prices raised concerns that inflation would accelerate, pushing interest rates higher. As a result, the average 30-year fixed mortgage rate increased to 6.38 percent after dipping below 6 percent for the first time since September 2022.
- Rising rates compound affordability concerns, keeping home sales at historically low levels. Home prices, which have declined every month since June 2025, are expected to remain under pressure.

Investment Themes

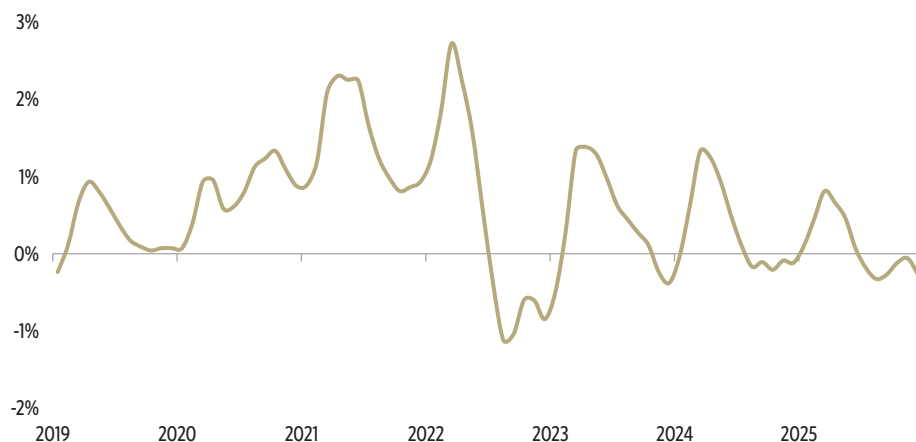
- Current market conditions underscore our conviction to remain positioned in the senior part of the capital structure within RMBS credit. Senior tranches offer enhanced credit protection and structural subordination along with short two- to four-year average maturities, providing a defensive credit and market risk profile.
- Investment-grade tranches (rated AAA–A) from non-QM transactions and senior securities from closed-end second (CES) lien and home equity line of credit (HELOC) transactions offered yields of 5.25–5.70 percent with expected average maturities of three to four years. This combination provides both income and maturity advantages relative to A-rated corporate bond indexes. In addition, non-Agency mortgages generally carry lower prepayment risk than traditional Agency MBS and contain structural features that help limit both credit and extension risk.

By Karthik Narayanan and Roy Park

Rising rates compound affordability concerns, keeping home sales at historically low levels. Home prices, which have declined every month since June 2025, are expected to remain under pressure.

Home Prices Have Declined Every Month since June 2025

S&P Cotality Case-Shiller US National Home Price Index MoM%



Source: Guggenheim Investments, CoreLogic, Bloomberg. Data as of 12.31.2025.

Defensive Positioning and Attractive Carry

Elevated primary rates dampen refinancing activity.

Agency MBS delivered marginal total and excess first quarter returns of 0.43 percent and 0.16 percent, respectively. On a relative basis, mortgages have bested investment-grade corporate excess returns year to date by 0.65 percent. Initial gains were driven by the announcement of a \$200 billion GSE purchase program but have since faded as geopolitical risk spiked and Fed rate cuts were priced out. Spreads have reset to fourth quarter 2025 levels, offering attractive income potential.

Sector Commentary

- Following the early January announcement of a \$200 billion GSE purchase program, spreads reached their tightest levels since 2022. The size—on par with annual Fed portfolio runoff—suggests a roundabout way for the administration to influence monetary policy.
- Spreads have widened since then, driven by macroeconomic factors such as interest rate volatility and Fed policy rather than technical flows. Money managers remain heavily overweight Agency MBS. In a true risk-off scenario, we would expect the sector to be a source of liquidity and likely maintain favorable performance relative to credit-sensitive alternatives.
- Higher rates and wider spreads now place the 30-year par coupon MBS at 5.5 percent. Investors concerned about downside macroeconomic tail risks can earn healthy income with support from GSE portfolios, regulatory tailwinds, and limited supply as elevated primary rates dampen refinancing activity.

