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Macro Markets Podcast Episode 82: The Next Test for Equities?

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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're recording this episode on March 12th, 2026. Now, as a reminder, if you have any questions for our guests, send them to us at MacroMarkets@GuggenheimInvestments.com and please rate it five stars if you like what you're hearing. All right. Let's get to it. Equity markets overall have shown remarkable resilience through a chaotic trade war, the disruptive rise of AI, and now a war in the Middle East. But with the Iran conflict continuing to unfold that resilience could face its toughest test yet. Volatility has spiked. Oil is at elevated levels. Will markets continue to look through these risks? Well here to provide their perspective is Mike Schwager, Managing Director and Equity Market Strategist, and Ryan Sundby, a Vice President at Guggenheim and an Equity Product Specialist. Welcome back, Mike and Ryan, and thanks for taking the time to chat with us today.

Michael Schwager: Thanks, Jay. It's great to be here.

Ryan Sundby: Yeah, thanks a lot, Jay.

Jay Diamond: All right. Now, Mike, let's start with you. And let's start with the strike in Iran by the U.S. and Israel. How has the war affected the market at a very high level?

Michael Schwager: Yeah, Jay, surprisingly, the S&P 500 has held up relatively well. It's down only fractionally since the February 28th launch on Iran, but still up about 20 percent from year ago levels. Jay, what we're really focused in on is the price of oil as it is being viewed as a transmission vehicle for this event. Recently, the price of WTI oil, which you know, we use as a US benchmark, it rose to almost \$120 per barrel. It has since backed off a bit from those levels but still remains elevated relative to the \$67 per barrel before the strike on Iran. Now, bond yields have also backed up as the rise in energy prices has reignited inflation concerns. The ten-year yield is currently up to about 4.25 percent. That's up about 27 basis points since the strike. And the dollar has actually done fairly well, reflecting its safe haven status.

Jay Diamond: Now, given all of this and what we're seeing in the market's reaction, has the Mideast conflict affected your view and outlook on equity markets?

Michael Schwager: You know, there's still lots of moving pieces and unknowns. But despite the recent market volatility, we still maintain a positive 12-month outlook on the market. I do expect volatility to remain elevated in the near term, and I can't really rule out a 3 to 5 percent pullback. But at the end of the day, I do believe the market will ultimately distinguish between headline risk and growth-related risk. There's also good support underneath the market at the 200-day moving average. And I believe the worst-case scenario is a correction of about 5 percent from current levels. Now we are tactically cautious, but I don't believe the situation in the Middle East, at least at this point, is enough to derail the current bull market. Historically, the negative market reaction to geopolitical events is usually measured in days and weeks. We've kind of seen this movie before, when Russia invaded Ukraine in 2022, oils spiked, stocks sold off hard, and then they recovered. The muscle memory of the market is that geopolitical shocks, while painful, they tend to be temporary. Over the past four decades, there have been 21 U.S. airstrikes on the Middle East region. And eight weeks later, the S&P 500 was higher 95 percent of the time. While that's a guarantee of nothing. It's worth considering as we bounce from headline to headline.

Jay Diamond: So I wouldn't call your outlook sanguine, but as you said, it's fairly positive. But what's the risk to your outlook?

Michael Schwager: Well, the real risk here, Jay, is if oil tanker flows through the Strait of Hormuz were to remain restricted and oil price spikes back up to \$100 per gallon and stays there for a prolonged period of time. And we're talking several weeks to months. Under that scenario, inflation would rise, the economy would likely soften, and the equity markets will likely correct. However, that is not our base case scenario. We generally think the bar is pretty high for severe economic damage. The overall energy intensity of the US economy has declined over the past few

decades. So far, inflation expectations remain well anchored, with the five year Ford inflation expectations at just over 2 percent. Historically, there's been a very strong correlation between oil prices and two-year yields, which, as we know, are a proxy for Fed policy expectations. While yields have certainly moved up, they still remain well within the range that they've been in over the past six months. And when you look at the correlation between the two, two-year yields currently suggest investors are betting oil will fall back into the low \$70 range. This spike in oil prices will prove temporary.

Jay Diamond: Assuming that they are temporary and oil flows out of the Middle East resume through the Strait of Hormuz and prices decline, what would be your base case forecast for this year?

