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Macro Markets Podcast Episode 83: Geopolitical Risk Rears Its Head

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Jay Diamond: Hi everybody, and welcome to Macro Markets with Guggenheim Investments, where we invite leaders from our investment team to offer their analysis of the investment landscape and the economic outlook. I'm Jay Diamond, head of thought leadership for Guggenheim Investments, and I'll be hosting today. We are recording this episode on March 26, 2026. Now, before we begin, I have a bit of news to share.

Earlier this month, Guggenheim Investments was named one of the top five taxable bond fund families for 2025 by Barron's in its annual Best Fund Families rankings. This recognition, which we're very proud of, is the fourth time in six years that we have earned a top five recognition, including three number one rankings. Guggenheim was ranked fifth this year out of 46 taxable bond fund families, based on relative return for the one-year period ending December 31, 2025.

So congratulations to us. Now let's get started. The war in Iran has threatened to upend the generally strong U.S. economy. Surging prices of oil and other raw materials are stoking inflation fears and uncertainty for investors and the fed. Bond yields have climbed amid the volatility and an unclear off ramp from the conflict clouds the outlook, complicating the investing landscape.

So here to help us cut through the noise and share how our portfolios are positioning in this uncertain climate, are two of the leaders of our investment team. Matt Bush our U.S. economist and Evan Serdensky, a senior portfolio manager on our total return team. Welcome back, Matt and Evan, and thanks for taking the time to chat with us today.

Matt Bush: Thanks for having us on.

Evan Serdensky: Thanks, Jay.

Jay Diamond: All right. Let's start with the war in Iran. And Evan, let's start with you. How has the Iran conflict affected the markets?

Evan Serdensky: It's affected them quite a bit, but also not very much at the same time. The market is wrestling with some really big questions that don't have easy answers. Geopolitical

shocks are competing with both cyclical and speculative narratives that have been in play for a while now that I'm sure we're going to discuss today. I'd say the one consistent trade that we're seeing right now is degrossing and deleveraging happening across the board.

Investors are reducing risk, pulling back on leverage, preserving cash, all of that kind of makes sense in this environment. On a day-to-day basis, energy markets are really front and center. Oil futures are guiding basically all risk markets and even rates at this point. It's the first thing that I'm looking at in the morning to decide how we're opening.

There's a lot of knock-on effects from oil that impact inflation expectations, consumer spending, corporate margins. But in the grand scheme of things, daily volatility has been elevated but still relatively contained to ranges that we've seen over the last few months and years. For example, on a year-to-date basis, the ten-year yield is only 20-odd basis points higher from where we started. The S&P 500 index is only about 5 percent off of the starting level for the year. The dollar is up, a percent or so. And then credit spreads are a little bit wider. Not not a ton. The investment grade market, for example, is about ten basis points wider. High yield is maybe half a percent to a percent lower.

But where you have seen real moves obviously in an oil. And then also the VIX, which measures implied stock volatility. That started the year at around 15. It's now in the high 20s. So that's a sign that the market is nervous but not really panicking here. We've been dealing with these types of energy shocks basically since COVID. So the market has some muscle memory that I think is kicking in.

Jay Diamond: Thank you for that. Now, Matt, we just completed our Quarterly Macro Themes, which provides a view into some of the factors that drive our outlook. And the first theme has to do with geopolitical tensions, mostly related to the war in Iran and other parts of the world. So how are you thinking about these geopolitical tensions as part of our outlook?

Matt Bush: If you go back to our top macro themes for 2026 that we published earlier this year, one of our top themes was that geopolitical risk would remain elevated. And clearly that's come to the forefront in recent weeks. Now, from an economic perspective, the key transmission of the war in Iran to the economy is energy prices. So a sustained period of high oil prices is clearly a big risk for the U.S. economy.

But I think it's important to put some context around that risk. As we point out in our report, the U.S. economy is more resilient to oil shocks than in the past and relative to other major economies. So, for example, energy intensity of GDP, how much oil we use per dollar of GDP produced is a third of what it was in the 1970s. Consumer spending on energy relative to total spending is near an all-time low. And for several years now, the U.S. has shifted from being in that energy importer to an exporter. So, all those are relatively positive features that do help provide some buffer against higher energy prices.