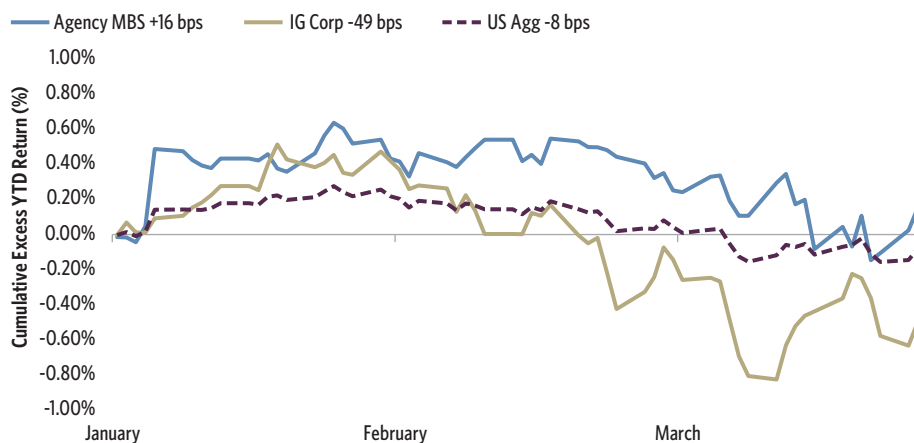
Investment Themes

- Federal banking regulators have issued updated Basel III proposals with a 90-day comment window and potential 2027 implementation. At a high level, the framework frees up bank capital, removes regulatory uncertainty, and potentially decreases Agency MBS supply as risk weightings were lowered for most retained loans—all of which should provide tailwinds to the sector.
- Fed policy remains a primary driver of market sentiment, with the pricing out of rate cuts dampening positioning for long-term carry trades. However, this has been somewhat offset by higher all-in yields as the long end of the curve moves higher.
- Refinance risk was briefly a hot topic as primary mortgage rates breached 6 percent. Since then, higher interest rates and wider spreads have pushed primary rates back into the mid-6 percent range, putting call risk on the back burner. Our favored positioning remains in 30-year 5–5.5 percent coupons.

By Louis Pacilio

Agency MBS delivered marginal total and excess first quarter returns of 0.43 percent and 0.16 percent, respectively. On a relative basis, mortgages have bested investment-grade corporate excess returns year to date by 0.65 percent.

Agency MBS Excess Returns Outperformed Investment Grade in 1Q



Source: Guggenheim Investments, Bloomberg. Data as of 3.30.2026.

MUNICIPAL BONDS

Credit Trends Are Deteriorating, Making Selection Critical

Expect weak reinvestment demand from principal and interest payments until June.

Municipal bond performance will likely be driven by the coupon, with limited price appreciation at current valuation levels. The AAA tax-exempt curve steepened by 30 basis points during the quarter, but ultra short paper underperformed due to tight starting valuations and changes to central bank rate cut expectations. Headwinds should exceed tailwinds in municipal credit.

Sector Commentary

- Tax exempt/Treasury yield ratios withstood geopolitics-driven rate volatility to end the first quarter essentially where they began 2026. Ratios in the 5-year and 10-year spots are around 66 percent and 71 percent, respectively, vs. a three-year range of 55–88 percent, and have generally kept up with the long end of the curve, where the 30-year ratio sits at around 91 percent compared to a three-year range of 79–101 percent.
- Taxable municipal spreads were flat during the first quarter, but tightened versus investment-grade corporates. Supply remains low year to date, down 9 percent year over year to \$6 billion. Besides one-off deals, most municipalities are unlikely to issue taxable debt given current relative valuations between exempts and taxables. Thus taxable muni spreads are likely to follow investment-grade spreads for most of the year.

