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Macro Markets Ep. 78: The Investing Outlook for 2026

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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.

Now as we approach year end, investors are wrestling with a somewhat mixed economic picture: Slowing growth, persistent above-target inflation and the labor market that seems to have cooled even as we're seeing AI-driven investment maintained and high income spending continue to support the expansion. Now, with the Fed cutting rates recently and the prospect of new leadership at the central bank next year, questions about policy and credit risk and market resilience are top of mind as we approach the end of 2025. Now, our guest today thinks about these issues every day. But unlike most of us, she must turn her answers into real portfolio decisions for our clients. Anne Walsh is the CIO for Guggenheim Partners Investment Management, and she leads our team that is responsible for over \$350 billion in total client assets. Anne, welcome, and thanks for taking the time to chat with us today.

Anne Walsh: Delighted to be here, Jay, and thanks to all of our listeners.

Jay Diamond: Now Anne, we have a lot to talk about today. But let's start with the economy. How would you characterize our economic outlook right now?

Anne Walsh: You know, our economic outlook is really kind of interesting because I'm thinking about this in the context of a longer timeline. And while there's certainly been quite a bit of volatility in the markets during 2025, what I think we're seeing in the economy is a move towards an equilibrium state. And some are referring to it as maybe normalization. But what does that mean? Well, trend growth historically in the U.S. is about 2 percent real GDP. Our expectation is that we are moving in the direction of slightly below trend growth, so probably 1.9 percent GDP in 2026, and that's an environment where you have unemployment, which of course went up a little bit recently to about 4.6 percent, but if you look at a historical context, 4.6 percent is actually still a

pretty high level of employment in the U.S. And given the fact that that's also supported by new entrants into the labor force, again, I think this underpins our concept of equilibrium. We're going to see some tailwinds, particularly in the first half of 2026 from fiscal and, dare I say, some monetary stimulus that we can expect. In this environment, the Fed has the opportunity to continue to cut rates, and our belief is, is that we have not yet seen the Fed finish its rate cutting cycle. So, all of this underpins an economy that's in a level of, dare I say, equilibrium.

Jay Diamond: What are some of the risks to this outlook?

Anne Walsh: Risks are abundant in an environment like this. When you're moving towards a state of equilibrium or normalization, you could see any number of volatility inducing events. We could see a geopolitical event. But it appears to me that geopolitics are probably less being drivers of the macro story right now than central bank policy, inflation, and unemployment. Well, we're still in a bifurcated economy. We talked a lot about this earlier in the year. But there really are two U.S. economies. One is the wealthy consumer and larger sized businesses. And then also the other end of the economy are the lower end consumer and small businesses who have been hurt by inflation, interest costs, and other economic impacts that have been disproportionately affecting that particular cohort of the economy.

So, could we see the high-end consumer pull back and potentially drive the economy in the opposite direction from where we project? That's not our base case. Right now, the high end consumer is spending, and here at holiday time, they seem to be spending quite a bit. And I can tell you from having been in shopping malls around the country, it appears that the high-end consumer is continuing to feel pretty merry here at the holiday season. So, our base case is one where consumers remain active, that the lower-end part of the economy will be helped by lower rates, maybe not a huge amount, but materially, and so as a result, I think the risks are mitigated. Now I'll put a pin in that and say, at least for the first half of 2026.

Jay Diamond: Now Anne, we've had in the US a have and a have-not economy for, for a while. Does it seem like a starker set of circumstances than perhaps we've had in the past?