We can't predict the direction of the war. But in our report we consider two broad scenarios. The baseline scenario is that we see a gradual moderation in oil prices as flows through the Strait of Hormuz are incrementally restored in coming weeks. Oil would stay elevated relative to where we started the year but would come down from current levels in this scenario. We'd expect to see a jump in headline inflation due to energy costs, but the pass through to core inflation would be fairly modest.

And because of those structural shifts in the economy's exposure to oil, we'd see a small hit to real GDP growth this year. But overall economic growth would continue on a pretty solid path. But there's also the risk scenario. And that's that conflict drags on for longer. Every day that the war continues, the focus shifts from transportation of oil through the strait being temporarily disrupted to production of oil being hit for a longer period of time as production in the region needs to be shut in and it takes a while to restart and as energy infrastructure is damaged from attacks. And so, in this scenario of a longer conflict, those hits to production will leave a longer lasting imprint. And that risks oil prices being above \$100, potentially well above \$100, for sustained period of time. And so that would be a larger hit to the economy.

And we'd also see a greater risk of amplifying channels that increase downside risks to growth: financial conditions tightening, consumer sentiment taking a hit, leading to falling spending, unemployment potentially rising, and the broader uncertainty that this scenario would cause freezing business spending. So, under this more severe scenario, economically the first thing we'd see is an even larger jump in headline inflation.

But we think probably the longer-lasting risk and the one that would have more impact on markets would be a meaningful slowdown in economic growth, with recession risk rising.

Jay Diamond: So I'm sure we're going to revisit some of these points as we continue. But the other main theme in this quarter's Macro Themes is the continuing impact of AI. What's your perspective on this?

Matt Bush: Yah, we're starting to see more opposing forces from AI for the macro outlook. We highlight on the positive side, we've seen CapEx estimates related to the AI infrastructure buildout just continuously move higher in recent months. From an economic perspective, what matters for the impulse to GDP growth is the change in investment spending, not the outright level.

And coming into the year, it looked like that change would slow a bit in 2026. But over the last several weeks, the hyperscalers in particular have guided CapEx higher and spending for the year now looks to be around \$670 billion. That's up \$260 billion from last year, meaning that after what we think was a pretty substantial contribution to economic growth in 2025 from AI investment, we can see an even larger boost this year.

So the size of that boost will depend in part on how much of this higher spending is from higher prices versus real spending on goods. But away from this positive impact from AI investment, it's

also been rising concern about the more disruptive elements of AI, given how rapidly we've seen capabilities of AI models and tools advanced in recent months.

A lot of the concern centers around risk to employment and disruptions to existing business models, especially in the software industry. And on the labor market. So far, we have very little evidence that AI is contributing to widespread layoffs, but it may be a partial explanation for why hiring has been so subdued, and it could be holding back wage growth as well.

On the market side, we think we're likely to see continued questioning of AI's impacts on existing businesses, and in a lot of cases is easier to price in potential losers from AI tools than the long-term beneficiaries from AI productivity enhancements that we do think will emerge over time.

Jay Diamond: I want to stick with you for a little bit, Matt, and then go back to Evan, but I want you to set the table for him by going through some of the drivers of the economy and possible Fed policy going forward. And we'll do this in a little bit of a lightning round fashion. So just to begin, what impact will fiscal policy have on the economy?

Matt Bush: A fairly modest support for growth this year. We think the One Big Beautiful Bill will provide some support, especially in the first half of the year. We're seeing the size of tax refunds ramping up compared to last year, though so far it is a bit less than expected. And if gas prices do stay elevated, that will feed into consumer stimulus somewhat. But overall we expect some support for consumers.

And then on the business side, some of the fiscal provisions should make investment more attractive, which should help broaden CapEx beyond just an AI story. So again, overall, a lot of support for economic growth this year.

Jay Diamond: Okay. Now the U.S. labor market has shown some signs of stabilizing, with the unemployment rate hovering around 4.3 to 4.4 percent. What's the outlook on the labor market?

