
First Quarter 2026

Research Spotlight on What's Next

Quarterly Macro Themes

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About Quarterly Macro Themes

Quarterly Macro Themes, a quarterly publication from our Macroeconomic Research and Market Strategy Group, spotlights critical and timely areas of research and updates our baseline views on the economy. Themes are selected from the broad range of issues we are currently analyzing, and demonstrate the type of market and economic topics we address in developing our outlook on the U.S. and global business cycle, market forecasts, and policy views. Our Macroeconomic Research and Market Strategy Group's research is a key input in Guggenheim's investment process, which typically results in asset allocations that differ from broadly followed benchmarks.

Steady Baseline but Widening Tails for the U.S. Economy in 2026

The baseline outlook for U.S. economic growth remains steady. We expect solid growth above 2 percent in 2026, backed by tailwinds from artificial intelligence-related (AI) investment, fiscal support, and still supportive financial conditions. The labor market appears to have stabilized, though the hiring rate remains low, leaving it vulnerable to a shock. Core inflation is expected to resume its gradual descent over the course of 2026, with the run rate of core personal consumption expenditures (PCE) inflation cooling closer to the 2 percent target in the second half of the year, positioning the Federal Reserve (Fed) to implement two rate cuts this year.

Risks to this supportive outlook have risen in recent weeks. The war in Iran and spike in energy prices pose upside risks to inflation and downside risks to growth that will grow the longer the conflict drags on. At the same time, rapid advancement of AI tools is creating volatility in some sectors of financial markets and could add to labor market fragility over time.

From an investment perspective, fixed income remains attractive given still-elevated yields and gradual Fed easing. Although yields have risen in response to the potential impact of an oil supply shock on headline inflation, longer-tenor yields are likely to remain rangebound in our baseline scenario and have room to come down in a risk-off scenario, providing diversification to equity risk in investor portfolios. In credit, we see corporate fundamentals remaining strong, but expect modest spread widening on rising supply. With geopolitical noise and disruption from AI increasingly in focus, security selection will be vital.

Macro Themes

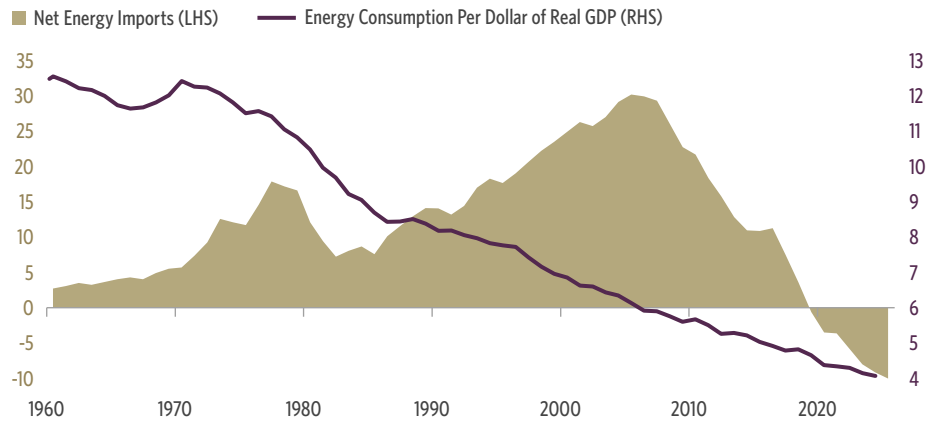
Theme 1

With the Mideast Conflict Raging, Geopolitical Risks Remain Front and Center

As we highlighted in our 2026 Macro Themes, while the domestic policy environment is generally supportive of growth, rising geopolitical tensions pose risks. The most recent catalyst has been the military conflict in Iran. After rising around 20 percent this year leading up to the conflict in Iran, crude oil prices soared when the Strait of Hormuz effectively closed. Global risk assets slumped, with equities declining and credit spreads widening modestly, while interest rates rose on the prospects for higher inflation and reduced probabilities of rate cuts.

The United States has become more resilient to energy shocks than in the past: The country has been a net energy exporter since 2019, and the energy intensity of GDP has more than halved since the oil shocks of the 1970s.

The U.S. Economy is Less Vulnerable to Energy Shocks Than in the Past



Source: Guggenheim Investments, U.S. Energy Information Administration. Data as of 11.30.2025 for imports, 12.31.2024 for consumption. Imports in quadrillion Btu, consumption is thousand Btu per dollar.

