GUGGENHEIM

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Macro Alert
Recession Signals Flashing Red

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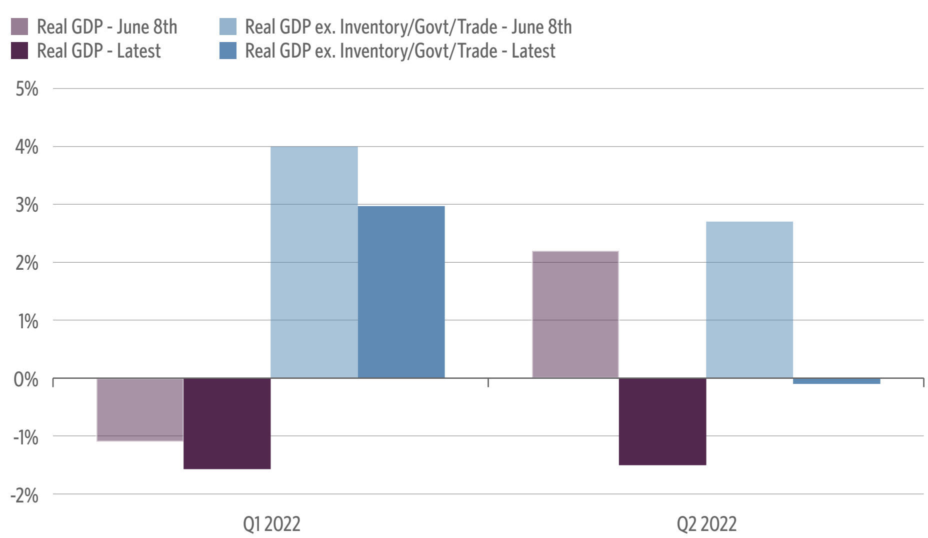
The outlook for gross domestic product (GDP) growth has weakened considerably over the past few weeks. The negative first quarter real GDP figure initially looked to be largely reflective of temporary drags from trade and inventories, but the recent revision showed a less robust gain in GDP excluding these categories (from 4 percent to 3 percent). Additionally, recent data releases, most notably this morning's personal consumption numbers, mean that second quarter real GDP is now tracking negative. Domestic demand has slowed considerably, as tracking for real GDP excluding inventories, government, and trade has fallen from 2.7 percent a few weeks ago to -0.1 percent in the latest estimate. These developments raise the risk of two straight quarters of negative real GDP growth, which is conventionally regarded as the definition of recession.

Economic Growth Picture Has Deteriorated in Just a Few Weeks
Real GDP Tracking, QoQ% Annualized Changes

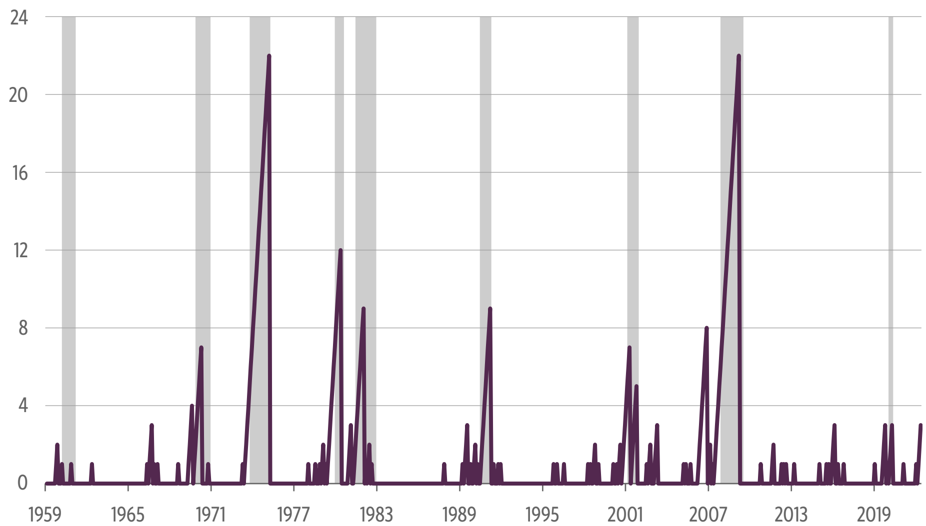


Source: Guggenheim Investments, Haver Analytics, IHS Markit. Tracking estimates as of 6.30.2022

The GDP figures are not the only area of concern. The more forward-looking Leading Economic Index (LEI) has declined for the last three months through May, and there is a high likelihood that June will also be negative based on the drop in stock prices, a flatter yield curve, rising jobless claims, and falling consumer expectations. Historically, four consecutive monthly declines in the LEI have always foretold a recession.

Four Negative Months of Leading Indicators Has Reliably Signalled Recession

Consecutive Negative MoM% Readings for the Leading Economic Index



Source: Guggenheim Investments, Bloomberg. Data as of 5.31.2022.

While the National Bureau of Economic Research—the official arbiter of recession dating—probably won't make it official yet, and other economic drivers such as employment are still expanding, the negative signals from the GDP and LEI data show economic momentum is fading quickly even as the Fed continues its plan to aggressively hike rates. This dynamic of tightening into an economic slowdown explains the ongoing decline in long term interest rates, a decline that will continue as it becomes clearer that a recession is not far away, if it has not already begun.