Matt Bush: Yeah, there's been a ton of noise in the jobs data lately. There's a lot of volatility in government payrolls around the government shutdown in particular. There's been new methodology introduced into the jobs figures. And then recently we've had some severe winter weather impacts. So I think smoothing through the noise, we think that private payroll growth is positive, but very low right now.

And normally job growth running close to zero would be a pretty negative signal for the economic outlook. But because of the sharp changes in immigration that we've seen, we also have very low labor force growth, which means it doesn't take many jobs to keep unemployment steady. So, as you said, the unemployment rate looks to have steadied in recent months.

We view this as the best cyclical indicator for labor market conditions. And that's good news. We expect that solid economic growth this year, especially if it broadens out beyond AI and high-income consumers, should keep the unemployment rate steady overall. That being said, we do think that there still are risks tilted toward a weaker labor market. We still see a hiring rate that's very low, which means we only need a modest pickup in layoffs to see unemployment move

higher and disruptions from either AI or from geopolitics and oil are two of the larger threats that could be a prompt for this move up in layoffs.

So overall steady in the baseline, but is still tilted toward more weakness in the labor market.

Jay Diamond: So this ties in with consumer sentiment in some important ways, which has been declining a little bit before the war. Will this meaningfully impact spending and in turn, the economy?

Matt Bush: Consumer sentiment has been really historically low for years now and hasn't been a great guide to consumer spending trends. Consumers are pretty downbeat because of the past several years of high inflation and elevated prices relative to a few years ago. And that leads to pretty bad consumer sentiment readings. But at the same time, we've seen strong wealth gains on household balance sheets.

And that's helped consumer spend, even as they say they don't feel great about the outlook. As you said, just in the past couple of weeks, some of the higher frequency data we track shows another leg down for consumer sentiment. So far, the initial signs are that this lower sentiment isn't impacting spending. If we look at, again, higher frequency credit card data, for example, even as gas spending is moving up with higher prices, spending in other categories hasn't weakened all that much.

So that's good news for now. But of course, the longer gas prices stay elevated, the more likely we do see other spending start to slow.

Jay Diamond: Now you touched before on inflation. What's the outlook for inflation at this point?

Matt Bush: We've seen some pretty hot inflation readings to start the year. Core PCE inflation, for example, in the three months through February is likely to come in above 4 percent on an annualized basis. And so with that we've seen forecasts for 2026 inflation move up, including the Fed's forecast just from this heat to start the year providing a higher starting point.

We do think a decent portion of this recent strength looks to be so-called residual seasonality. There's been a consistent pattern in recent years where Q1 inflation comes in really hot, only to see a cool down over the course of the rest of the year. And we think we'll see a similar pattern this year. So our forecast is that while the year-over-year core inflation numbers could be pretty sticky, we should see sequential moderation in the month-over-month or quarter-over-quarter figures as we go throughout the year, especially getting into the second half of the year.

And there's a couple of reasons to expect that moderation. First is that tariff effects should fade over time. It looks like the bulk of tariff passthrough to consumer prices is behind us at this point. And the effective tariff rate has stopped rising. In fact it's fallen a little bit recently. So after we get some high numbers to start the year from tariff costs, we should see goods inflation cool moving forward.

The second factor is housing inflation based on all the leading metrics that we track, housing inflation still has more room to cool down. There will be a temporary jump in April related to the unwinding government shutdown distortions, but overall, the trend looks to be pointing down for housing inflation. And then for other services inflation, we think moderating wage growth should help inflation come down over time.

So overall, we think core PCE inflation, which is what the Fed is going to focus on most, should be running below 2.5 percent on a sequential basis in the second half of the year, even as the year-over-year numbers kind of tread water around the 3 percent area, because of these high elevated readings to start the year.

The other factor in all of this is obviously energy prices now. And we're hearing rising fears of a 2021, 2022 repeat for inflation. We do see quite a different macro environment though now compared to 2021 and 2022. Back then the labor market was extremely tight: Wage growth was high; it was very difficult to find workers. We see a much looser labor market now as I walk through.

Back then we also had accumulated fiscal support from all the pandemic-era programs that helped consumer spending stay strong, even in the face of higher energy prices. We do have some fiscal support this year, but it's much smaller in scale compared to the pandemic-era programs.