Anne Walsh: I think it's significant. In fact, if you look globally, one of the data points that I've seen is that income inequality has shrunk in other parts of the world, but it has increased in the U.S. In the U.S., we've certainly seen the lower end, of the economic spectrum. Those consumers hurt by credit card costs, and that's evidenced by delinquencies increasing auto loan payment, defaults are increasing. We've certainly seen student loan payment delinquencies skyrocket. So, these debt loads that the lower end consumer cohort is carrying, they're really struggling. And I think this also can explain quite a bit of the rising level of populism in the U.S. political storyline right now, as a support for that particular kind of environment where the lower end consumer is, rather disgruntled with regard to the economy as compared to the higher end consumer and or those larger companies. So, we're also watching, potentially, banks and other financial services businesses that particularly cater to that cohort of the economy to see if there are additional signs of stress. Right now, while all of the delinquencies and defaults are elevated, they're not elevated

to a point where it's driving the narrative at the aggregate level. But that is a risk that we are continuing to monitor.

Jay Diamond: I want to spend the next couple of questions talking about the Fed and monetary policy. So given this economic outlook and where you think we are. Do you believe that the Fed's 25 basis point cut last week was warranted? And what do you expect from Fed policy from a rate perspective next year?

Anne Walsh: I really do believe that the 25 basis point rate cut was necessary. And in addition, I believe that we need 50–75 basis points more to get to neutral. Now let's talk about the neutral rate. Our expectation is that it's around 3 percent. It might be as low as 2.75. And at that point in time, you're looking at an economy that is not being stimulated or being contracted by Fed policy, so it's neutral. And our expectation is that the Fed is working their way to neutral. Now, the conversation within Fed members, of course, is one of concern with regard to their dual mandate which is full employment and, of course, stable prices. And the concern is that they don't want to overstimulate by lowering rates to create an inflationary environment, which is what we saw post-COVID when the Fed continued to keep rates too low for too long. But I'm going to contrast where we are today relative to that, and the Fed stance.

So, notwithstanding the Fed's discussion points that they are hawkish and concerned about particularly inflation, the truth is that they are leading dovish. And it's not just based on potentially the change at the top of the Fed. It's the fact that they've stopped QT and in fact are looking to purchase assets onto the Fed's balance sheet. That's not QT, that's not tightening.

Notwithstanding the hawkish rhetoric that's actually loosening monetary policy. Along with the fact that they are in discussions amongst themselves as to whether or not they should continue to lower rates or not. Now, my expectation isn't that the Fed will continue to lower rates all the way down to zero. That would be an extraordinary step and only warranted by a very significant downtrend in the U.S. economy, which is not anywhere near our base case or expectation. But 3 percent is a neutral rate, and I think they could move there faster relative to the pace that they're willing to go at. They are concerned, of course, because they've mentioned that they're data dependent. They are concerned that the data due to the government shutdown is neither timely nor supportive of continuing to move down to a neutral rate of 3 percent. But they also have the Fed's Beige Book, which they've in the past looked at as supportive of their direction. And frankly, the Beige Book shows a great deal of softening in the U.S. economy. So, the Fed has room to cut some more. We think they will.

Jay Diamond: If we were talking a week ago, I would have asked you about Kevin Hassett as the front runner for Powell's replacement. But, you know, that might be back up in the air. But at the very least, we know that there will be a new Fed chair in 2026. How could this effect mark this, the new Fed chair?

Anne Walsh: Well, all of the candidates that are currently being named specifically, are leaning dovish. The two Kevins, Kevin Hassett and Kevin Warsh, do appear to be the front runners based

on recent conversations that President Trump has had with the press and in the markets. But let's remember, the job of the Fed chair is not just leaning on rate reductions, but it's also the management of the banking system, consisting of the FOMC governors, the Fed regional presidents, and so forth. And there's a lot that goes into this role that has a broader implication for the financial system. And I caution investors to remind themselves that this job is one of a key administrative responsibility to make sure that the banking system remains stable as well. So, the good news is that it appears that we have qualified candidates. They all tend to lean dovish.

And the issue, of course, for investors has been Fed independence, and I would remind investors about the fact that the Fed is not a fully government independent organization. It is subject to oversight by Congress. But what central bankers everywhere want to see is a level of independence from the executive branch, which, regardless of administration, we've seen over many executives and their interaction with Fed chairs in the past trying to bring rates lower, like whether you want to think about President Nixon, or President Trump today, it is a common practice for executives to want to bring rates down. So, I want to remind investors of the broad responsibilities of the Fed chair, but either whoever's named, the frontrunners or somebody else, they're all going to be leaning much more dovish.