However, in the absence of prolonged conflicts or fundamental shifts in the economic outlook, such moves are often short-lived and do not have a lasting impact on financial conditions. This is particularly true in the United States, which has become more resilient to energy shocks than in the past: The country has been a net energy exporter since 2019, and the energy intensity of GDP has more than halved since the oil shocks of the 1970s.

Our base case assumes disruptions fade in coming months – with transits in the Strait of Hormuz recovering and oil prices averaging around \$80 for 2026. Under this scenario, U.S. growth would take a modest hit, headline inflation could rise materially from the imprint of energy price increases, but core inflation would likely see modest enough passthrough for the Fed to proceed with rate cuts. However, every day the conflict continues raises risks of more severe scenarios. A longer conflict shifts the focus from transport of oil to production, as output is shut in with storage facilities full and more energy infrastructure is at risk from attacks. The prospects for a more prolonged conflict and energy market disruptions would raise risks of oil prices well over \$100 for several months. While this would lead to an even larger jump in headline inflation, the more lasting impact would likely be a slowdown in U.S. and global growth, with recession risk rising.

Theme 2

AI Investment Boom Will Continue in 2026, So Will Disruption

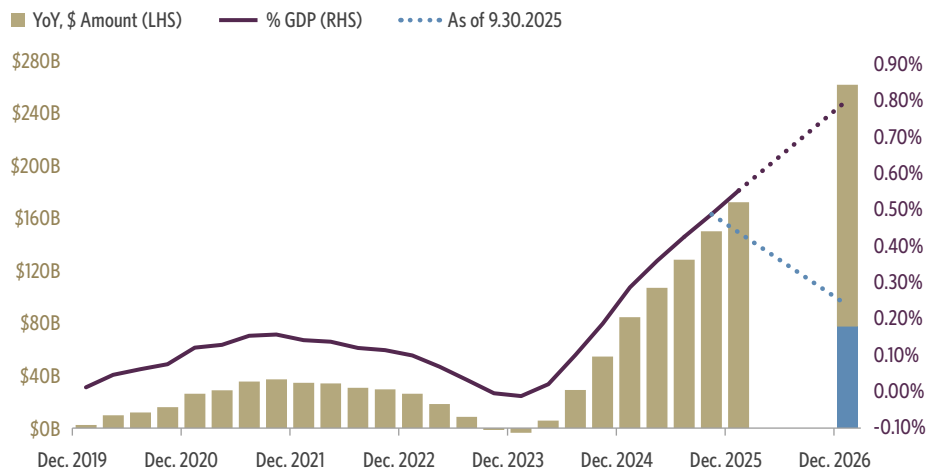
AI-related capital expenditures (capex) provided a substantial boost to the U.S. economy in 2025, helping growth hold up in the face of policy-related uncertainty. Last year investment by the largest hyperscalers alone totaled over \$400 billion. We estimate that AI-related investment boosted economic growth by as much as a percentage point last year.

Just a few months ago, this contribution looked set to shrink in 2026 as the growth rate of AI spending cooled. However, hyperscaler capital expenditure estimates have surged in recent months—now topping \$670 billion in 2026. As a result, we could see a growth boost of a similar or even larger magnitude, depending on how much of the higher spending is due to higher prices versus real spending.

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Upgraded Estimates for AI Spending Push Up 2026 Growth Impulse

Hyperscaler Capex YoY Change, with 2026 Consensus Forecast



Source: Guggenheim Investments, Bloomberg. Data as of 3.24.2026.

AI-related productivity gains should also provide a modest impulse to growth in 2026. With exponential improvements in AI capabilities over the past year and gradually rising adoption, productivity gains should become more evident, helping support supply side growth in an environment of weak labor force expansion. Still, we expect the full transformative effects may take several years to materialize, with a wide gulf between management expectations and employee experiences with AI, as we explore in more detail in our recent AI report, "[AI's Promise and History's Lessons.](#)"

Within that positive outlook, we expect continued disruption as AI adoption accelerates. Concern is growing over AI's impact on the labor market, but there is little to no evidence thus far of widespread layoffs due to AI automation. Nonetheless, the rollout of AI tools has likely contributed to the subdued hiring rate, and concern about AI labor displacement may be dampening workers' bargaining power, restraining wage growth and overall labor income.