Michael Schwager: You know, Jay, like I said earlier, we do remain upbeat on the equity markets over the next 12 plus months. And I still think this bull market remains very much intact. Now, we've been telling investors, especially ones with a longer-term time horizon, they really need to separate political and geopolitical noise from what we feel is an otherwise robust macroeconomic backdrop. Now, for us, the focus remains on what actually drives stock prices. That's earnings, that's the economy, and that's interest rate policy, all of which we think remain in a favorable place. Now for this year, we do expect S&P 500 earnings to grow about 14 percent, followed by a similar level in 2027. One of the things we also have to keep in mind is that 2026 is a midterm election year, which often results in increased levels of market volatility. However, if there is one consistency to midterm election years is that the market almost always experiences a strong rally following the election, and this strength does, in fact tend to carry over into the following year. Now, year three of the presidential cycle—in this case 2027—is by far the strongest year of the four year cycle, posting average gains of around 16 to 17 percent. And historically going back to 1946, the market tends to deliver positive performance in the 12 months that follows the midterm election.

Jay Diamond: Terrific. Now, what's your view on the breadth of the market's strength of late?

Michael Schwager: I mean, market performance has really started to broaden out beyond the tech sector and the Mag seven names. This has been pretty encouraging and it's really helping to blunt worries over concentration risk. Now the cap weighted S&P 500 is more or less flat year to date, but when we look at the equal weighted S&P 500, it's up almost 3 percent. Another indice I like to keep an eye on is the Value Line Index, which is actually 1700 equally weighted names. That indice is also up about 3 percent year to date. So when you look under the hood, the marks are actually

doing okay on the sector level. The energy materials, industrials, and consumer staples are the best performing sector so far this year.

Jay Diamond: Let's look at valuations. What are you seeing in valuations? Are they vulnerable at the levels they're at? Tell me a little bit about that.

Michael Schwager: I mean the S&P is trading at around 20 to 21 times forward earnings. This compares with a 30-year average of around 16 to 17 times. While the market is rich on a relative basis, we also have to recognize that the composition of the S&P has really changed over that period. Today it is heavily tilted toward faster growing asset light type companies. Let's call it tech and telecom. Whereas for the earlier part of the 30-year window, there was a high concentration of slower growing, mature, asset intensive industries like energy, utilities, industrials and materials. Now, from my point of view, valuations really tend to be a poor timing tool as they can stay elevated for long periods of time, especially if the economy and earnings remain healthy, which both generally are. Now using valuation as a catalyst to buy or sell is like using a thermometer to predict when a fever will break. It tells you your current temperature, but gives you little indication on the timeline to recovery. Now, with that said, we expect multiples to remain relatively stable this year right around current levels. And we think earnings once again will do the heavy lifting and be the primary driver of market returns. Now just simply doing some math here. If earnings were to grow by about 14 percent and valuation multiples stay relatively stable, we could see the S&P trade somewhere around the 7800 level by year end. Now there are typically at least 1 of 3 things in place at the end of a bull market. There's typically a rising probability of recession, the Fed looks like they're getting poised to raise rates, and third, the long end of the curve is moving higher, which in today's world would mean a ten-year yield moving to right around 5 percent or higher. Now outside of a protracted conflict with Iran, none of these things are present today, and we don't expect any of these things to develop in the foreseeable future.

Jay Diamond: To wrap up the discussion of market drivers. Let's turn to some of the key drivers that would influence earnings going forward. And I'm just going to do these in kind of round robin style one at a time. So first of all what's your economic growth outlook. again assuming oil flows resume?

Michael Schwager: Yeah I mean our economists expect steady growth this year just above 2 percent. So let's call it right around trend line growth. Inflation is expected to moderate. We believe rising productivity AI capital spending and stimulus from the One Big Beautiful Bill will drive solid growth. We think the labor market will continue to stabilize. Fiscal policy will be a tailwind, especially in the first half of this year. And individual tax free are expected to be up

sharply from year ago levels. This should support consumption. I mean, generally people view these refunds as found money and they're more likely than not to go out and spend it. Take a vacation, buy some new golf clubs.

Jay Diamond: So second, how do you see AI affecting this outlook?