Jay Diamond: I want to turn to markets now, Anne. I want to start with a headline that everyone's been reading about private credit, the growth of that market. Disintermediation of the banking system. Do you see any risks building up there, as we've been reading about, and do you think any of these risks could spill over into the broader market?

Anne Walsh: So, I think actually fundamentals for credit right now at this stage of the cycle are pretty strong. I've already mentioned fiscal support. There's monetary support. Rates are coming down at the short end. And a substantial amount of private credit borrowers borrow on a floating rate basis. This should all be supportive of those businesses as well as margins generally are supported by the economic backdrop of equilibrium in the economy. So, I separate cyclical and structural risks, and right now, with the high profile defaults that we've seen with Tricolor and First Brands as examples, those are cyclical. Those particular businesses historically have a higher rate of default risk. And particularly, with the stress of the lower end consumer and small businesses, those particular borrowers were at higher risk. Now, the question becomes, what is the structural risk in this system? Because you can diversify away from cyclical risk. You can be thoughtful about who you lend to as a private credit investor. But "structural" suggests that what we could see is a wholesale loosening of covenant protections for investors, loosening of leverage standards, in other words, allowing quite a bit more leverage. And some of that is driven by the highly competitive aspect of the lending industry as a whole, and the desire of investors and private credit lenders specifically to put money to work. And there is a risk that we could move into structural weakness, which would be wholesale elimination of investor protections or a substantial weakening.

Now, the private credit market is about \$2 trillion right now, and as a result, it's highly diverse as it is. I don't consider the two high profile defaults to be a real example of a structural weakness infecting the private credit markets. I also draw a big distinction between middle market lending and larger, more sizable, or broadly available transactions. If there's a little bit of structural weakness that is starting to find its way into private credit, it's more likely at the higher end, the larger deals, because there's a lot more competition amongst private credit lenders for those transactions, and there may be some risk there, but it by no means can be considered to be emblematic of the entire sector. So, I think that we have a long way to go before we get to the speculative phase of private credit lending, or for that matter, the equity markets, and that would lead to structural weakness. But that's something to be on the alert for as we go through this cycle.

Jay Diamond: I want to turn to the other big headline of 2025 and certainly 2026, and that is, the amount of capital that's going into AI spending in all of its forms. Do you think that this is a bubble? Do you think it's sustainable?

Anne Walsh: So, I'm a very substantial supporter of this technology supercycle that we're in from an investment perspective. We're at the very beginning of this huge technology supercycle. And artificial intelligence is obviously driving the storyline. But robotics and communications, and the impact that technology is going to have in the economy and economies globally for the next decades, which makes it an interesting investment question, because I can say a few things about supercycles. It usually tends to be that early movers may have a short term advantage, but in the long run, it's going to be the widespread adoption of AI that's going to be the investment thesis. For right now, a lot of the focus is on is on the impact of tech stocks, in particular on the equities market. And I think when you see a broadening out of the uses of AI across the economy, we'll start to see valuations be more balanced towards the broader market. We're not there right now because a lot of the capital is flowing into the big hyperscalers. And in those particular, the chips, and of course the data center buildout and to a lesser extent, but also equally important, energy.