And then finally, another contributing factor to inflation back then was that global supply chains were in really bad shape. They're not great right now, but they're not nearly as impaired as they were back then when factories around the world were shut down because of the pandemic and that caused all kinds of supply disruptions. So that's not to dismiss the risks from oil entirely. There will be a large impact on headline inflation from higher oil prices and some upward pressure on core inflation, especially in areas like airfare that are sensitive to energy prices.

But under our base case, the risk is more about stickiness in core inflation, not an acceleration in core inflation.

Jay Diamond: So with all these competing impulses, Matt, what is the outlook for the Fed's rate path?

Matt Bush: Yeah, we've seen a very sharp repricing in the market's expectation for the Fed in recent weeks. We went from pricing over two cuts this year at the end of February to now pricing in about half of a rate hike. And we see these moves as overdone. The Fed's March meeting we don't think was as hawkish as interpreted. Their message to us there was more about waiting to see the impacts of the war in oil prices and not committing to any policy. And they did raise their inflation forecast for 2026, but that goes back to these hot inflation readings in January and February, not expectations of oil prices leading to inflation to rise. They're implicitly forecasting actually feed back into the numbers that inflation will moderate over the course of the year.

So in our view, we think two cuts later this year is still the most likely scenario. Now if oil gradually does come down, we expect they will look through any effects on inflation. And like I said, sequential inflation numbers should be showing improvements by the middle of this year. And while a lot of the focus has been on inflation recently because of oil prices, the Fed also needs to balance inflation concerns with the labor market that is still fragile.

In the Fed's March economic projections, they increased upside risk to the unemployment rate along with upgraded upside risks to inflation. So, they need to balance these two factors. And then a final factor to consider is the new Fed chair. The environment has obviously shifted a lot since Warsh was nominated, but we would expect him to still favor rate cuts on the view that energy price shocks will be temporary and that strong productivity growth should support disinflation over time.

Jay Diamond: Thank you, Matt, for that excellent macro backdrop. But Evan, let's discuss your views on market outcomes and how you are approaching portfolio strategy. To begin, just let's talk about treasury yields, shape of the yield curve, and duration positioning.

Evan Serdensky: Yeah, so our view has been basically since 2022, there was a major resetting event for fixed income valuations, and now we've essentially settled in at more logical levels. If you take the average expected fed funds path that Matt and his team have come up with over the next 5 to 10 years, and you apply more normal historical term premiums, which Matt's team's also done a ton of work on, the yield curve is pretty fundamentally grounded at these levels. They make sense now. There's still plenty of reason for volatility around that home base. We have these major competing secular and cyclical dynamics, but they force a wide range but a range nonetheless around rates. If you zoom out post financial crisis, there was a major deleveraging for the better part of a decade at the consumer level and at many corporations. COVID kind of change that.

There was major behavioral shifts. There was a lot of stimulus. And now throwing in the AI investment cycle, we've shifted towards a releveraging environment where we're probably going to continue to run relatively above-trend growth for a while. But that's also fighting against other impulses. Like Matt articulated, the labor market is noisy and prone to probably a little bit more weakness.

We're still dealing with a lot of supply chain disruptions. Obviously, geopolitical shocks are top of mind right now. And then also we can't forget about the long-term disinflationary impacts of demographics and debt loads. So the end result, again, is that rates are going to continue to be relatively volatile, but still rangebound. So our strategy has been to trade that range.

We think it would take a pretty a major shock to push us outside of that. Now that's not a zero probability by any means. And this conflict may turn into that if we get a really persistent energy shock. But we think that'll also get mitigated by some demand destruction and other impacts. But for now, that that range trade kind of remains in place.

Zooming in post Iran conflict, we've seen the curve bear flattening, so the front end of the yield curve has been moving higher. We've been more focused in the belly. So that's worked well. But the front end is starting to get interesting from a risk-reward standpoint. Now with the 2- to 5-year part of the curve for Treasuries yielding around 4 percent, your starting yield provides a nice cushion, and it gets hard to lose money over an annualized basis when you're starting at those yields, especially relative to the duration or interest rate risk that you're taking.