Financial markets will also be impacted as the transition to an AI-enabled economy unfolds. Concerns about over-investment and stretched valuations have triggered bouts of volatility, and tech credit spreads widened as companies ramp up issuance to fund surging capex needs. AI-exposed sectors and companies, especially in software as a service (SaaS), are facing disruption as the technology commoditizes expertise and barriers to entry fall. In many cases, it's easier to price in potential losers from AI tools than the long-term beneficiaries as use cases continue to emerge. The volatility has generated market churn across industries, without a broad-based downturn in asset prices. A broader market downturn would impact our growth outlook.

Outlook Update

The Economy Will Move into Equilibrium as Solid Demand Is Met With Solid Supply

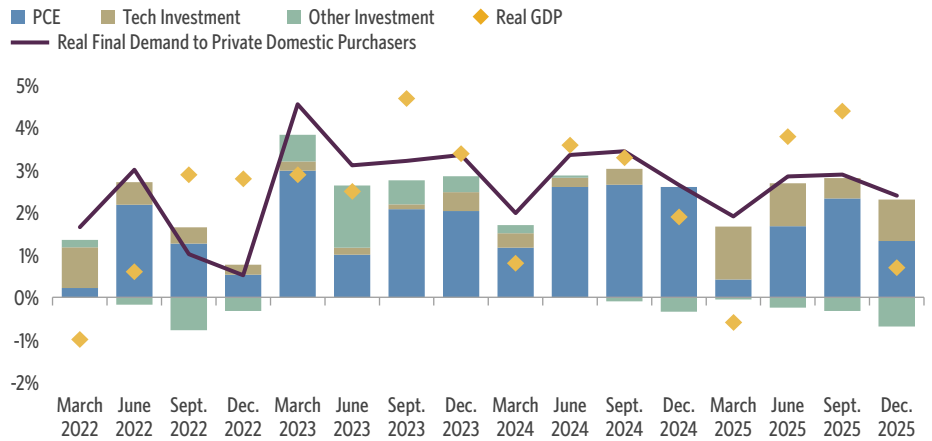
Despite heightened uncertainty and volatility in recent quarterly GDP numbers, underlying growth remains steady at a solid pace, as evidenced by real final sales to private domestic purchasers (the sum of consumption and fixed investment). Our U.S. growth forecast for this year is approximately 2.3 percent. The economy is benefitting from solid demand-side factors including robust AI-driven investment, rebounding government activity following the fourth quarter shutdown, and fiscal stimulus from the One Big Beautiful Bill Act (OBBBA) in the early part of the year. We expect growth to moderate in 2027 to around 2.0 percent as fiscal tailwinds become headwinds.

We see growth moving toward equilibrium in 2026 as supply side factors accommodate solid demand growth. Labor force gains will likely stay low, particularly if net immigration remains negative. Reduced population growth from a shift in immigration policy will continue to weigh on the potential growth rate of the economy and is a significant factor behind the sharp slowdown in job growth over the past two years.

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Economic Growth Looks Steady Under the Surface

Contributions to Real GDP QoQ Annualized



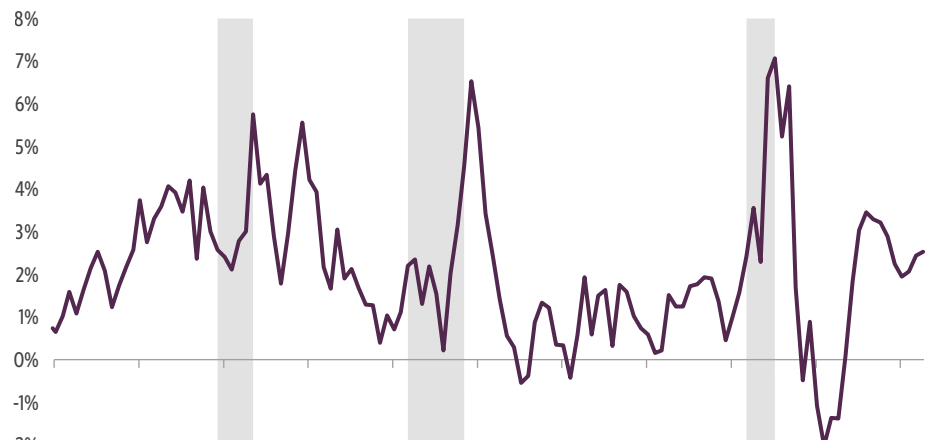
Source: Guggenheim Investments, Haver Analytics. Data as of 12.31.2025. *Tech investment includes info processing equipment, software, and R&D.