But I would contrast this cycle to say, the.com bubble in that at that time you had, pretty much any issuer that had a.com in their name, case in point, Pets.com for example, which were really venture type businesses. They had no earnings. They may have had revenues, and so you looked at valuations that were absurd. Fast forward to today and that's not the storyline that we're actually having companies that are in fact by themselves, tech conglomerates with many businesses inside of them that they are already diversified within the technology space. These companies have actual earnings. Now, having said that, this buildout and where the concern is, particularly for data centers, is that there's an obsolescence risk. And the question for debt investors is how do you invest safely in lending to data center construction and buildout that makes sense? Well, we like to think of these as infrastructure builds. And so we're investing in this space, using that as a working thesis. These are infrastructure investments. But because of the obsolescence risk we're very cautious and thoughtful with regard to large balloon payments that could be due at the end of a debt stream that would have to be refinanced. You might be making too much of an assumption on the life cycle of a data center if you leave yourself open to that kind

of risk. So that's the risk mitigation thinking that goes into underwriting the debt portion of these opportunities. Finally on that, there is an element with regard to are these companies going to be overleveraging their businesses relative to the way they've funded their capital needs in the past, which has been historically driven in the equities markets. So as a result, it's something that's out there to be thoughtful about, but I don't think of this in the same way as I think about the Broadcom buildout that happened during the big communications buildout in the late 1990s. I do think this is different, but there's a cautionary tale there from the 1990s, and one which we underwrite carefully with that in mind.

Jay Diamond: Turning to the fixed-income markets more generally, how would you characterize, conditions right now for an active fixed-income manager looking at the spectrum of markets that you are investing in?

Anne Walsh: I think we're in a good place for fixed-income investors. One, we have strong, reasonably strong fundamentals and an economy that's moving towards equilibrium. This is usually historically a good time to be a credit investor, and for that matter, to be a fixed-income investor. I mentioned, as the rates are normalized to 3 percent on the Fed funds, that there's actually going to be a steeper yield curve. And I believe that to continue to be the storyline, which means nominal yields out on the curve are going to be attractive for investors relative to the last 25 years when we were in a zero rate environment. So, investors are getting actual real rates of interest, which makes it attractive from a risk management and a risk premium perspective relative to equities, because equities have no risk premium built in at this time, particularly on the tech stocks.

So it's attractive from a nominal perspective, it's attractive to be a fixed income investor from a fundamental perspective, particularly for credit, it's an attractive time from a risk premium and a real rate of interest perspective, so I like the fixed income narrative and story. At this point and again, with the 10 year, in our view, anchored in the mid-3s to mid-4s, this should create a level of stability around fixed income in particular investment grade fixed income, for the foreseeable future at least through 2026. So not a bad time to be in fixed income.

Jay Diamond: How do you think about spreads right now, which I'm generalizing are relatively tight on a historical basis.

Anne Walsh: You know, they are. But, bull markets can continue for quite some time. And the tight spreads have been driven a lot by relative supply and demand. The demand for particularly corporate fixed-income issuance particularly in the investment grade space has been very high as investors speak, seek spread and a nominal yield above rates. The rates storyline has been one which has been tethered in plus or minus that 4 percent range that I mentioned. And as a result, I think that that's a good time to be in credit. Could spreads widen a little bit, particularly if you were to hear another type of headline moving, market moving, event like, say, another Liberation Day, which we don't see one of those happening, but it could be something else, of course. Yes, but

probably not materially. And again, underpinning this entire narrative is fundamental credit quality and particular at the investment-grade portion of the credit curve.

Jay Diamond: Now, given this constellation of views and perspectives that you have on the market, how do you translate all of that into positioning and portfolios? What kinds of strategic decisions are you making for the portfolios you oversee in terms of allocations and planning?

Anne Walsh: As I've already mentioned, we like the nominal yields that we're earning and investment grade credit pretty much across the spectrum, but in particular and structured credit where nominal yields are higher relative to their risks, we like defensive assets, particularly in infrastructure and energy. And of course, there's some benefit there which offers some inflation protection in case the inflation story might change based on our predictions, or in the opposite direction of our predictions. And then we think going out on the curve makes sense because it's deeply shaped, and as a result, you're getting paid to go out on the curve now. We like to engage at that particular portion of that steep yield curve in mortgage backed securities, Agency and non-Agency RMBS, where, spreads are attractive and volatility has been relatively benign. And then along with that we like senior CLO tranches and of course asset-backed securities as I mentioned structured credit and corporate credit, we like investment grade, but we also think that the public high yield market has moved up in credit quality generally, offering investors the opportunity to pick up additional yield. And we like the BB portion of that market. And in that particular storyline, maybe a little bit shorter duration, really focused on the yield spread pickup, not necessarily fully extending duration in that space. So we look to maintain liquidity, we're always looking for opportunities within all of those particular categories, and we're also keeping our portfolios highly diversified as a risk mitigant at this phase of the cycle.

