

Macro Markets Podcast Episode 86: Portfolio Strategy as Oil Stays Elevated and 'Regime Change' Comes to the Fed

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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 May 1, 2026. As was widely expected, the Fed held its policy rates steady at the conclusion of the FOMC meeting this week, which may have been Chairman Powell's last as chairman. Meanwhile, equity markets are hitting new records while fixed-income spreads have broadly re-compressed. The economy is looking resilient, but the conflict in Iran continues and energy prices remain elevated. So how should investors position around this set of circumstances? Well, here to help us sort through the noise, make sense of where the economy might be going, and how our portfolios are positioned in this climate, are Adam Bloch, portfolio manager on our total return team, and Patricia Zobel, the head of macroeconomic research and market strategy. Welcome back, Adam and Patricia, and thanks for taking the time to chat with us today.

Adam Bloch: Thanks so much for having us, Jay.

Patricia Zobel: Thanks for having us on.

Jay Diamond: So let's start with you, Patricia. The FOMC's decision on Wednesday to hold its policy rates steady was widely expected. What was their rationale and did you agree with it?

Patricia Zobel: Thanks, Jay. The committee was broadly aligned on the decisions to hold rates steady in line with their wait-and-see approach that they had adopted after the Iran war began. It's clear that rising energy prices are lifting inflation and categories like gas and airfares, but they need more information on the duration of inflation impulse and its effects on the economy before deciding on a policy approach. So the path of the war is still uncertain, and we're just beginning to see the effects on the economy. In my mind, this is the right approach with inflation having been above target for five years and core PCE currently over 3 percent, they need to have confidence that inflation is going to be on a downward trend before deciding to look through the supply shock.

We expect them to be on hold for a few more meetings and probably until later this year. What was interesting at the meeting, though, is that while the FOMC broadly agreed on the decision today, there was much less agreement on how to characterize the forward-looking view. In fact, Chair Powell said there was a vigorous discussion on it, and three voters dissented on the language in the statement that has a fairly subtle bias towards easing. I think these FOMC participants preferred to have more neutral language, indicating that the next move, whenever it comes, could be a cut or it could be a hike. I don't think these dissenters are planning for the next move to be a hike. In fact, in the March SEP, when oil prices were at near peak levels, no FOMC participant had a projection of a rate hike. I think they just want a neutral stance.

Jay Diamond: Now, Adam, as Patricia said, the market pretty much expected this outcome from the FOMC. Now in your chair as a portfolio manager, how do you think about monetary policy from the market's perspective when the Fed is, quote, in play or not.

Adam Bloch: Sure. Well you know, there's times when monetary policy dominates the zeitgeist and what we're doing in portfolios. And then there's plenty of times when it isn't at the forefront. As Patricia walks through, the bar for the Fed to move is high, and our expectation is they'll be on hold for at least some time here, and the market knows that. So broadly, that means monetary policy, frankly, isn't at the forefront for short-term positioning in the portfolios right now. That said, it's still very important to think about longer-term trajectory and the range of outcomes, as we're obviously managing portfolios for longer-term moves as well. So just because the Fed is likely on hold for now obviously doesn't mean that will last forever. And it's really the transition between regimes that matters the most. The Fed can go from not in play or on hold to in play much faster than consensus expects or thinks it will. And it oftentimes only takes one or two economic prints to really shift the narrative. So the focus on longer-term economic data trends helps to allow us to hopefully catch the shift in regime before it happens.

Jay Diamond: Now, Patricia, with that begs the question, what are our expectations for rate cuts from here?

Patricia Zobel: So as Adam noted, we have the Fed on hold for coming meetings, but we still have rate cuts penciled in for later this year. Our expectation is that inflation could recede over time, and with that, the FOMC could adjust rates lower along with inflation without changing the restrictiveness of policy. There are some areas of inflation that we see is likely to come down this year. Of course, tariffs are keeping goods price inflation elevated and we think that's likely to recede. Housing disinflation should continue. And then there are some outlier categories of inflation that we don't expect to be persistent. And that would include energy if the conflict were resolved. So, our base case is that disinflation continues later in the year and the Fed eases. The risk to our view is that rate cuts get pushed out into 2027. Energy prices could stay higher longer than we're currently anticipating. There could also be some areas of underlying heat, like we're currently seeing in prices related to the AI buildout. And so those are the things that we're monitoring to assess whether or not we push off those rate cuts. We still see rate hikes this year as

unlikely unless sticky inflation is accompanied by a tighter labor market or if inflation expectations start moving in the wrong direction.

Jay Diamond: Great. And just to follow up, Patricia, what is the market pricing in, and do you think they're appropriately evaluating the environment you just described?