We've also preferred having some of our interest rate exposure in tips, Treasury Inflation-Protected Securities. We've employed, been employing them for the last couple of years and they've worked really well. And we still like what's priced in to break evens.

We did take some profits after the Iran conflict began because oil obviously impacts inflation expectations and they expanded. So they've done well. But we continue to like, as Matt mentioned, the sticky inflation thesis but not runaway TIPS. TIPS do well in that especially relative to where inflation break evens have been priced.

Jay Diamond: In terms of just your risk appetite and its associated manifestation of liquidity buffers, how are you viewing risk right now in the markets?

Evan Serdensky: So, spreads across liquid corporate credit markets are still in relatively tight percentiles compared to long term historical averages. So, it's hard to get overly excited about adding risk here. So, our positioning is pretty neutral to defensively skewed at this point. Yields are still reasonable as we talked about and we think attractive, so, it's worth staying invested. But you want to stay still in this up-in-quality and highly liquid categories of rates and credit markets. For example, our allocation across our total return strategies to Agency MBS and Treasuries is nearly 50 percent. So, we like staying nimble right now and having dry powder to trade, when we see dislocations.

Jay Diamond: And how do you expect credit performance to play out where we are in the economic cycle?

Evan Serdensky: Yeah, I think there's a few key themes on the credit side. So, despite the fact that spreads are pretty tight, the opportunity set has still been solid. So first off, we've seen a lot more dispersion over the last year in terms of credit markets, essentially catalyzed by Liberation Day. So, there's been a real premium on quality. A good example of this is if you look at the high yield market last year, it returned around 8.5 percent, which is a very solid and above-coupon style year.

But the best performing credit category or ratings category was Double Bs, which is the highest-rated rung within high yield. That's sort of unusual because typically you'd think in a in a strong performance year, you'd see lower quality outperforming just simply on a beta-adjusted basis. But instead what we've seen is greater sectoral and industry dispersion. And essentially that fundamentals are mattering right now and high quality is getting rewarded.

Another major theme is really divergent issuance trends and technicals across various corporate credit, structured credit, agency credit. So, for example, in the investment grade market issuance is

extremely strong. A lot of it is funding AI CapEx build outs. And so that's a technical headwind for that market, but also an opportunity in a sense to zoom out a little bit. The investment grade market over the last ten years has doubled in size, while you take the high yield market as, as a counter example has barely grown, maybe 15 percent and, in fact, over the last few years has actually been shrinking off the 2020, 2021 highs. So, these divergent trends create opportunities on both ends of the credit spectrum.

And our current priority, again, is prioritizing higher grade segments. And so a prime example of that is the Agency mortgage-backed securities market. This is one where this market has very limited supply right now given elevated mortgage rates. So that's that's a technical positive. The valuations for this market are generally tied to interest rate volatility, which has been extremely elevated.

So we like this risk reward. And we think that there's very strong total return potential, meaning beyond just the coupon return. We think spreads can come in here because there's a lot of buyers who have been offline the last few years that are starting to inch back in that we think will push spreads tighter. But the key theme for us is that fixed income markets have always been inefficient in our mind and ripe for alpha, and that dynamic is really only increasing lately given all these crosscurrents.

Jay Diamond: Matt pointed to AI as a key driver of economic growth. And I should note, by the way, that we put out a piece recently, that Matt was an author of, called AI's Promise and History's Lessons, where we talk a little bit more about the investment side of AI. But, Evan, how are you thinking about AI right now, either as an adopter or as an investor or both?

Evan Serdensky: Yeah, and that was a really excellent piece, and I encourage all the listeners to check it out. As an investor, I'm personally very excited because we're already seeing productivity and efficiency gains in our own investment process. The speed of performing analysis is getting dramatically faster by the day. We're building and deploying new tools, plugging in more data. It's genuinely transformative for our research process.

But looking at markets and the effect AI has had on that, we've obviously seen meaningful impacts across software and tangentially related sectors, basically rerating what valuations should be for those types of credit profiles. Luckily, we've been more on the defensive side for a lot of those categories that have been directly affected, more because of the relative value that was offered—we didn't think it was very interesting. But that's kept us more insulated. And in a lot of ways, I'm excited about the opportunities that that disruption will create. For example, fallen angels volumes are starting to rise and that creates very tradeable and consistent dislocations. When things get downgraded from investment grade to high yields, you get a lot of technical selling.