Jay Diamond: Looking ahead, what other strategic decisions do you see within your portfolios that you and your team oversee, but also for the firm itself?

Anne Walsh: There are particular areas that investors can add to their portfolios right now that we think offer a lot of value, and they include real assets. So, we've mentioned infrastructure to build out the supercycle that we're in, and we didn't talk about the manufacturing buildout in the U.S., but real asset investments are really quite well positioned to take advantage of demographic shifts, the megatrends that we're talking about. So that includes, realignment of supply chains, logistics, telecommunications and as well as, manufacturing buildout in the U.S. The real asset story combines cash flows and a hedge against inflation in case we, and our expectations, turn out to be not correct directionally with regard to inflation. So it's always nice to have some real assets in the portfolio to take advantage of these amazing opportunities.

Additionally, we have been growing our firm through leveraging our investment strategies into new ways for our investors to access our strategies. And so in 2025, we packaged several of our strategies into a separately managed account wrapper for the wealth market. We've been engaged in raising capital through private credit vehicles, including private credit and infrastructure. And

then we also have a number of new products to meet investors where they want to be in order to access our excellence in our investment management through our various strategies.

And then finally, artificial intelligence. We are deploying artificial intelligence throughout the firm, integrating it into virtually every segment of our business. It is being embedded in our investment processes, and we're excited about the opportunity to leverage our team members to create new technology solutions to amplify our risk management, our thought processes, our portfolio construction, our security analysis, to streamline workflows, including in trading, compliance, legal, operations, reducing costs and, and accelerating timelines. So we're finding an amazing opportunity to deploy artificial intelligence throughout the firm. And we're excited as we go through 2026 to be able to deploy these new technologies and their use cases throughout our organization.

Jay Diamond: Anne, you have been so generous with your time. I know how busy you are, so I appreciate this. But before I let you go, do you have any last thoughts that you'd like to leave with our listeners?

Anne Walsh: I caution investors to always think about what could happen that isn't in your base case. And so the word I've used to great effect recently, and I think will hold us in good stead in the future, is diversification. But right now, the opportunities include in fixed income through attractive investment income that we're able to earn, potential price appreciation; equities, and particularly thoughtful equity deployment—again, use that keyword diversification against any potential equity drawdowns; and take the portfolio and make sure it's balanced, including fixed income, including equities, and including real assets, and credit in a way that really creates an opportunity for what's going to happen in our view in 2026. So I think it's a great time to be thoughtful about investments, but I would not be sitting on the sidelines at this point.

So to all of you that are listening today, thank you so much for joining us and I wish you all a very happy and healthy holiday season. Thank you for your partnership and your support. In a season where I like to spend a lot of time thinking about gratitude, we are absolutely grateful for all that you do in partnership with us. Have a very happy holiday season.

Jay Diamond: Well, thank you again, Anne, for your time and your insight. Please come back and visit with us again soon. Look forward to that. And thanks to all of you who have joined us for our podcast. And if you like what you're hearing, please rate us five stars. If you have any questions for Anne or any of our other podcast guests, please send them to MacroMarkets@GuggenheimInvestments.com, and we will do our best to answer them in a future episode or offline. I'm Jay Diamond, and we look forward to gathering again for the next episode of Macro Markets with Guggenheim Investments in 2026. In the meantime, for more of our thought leadership, please visit us at [GuggenheimInvestments.com/Perspectives](https://www.guggenheiminvestments.com/Perspectives). So long.

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