Michael Schwager: Yeah, I mean, with AI, we still think the AI buildout is in the early innings. Let's call it the third or fourth inning. And we think adoption rates are still low, but growing. AI should boost growth both from a CapEx point of view, which is spilling over into manufacturing tied to technology and defense. It's also helping with increasing worker productivity, as we saw during the recent fourth quarter earnings season, hyperscalers, which is just five companies, they're collectively planning on investing about \$650 billion in AI buildout this year alone. Now, AI related disruption is certainly a risk to certain sectors, but we think the hype is somewhat overdone and won't have the sweeping near-term impact on the job market that some are worried about.

Jay Diamond: Great. It's worth mentioning here that our research department just put out a piece on the [macro and market impact of AI](#). So I encourage everyone to visit the website to read about it. Okay. Next topic. Tariffs and inflation. Let's call it the non-oil spike related inflation.

Michael Schwager: Still lots of moving pieces here, but on balance tariffs appear to be little changed. I mean companies didn't pass them entirely through last year. But we do believe the remainder will be passed through during the first half of this year. And the one-time price increases will begin to anniversary later this year. We continue to expect inflation to moderate towards 2 percent, again, this assumes oil flows resume.

Jay Diamond: Okay. And to wrap it up, what's the house view on monetary policy from now?

Michael Schwager: I mean, policymakers have broadly acknowledged the need to wait and gauge the impact of the Middle East conflict in the economy. You know, from an investor point of view, they're currently anticipating price pressures will delay a 25 basis point interest rate cut by the Fed to September from earlier expectations of July. As tariff passthroughs continue, we expect core inflation will remain sticky for the next few months, but we do anticipate this one time effect on inflation will fade by the second half of this year. In addition, we do expect shelter inflation will continue to pull core inflation lower. We do expect the Fed will leave policy unchanged during the first half of '26, but we also expect cuts to resume in the second half to a terminal rate of around 3

percent. We also have to keep in mind that monetary policy tends to work with a lag so the three rate cuts the Fed made late last year are really just starting to work their way through the economy.

Jay Diamond: Terrific. Okay. Let me turn to Ryan. Ryan, with the economic outlook, as Mike has described and valuations a little on the full side, how are you positioned in the equity markets?

Ryan Sundby: Yeah. When uncertainty rises, we think it's important to stick with your knitting. And for us I feel like that core competency has been to focus on high quality companies with strong balance sheets. Coming into this year, we were fairly neutral on growth versus value. And as Mike said, our view really hasn't changed at all despite the volatility we've seen, I do think it is important to remember that investing isn't a binary event. You don't have to be all in on just growth or just value, right? You can own both. And we think over the course of the year that trade will play out. That probably leaves this a little more core positioned in terms of our favorite portfolios on the equity side. And we have a fairly clear bias, I think, here towards larger cap names. We also see a real opportunity really going back over the last year for large multinational operators, particularly as they play against the weakening dollar. And all that looks getting a little more opaque here with the flight to safety over the past couple of weeks. It's still a longer-term trade we still really like.

Jay Diamond: Now as Mike mentioned earlier, there has been some sector rotation. What's your view on this and how do you see it playing out?

Ryan Sundby: Yeah, over the past couple of months, I think we've certainly noticed a shift in composition in the markets here, where we started to see some old economy versus new economy firms get rewarded namely in sectors like industrials, materials, energy and consumer packaged goods. Some of what's driving that move is that these are sectors that are less susceptible to AI disruption compared to something like a SAAS firm. Right. Because it feels like we're still a ways off asking Claude or ChatGPT to make toothpaste for us. But ultimately we think these are companies that should and will be able to reap the productivity benefits that come from adopting AI premium. A nice way to play the AI theme for investors without worrying about disruption. I think given that set up, it makes a lot of sense to look at areas like dividend growers or a group like the Dividend Aristocrats. Inherently these are going to be companies with long histories of consistent earnings growth. They're going to be more heavily weighted towards areas like CPG and industrials. And you're going to find strong brands, pricing power in margin stability. These are all things that we think are important at the moment given the recent move in oil. Outside of that, we still see value in healthcare. It seems to us that pharma and biotech should be big winners of AI over time. Just think of the potential increase in speed and efficiency we're likely to see for

something like drug discovery. We've also seen a healthy pick up there in M&A over the past few months, with Big Pharma acquiring younger companies to build out and grow their drug pipeline. And then, finally, I know some of the shine has come off technology here recently, but it is important, as Mike said, to remember that we are still in the early innings of the AI buildout, and there's a long list of best in class companies there in tech that are starting to offer attractive value. So it's certainly an area to keep an eye on as well.