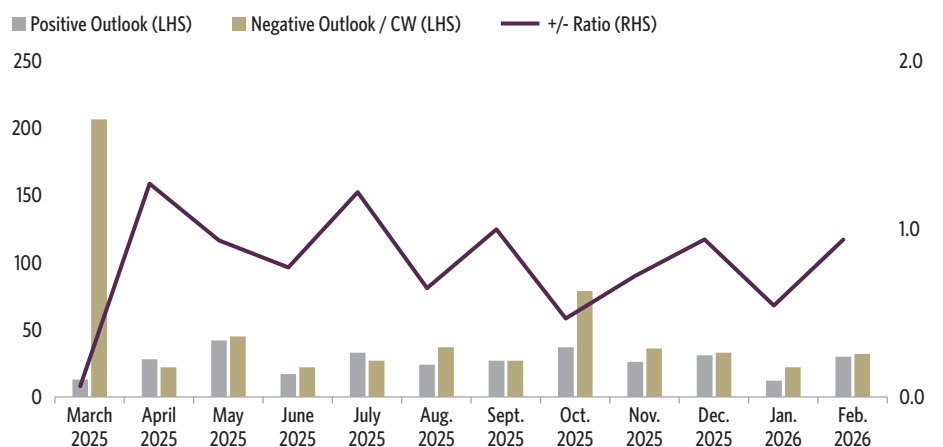
Investment Themes

- Issuers have proactively shifted deal structures to inside 10 years, where most separately managed accounts operate and have shown very strong demand for tax-exempt bonds. We believe better values can be had for investors willing to move further out the curve.
- At Standard & Poor's, negative outlook revisions have exceeded positive revisions for most of the last 12 months, implying more downgrades than upgrades for the next six–18 months in municipal credit. We expect negative credit trajectories to continue.
- Despite growing budgetary pressures from slowing revenue growth and cuts to federal transfers, an increasing number of states are considering phasing out property taxes, which are steadier than other tax streams and provide a backbone for local government finance. Reducing property taxes without lining up a viable alternative ultimately leads to service reductions and negatively impacts municipal credit quality.

By Allen Li and Michael Park

Standard & Poor's negative outlook revisions have mostly outpaced positives, signaling more ratings downgrades than upgrades over the next six-18 months.

Headwinds Exceed Tailwinds in Municipal Credit



Source: Guggenheim Investments, Standard and Poor's. Data as of 2.28.2026.

REAL ASSETS

Secular Trends and AI Continue to Drive Real Asset Growth

Real assets continue to benefit from durable deal flow needed to mitigate infrastructure funding gap.

Real assets remain well positioned through mid-2026, supported by secular drivers including electrification, AI infrastructure demand, and global supply chain realignment, and capital remains available for high quality, contracted assets. Ongoing geopolitical conflict and energy security concerns are reinforcing investment into domestic energy, grid resilience, and strategic infrastructure. Commercial real estate fundamentals are stabilizing unevenly, with continued strength in industrial, logistics, and specialty sectors offsetting persistent weakness in office.

Sector Commentary

- Infrastructure activity remains resilient, with capital increasingly focused on contracted, inflation-linked, cash-flowing assets amid persistent macro and geopolitical uncertainty.
- Energy security has become a primary investment driver, with geopolitical conflict accelerating investment in domestic energy infrastructure, liquid natural gas (LNG) export capacity, and grid reliability assets.
- Power demand is exceeding prior expectations, driven by AI, data centers, and electrification trends, creating urgency around generation, transmission, and storage investment.
- Refinancing activity continues to dominate, with a significant volume of infrastructure and real estate debt maturing through 2027–2028, creating opportunities for private credit providers.
- Interest rates may remain higher for longer relative to prior expectations, but spreads and structuring flexibility are supporting attractive entry points for private capital.