We expect productivity growth to provide an important offset. Recent updates show labor productivity rose 2.5 percent in 2025. We expect this to continue, helped by accelerating AI efficiency gains, even as pandemic-era efficiencies level off. This is a notable uplift from the 1.3 percent average from 2012–2019 and should help moderate the potential for economic constraints that could lift inflationary pressures.

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Productivity Growth Has Been Firm

Nonfarm Business Sector Labor Productivity, YoY Percent Change



Source: Guggenheim Investments, Haver Analytics. Data as of 12.31.2025.

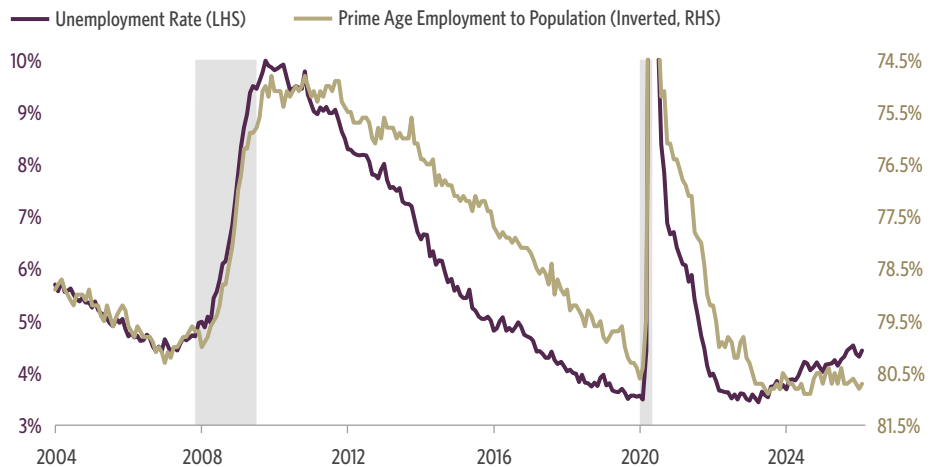
The Labor Market Has Steadied, But Is Not Out of the Woods

Labor market risks picked up in the second half of 2025—driven by weak private payroll gains and unemployment rising to a high of 4.5 percent—though we’ve seen recent signs of stabilization. Volatile nonfarm payroll readings reflect methodology and weather issues, in our view, more than underlying fundamentals. Smoothing through the noise, recent job growth looks low but positive. In an environment of weak labor force growth, the unemployment rate is a stronger signal of cyclical conditions and it has stabilized in recent months as layoffs remain low.

Nevertheless, the margin for error is thin. Hiring activity is so subdued, a small pickup in layoffs could quickly boost the unemployment rate. Consumer surveys also continue to show downbeat expectations for the labor market, which could cause more cautious consumer behavior. Fears of AI-induced job loss could exacerbate those fears and the response of consumer spending

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Measures of Labor Slack Showing Stabilization



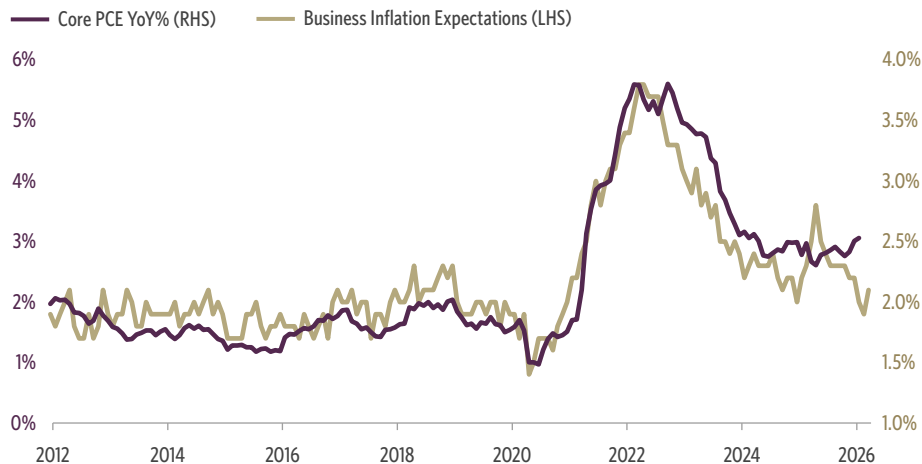
Source: Guggenheim Investments, Haver Analytics. Data as of 2.28.2026.