Jay Diamond: Ryan, we've seen the emerging markets uncharacteristically significantly outperform U.S. equity markets in 2025. What's your view of those?

Ryan Sundby: Yeah. You know, long term we do like international markets. It's an area that's shown signs of broad-based fundamental improvement and relative valuation remains attractive even after the strong returns you mentioned that we saw last year. When you look at emerging markets account for more than 60 percent of global population and 40 percent of global GDP, but they only carry about an 11 percent weight in the MSCI All Country index. Because of that, we think there's a real opportunity here for portfolio managers to move into international over time as they remain underweight in their exposure. You know, I think emerging markets can also serve as a kind of a creative backdoor play on AI. Really many of these companies are a broad set upstream and supply chain, so they're providing semiconductors, raw materials, manufacturing capacity, all of which are going to be required for the AI buildout. And then, you know, I think certainly in the near term, the jump we've seen in energy prices and the supply constraints that will likely follow, are going to pose a challenge here. I think, for some of these markets. So, you know, when it comes to international equities, you know we could see a nice kind of buying opportunity here if we do see a pullback. I think especially for investors that can take a longer-term perspective.

Jay Diamond: I agree. So Ryan, a lot of equity investors like to get their exposure to equity markets in the form of unit investment trusts. What can you tell us about them?

Ryan Sunby: Yeah. So a unit investment trust—or a UIT as we call it here—is an SEC-regulated investment company that purchases a fixed portfolio of securities. So that could be equities, ETFs, closed-end funds, or some combination of those assets. And then they're usually held until a set termination date typically 15 to 24 months. Unlike mutual funds, UITs do not actively trade those securities though. Once they're assembled, the portfolio generally remains unchanged, allowing investors to know exactly what they're going to own. Each UIT also typically has a different investment objective or a strategy around it, so they can be built to offer exposure to something narrow, like a specific sector or a geography or an investment style. Or they can give investors access to portfolios that are quite broad and diversified, all with, like I said, a high degree of

transparency there. We also have products, that can help manage equity risk. We call those buffer UITs. These can allow investors to participate in market upside up to a cap, while also providing a buffer against a predetermined amount of downside over a set period of time, which I think could be quite beneficial to investors during, you know, periods of heightened volatility here. At the end of the day, we do think units provide a wide range of options for investors to choose from. And importantly, I think they do play well with an old adage on Wall Street that says it's not about timing the markets, it's more about time in the markets. I think structurally UITs really do embody that spirit.

Jay Diamond: That's terrific. And I again, I thank both of you for taking your time to speak with us today. But before we let you go, what final thoughts would you like to leave with our audience?

Michael Schwager: Yeah, thanks, Jay. I mean, bottom line, we expect volatility to continue. But barring a protracted closure of the Strait of Hormuz, which we don't think is likely, we do think we're still very much in a Goldilocks type environment for the equity markets. We have to keep in mind that equity markets are forward-looking. They tend to discount somewhere around 9 to 12 months into the future. And we think the message being sent by the current resiliency in the market is that the economy and earnings will remain in good shape in the quarters ahead. Earnings and interest rates, which are the building blocks of risk assets, in our opinion, both remain in very good shape. Capital expenditures tied to AI electrification and infrastructure remain firm. Equity leadership has broadened out beyond the tech sector, and fiscal policy remains very expansive for a non-recessionary backdrop. While we think volatility will remain elevated and we can't rule out a correction along the way, we would be looking to use pullbacks to add equity exposure.

Jay Diamond: Well, again, thank you guys so much for your time. I hope you come back and visit again with us soon. And thanks to all of you who have joined us for our podcast. If you like what you're hearing again, please rate us five stars. And if you have any questions for Mike, Ryan, or any of our other podcast guests, please send them to MacroMarkets@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. In the meantime, for more of our thought leadership, including our [weekly viewpoint](#), which focuses on the equity market and as I mentioned, our new paper on [the macro and market impact of AI](#), visit GuggenheimInvestments.com/perspectives. So long.

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