And those are things that active managers can exploit. Our current focus is really on triaging all of our risk for any sort of AI obsolescence risks. We're going name by name through the portfolios

and asking ourselves, "Is this business model durable, even if AI changes the competitive landscape?" And so far we feel good about positioning. But this is an evolving process and an area where you really have to stay vigilant.

Jay Diamond: So finally, looking across the fixed income investment spectrum, which for us is quite wide, where are you finding value and what are you avoiding?

Evan Serdensky: I mentioned some of these mortgage credit, both non-Agency and Agency. It's probably our highest conviction trade and overweight right now: one because we think spreads are attractive, and two because the technicals are solid or improving in many cases. And fundamentally we think mortgage credit is also just very strong right now, backed by very healthy LTVs.

Another area that's getting more interesting by the day is front-end Treasuries, call it the 2- to 5-year point in the curve that I mentioned. That yield cushion provides an asymmetric risk reward and also may benefit from a growth scare if it kind of turns into this or a flight to quality bid.

And then within corporates, we're mostly keeping an eye out for dislocations from everything we've talked about, from AI, emerging technicals, and quality differentials that are really expanding right now.

What are we avoiding? Lower quality credits. They're getting more interesting. But there's a lot of questions about those. We still don't think you're getting fully compensated in a lot of cases. The longer end of the yield curve is still very volatile. We prefer a little bit more neutral to intermediate allocations. There's big questions around the correlation benefits of Treasuries in the long end of the curve. And to some degree that's driven by valuations. So, the higher 30-year Treasury yields go the more interesting they become from the downside protection perspective. And then lastly is just focusing heavily on credits with any sort of concentrated exposure to any of these disrupted areas that we've been talking about legacy software etc.

Jay Diamond: Well, listen, I have to thank both of you so much for your time. It's a very volatile market and a lot is going on, so I appreciate your taking the time to speak with us. But before I let you go, Evan, let's start with you. What's the main takeaway from your chat today that you'd like to leave with our listeners?

Evan Serdensky: I think it's mostly that despite all the headlines, our macro view largely remains intact for now. Now we're being very nimble and responsive to changes, and volatility is obviously elevated. But we've dealt with these meaningful energy shocks and geopolitical shocks over the last several years, and I think markets are pretty resilient. But we're focused on that volatility and the opportunities that creates and the alpha generation that we can get from it. But I think the bottom line really is that starting yields are relatively elevated and that you're really getting paid to be patient at this point. We think that's a good place to be.

Jay Diamond: Well thank you, and Matt, any final thoughts from you?

Matt Bush: Yeah, I'd probably just echo that theme of amid all the uncertainty from geopolitics, it's worth remembering how resilient the U.S. economy has been over the last several years to all the shocks it's faced, from the 2022 rate hike cycle, banking stress in 2023, terror and policy uncertainty last year. And that's because structural fundamentals for the U.S. economy remain in a strong position.

Household and corporate balance sheets are still quite strong in aggregate and but increasingly it looks like we have this faster structural productivity growth as an important long term tailwind. So I think just keeping that longer-term perspective in mind is helpful amid these rising political risks. And along with that, I just want to thank everybody for listening amid a volatile and turbulent time in the markets.

Jay Diamond: Terrific. Again, thanks again for your time, Matt and Evan, I look forward to visiting again with you all soon.

And thanks to all of you who have joined us for our podcast today. If you like what you are hearing, please rate five stars. That helps people to find us. And if you have any questions for Matt, Evan or any of our other podcast guests, please send them to Macro Markets at [Guggenheim investments.com](https://www.guggenheiminvestments.com) and we will do our best to answer them on a future episode or offline.

I'm Jay Diamond. We look forward to gathering again for the next episode of Macro Markets with Guggenheim Investments. And in the meantime, for more of our thought leadership, including our recently published quarterly macro themes and the paper we mentioned earlier, AI's Promise and History's Lessons, please visit [Guggenheim investments.com/perspectives](https://www.guggenheiminvestments.com/perspectives). So long.

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