Cooling Inflation Should Pave the Way for Rate Cuts

We continue to expect gradual disinflation, supported by fading tariff passthrough and slower shelter price inflation. We see the effect of tariffs on goods inflation fading by mid-year, a view that doesn’t change much after the Supreme Court ruling on International Emergency Economic Powers Act (IEEPA) tariffs. While tariffs implemented under temporary authority result in somewhat lower effective tariff rates, tariff rates should ultimately be little changed once permanent authorities are enacted. Housing services inflation will jump in April from a shutdown-related

We expect Q4 to Q4 core PCE inflation to reach 2.7 percent in 2026, with the annual rate held up by some firmness to start the year.

Lingering Price Pressures Should Fade This Year



Source: Guggenheim Investments, Haver Analytics. Data as of 1.31.2026 for core PCE with Jan 2026 estimate based on CPI and PPI, 3.18.2026 for expectations.

calculation change, but new rent figures still support disinflation later in the year.

We expect Q4 to Q4 core PCE inflation to reach 2.7 percent in 2026, with the annual rate held up by some firmness to start the year. Core services inflation has remained sticky, but ultimately a cooler labor market should support ongoing disinflation. We see monthly inflation rates closer to 2 percent by the end of the year, assuming no prolonged passthrough impacts from energy prices.

The Fed will likely keep its policy rate steady for the next couple of meetings on seasonally firm first quarter inflation data and as they await greater clarity on the impact of the war in Iran. But in the second half of 2026 we think a clearer picture of disinflation will emerge, prompting two rate cuts by the end of the year. We expect the Fed to stay at neutral into 2027 and beyond, though the balance of risks over that timeframe points to lower policy rates should the economy weaken.

With energy prices jumping, there has been a sharp repricing in the path of Fed policy, with markets now indicating some chance of rate hikes in coming meetings. We view these moves as overdone. While fears of a repeat of the 2022 hiking cycle are top of mind, the macro backdrop now differs in important ways. The labor market is much softer now, and fiscal policy significantly less accommodative, decreasing the likelihood of a supply shock leading to a sustained inflation problem that would require rate hikes.

The Fed Chair transition will bring new perspective on the outlook for policy in the second half of 2026. Although the environment has shifted since Kevin Warsh was nominated, he is still likely to favor rate cuts on the expectation that any energy

price shock will be temporary and higher productivity will support a disinflationary environment over time. Warsh also favors a smaller Fed balance sheet and is likely to advocate for easing bank capital and liquidity requirements, which could moderate demand for reserves over time. In the meantime, we expect the balance sheet to continue growing to offset natural growth in demand for Fed liabilities, like currency in circulation and the Treasury General Account. The pace of growth should slow after the April tax season, with Fed Reserve management purchases declining from their current pace of \$40 billion per month, to a range of \$15 billion to \$25 billion per month.

Investment implications

Sector and Bond Selection Is Essential as Technical Tailwinds Ease This year

The outlook for actively managed fixed income and high quality credit remains attractive. Elevated carry, disinflation, and easing Fed policy should remain tailwinds to returns. We expect 10-year Treasuries to remain within their 3.75–4.75 percent trading range of the last few years.

The fundamental backdrop for credit remains relatively strong, supported by economic resilience. Credit spreads could widen modestly along with higher supply from AI-related issuance and geopolitical volatility, although we anticipate solid credit fundamentals to contain the pressure in high quality sectors.

AI-related disruption and geopolitical concerns will continue to factor in investors' outlooks. An environment of disruption from both geopolitics and technology will continue to create strong sector rotations and makes active credit selection and duration management critical. We expect the steady drumbeat of change will continue for the foreseeable future, creating opportunity for active managers.