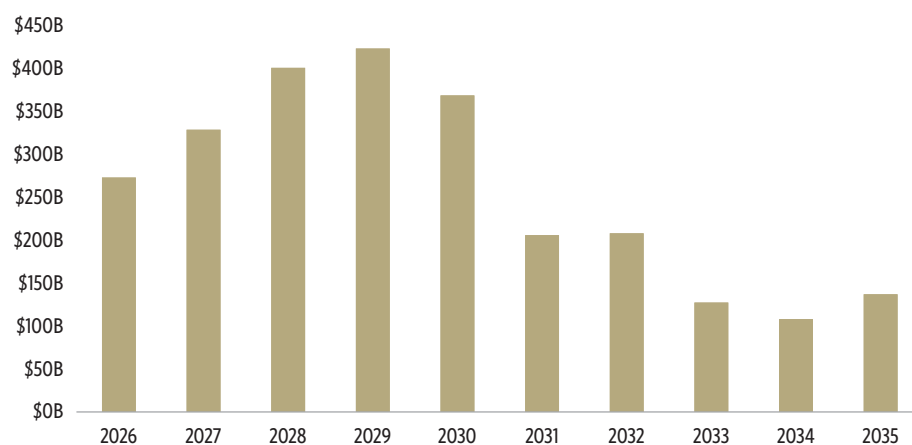
Investment Themes

- AI and electrification are accelerating infrastructure demand, particularly across data centers, power generation, battery storage, and transmission networks, requiring both grid-connected and behind-the-meter solutions.
- Geopolitical conflict is reinforcing energy and resource real assets, including LNG, pipelines, domestic manufacturing inputs, and strategic land tied to energy and agriculture.
- Reshoring and supply chain security continue to drive investment in U.S. industrial real estate, logistics hubs, ports, and transportation infrastructure.
- Energy transition investment is evolving, with increased focus on reliability and dispatchable power alongside renewables, favoring hybrid energy systems and grid stabilization assets.
- Specialty real estate remains a key outperformer, including data centers, cold storage, healthcare infrastructure, and digital/telecom assets tied to long-term structural demand.

By John Tanyeri

Refinancing activity continues to dominate, with a significant volume of infrastructure and real estate debt maturing through 2027–2028, creating opportunities for private credit providers.

Global Infrastructure and Real Debt Maturities Are Expected to Peak in 2029



Source: Guggenheim Investments, InfraLogic. Data as of 12.31.2025. Historical view 1.2021-12.2025.

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Duration is a measure of sensitivity of a price of a bond to a change in interest rates. In general, the higher the duration, the more the bond's price will change with interest rate movements.

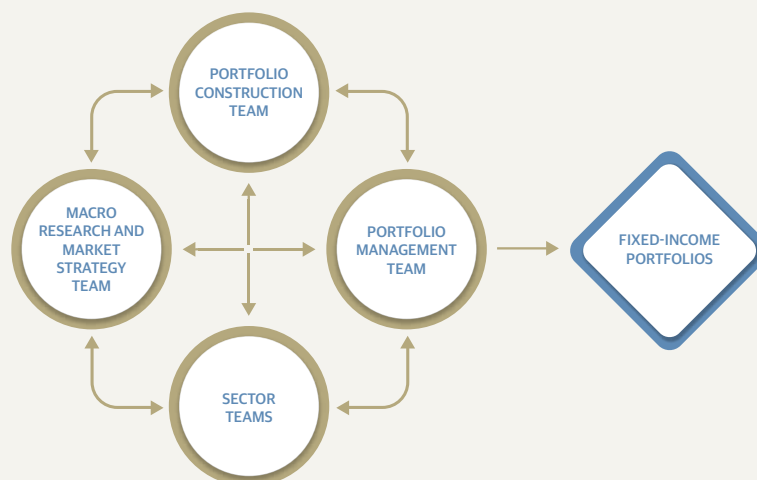
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