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Investing involves risk, including the possible loss of principal. Stock markets can be volatile. Investments in securities of small and medium capitalization companies may involve greater risk of loss and more abrupt fluctuations in market price than investments in larger companies. In general, the value of a fixed-income security falls when interest rates rise and rises when interest rates fall. Longer term bonds are more sensitive to interest rate changes and subject to greater volatility than those with shorter maturities. During periods of declining rates, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as comparable fixed rate securities. 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. There is no guarantee that an active manager's views will produce the desired results or expected returns, which may lead to underperformance. Actively managed investments generally charge higher fees than passive strategies, which could affect performance. In addition, active and frequent trading that can accompany active management, also called "high turnover," may lead to higher brokerage costs and have a negative impact on performance. Further, active and frequent trading may lead to adverse tax consequences.

One **basis point** is equal to 0.01 percent. The **P/S ratio** (price to sales ratio) is a financial metric that compares a company's market value to its total annual sales, indicating how much investors are willing to pay for each dollar of a company's revenue. A lower ratio can suggest a stock is undervalued, while a higher ratio may signal overvaluation. The **EV/sales ratio**, or enterprise value to sales ratio, is a financial metric that compares a company's total value to its total revenue or sales. The ratio indicates how much investors are willing to pay for each dollar of the company's sales, with lower ratios generally suggesting an undervalued company and higher ratios indicating an overvalued one. The **P/B ratio**, or Price-to-Book ratio, is a financial metric that compares a company's market price per share to its book value per share, indicating whether a stock is overvalued or undervalued relative to its assets. A low P/B ratio may suggest undervaluation, while a high P/B ratio can indicate overvaluation. The **EV/EBITDA ratio** (Enterprise Value to Earnings Before Interest, Taxes, Depreciation, and Amortization) is a financial valuation metric that compares a company's total value to its operating earnings to assess if it is overvalued or undervalued. A lower ratio generally suggests a better value, while a higher ratio might indicate the company is expensive relative to its earnings. The **Shiller CAPE** (Cyclically Adjusted Price-to-Earnings (CAPE) Ratio) is a stock market valuation tool developed by economist Robert Shiller. It divides the current stock price by the average of the last 10 years of inflation-adjusted earnings to smooth out economic cycle fluctuations. A high CAPE ratio suggests an overvalued market, while a low ratio indicates undervaluation and potentially better future returns. The **price-to-earnings (P/E) ratio** is the proportion of a company's share price to its earnings per share (EPS). A lower P/E might signal undervaluation, while a higher P/E can suggest strong growth expectations or potential overvaluation. The **forward price-to-earnings (forward P/E) ratio** is a valuation metric that divides a company's current stock price by its estimated future earnings per share (EPS) for the next 12 months. It's a forward-looking indicator that helps investors assess a stock's value based on projected earnings rather than historical data. A lower forward P/E can suggest a stock is undervalued, while a higher ratio may indicate high growth potential but could also signal overvaluation.

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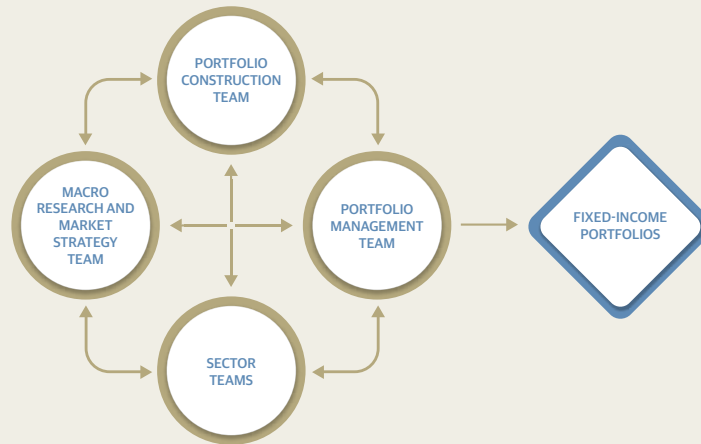
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For more information, visit [GuggenheimInvestments.com](https://www.guggenheiminvestments.com).

¹ Total Assets are as of 12.31.2025 and includes \$248.4bn in Assets Under Management (AUM), plus \$111.3 bn Assets Under Supervision (AUS) for a total of more than \$359 bn. AUM includes leverage of \$14.2bn. AUS includes assets for which GI provides non-advisory services and may include review, analysis, research, reporting, sourcing and evaluation of assets, and business operations consulting. Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Private Investments, LLC, Guggenheim Investments Loan Advisors, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, and GS GAMMA Advisors, LLC. Numbers may not total due to rounding.

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