Patricia Zobel: It was really interesting after the war began that rates markets reacted so strongly to the inflationary implications of the oil shock. And they've priced in central banks hiking rates globally. We also see risks to persistent inflation and the potential for a policy response. But in our view the probability of hikes was overpriced. If the conflict resolves soon or the shock worsens, as Adam suggested, deterioration in the labor market, either one of those could lead to lower rates. And so our sense was we understand that there are risks to both higher inflation and toward a weakening economy. That's what happens with supply shocks. But we thought that the risks of higher inflation persisting were overpriced.

Jay Diamond: Now, Adam, given where the market is right now and what Patricia said are our expectations for the Fed going forward, how are you positioning along the yield curve.

Adam Bloch: It's not the most exciting, Jay, but our biggest theme over the past, frankly, couple of years at this point with respect to rates has been an expectation of a rangebound environment for interest rates, particularly for intermediate- to longer-term rates. So on 10s that means a broad range of 3.75–4.75, but realistically more of a narrower trading range between 4–4.5 percent that we've been able to take advantage of. So that's allowed us to tactically reduce duration, like back in February of this year, when the 10-year went under 4 percent at the start of the conflict with Iran, and then we've gotten a couple chances to add back duration, including last week as we moved north of 4 percent on 10s, so trading that range has added value. It definitely falls in the camp of hitting singles portfolio rather than swinging fences, but it's been a pretty steady strategy for us over the past couple of years. Now, with rates looking at the 10-year having retraced back to the 4.30 area, we're closer to neutral overall duration wise, and we have small steepeners at 2s/10s and 5s/30s right now. The 2s overweight is focused really on fading, what Patricia was talking about, of the market pricing of a 30 or so percent chance of a rate hike later this year. We do not think that is very likely. And so taking advantage of fading that view through an overweight in 2s makes sense. And then the 5-year overweight which again is not terribly pronounced or large, but on the margin, that overweight is really focused on what Patricia just talked about, the longer-term potential weakening of the labor market or a variety of other potential catalysts for rates to move lower over the next couple of years.

Jay Diamond: Oh, great. Now, both of you have mentioned oil. This is a big issue of concern in the market, the elevated price of oil since the war started in Iran. So, Patricia, how do you see the path of oil prices from here, and how do you see the range of outcomes affecting the economy?

Patricia Zobel: So, the path of oil really centers on when the Strait of Hormuz will open again. And the news on that changes daily. The Strait's closure is very impactful. It's reduced the global oil flow by almost 15 percent. And that's really a lot because it's more than double the oil supply shocks

that you saw in the 1980s and 1970s. And it's not just oil. It's also natural gas. And it's a broad range of chemicals that are inputs to supply chains. Oil prices are elevated as a result, but not actually as high as they could be given the magnitude of the disruption. Expectations for a near-term resolution to the conflict, countries releasing strategic oil reserves, and demand curtailment have all combined to reduce the impact of what is a historically large oil shock. Our base case is that the conflict does resolve in coming weeks, and in that case prices will stay high for a while, but they'll gradually fall over the course of the year. It's going to take some time to secure the Strait, including de-mining and getting insurance going again, and to get the supply flowing from oil wells that have been shut in. And of course, restocking oil is going to be an ongoing theme for countries and keeping prices elevated than they were when we entered the conflict. I think the good news for the U.S. is that it's fairly resilient to higher energy prices and the hit to the economy in this case under our baseline forecast could be manageable. The U.S. is an energy exporter and is less energy-intensive than it had been in the past, and U.S. growth has some important tailwinds this year. AI investment is barreling ahead and fiscal stimulus is entering consumer bank accounts over the course of the refund and tax paying season. So those are all going to support the U.S. economy in the face of this shock. However, there's a downside tail to this picture, which is if the conflict is not resolved at some point, oil inventories are going to deplete and the price sensitive demand that I spoke about will have been depleted. And so what you could see is very high oil prices. That's the risk. That's the downside tail that you could see if this goes on for too long.

Jay Diamond: Now as follow up, Patricia, the stock market had a phenomenal April. Why do you think equity markets have shaken off the risks of higher oil prices and its potential impact on inflation?

Patricia Zobel: Shaken off is a good description for it. Equity markets, of course, fell at the onset of the conflict, but they've come roaring back. And this is seemingly at odds with both the higher Treasury yields that Adam and I have both been talking about and higher oil prices. What people are focusing on, though, is that when you look under the hood, the U.S. fundamentals are pretty strong. Q1 earnings are remarkably robust, with 60 percent of companies reporting, earnings growth is currently at 28 percent over Q1 of last year of 2025. And in particular, AI related sectors like cloud continue to show remarkable growth. The energy sector is benefiting from higher oil prices, and banks and consumer businesses are reporting mostly steady consumers. There's also, when you look under the hood, dispersion in sector performance, that also gives you a sense that investors are focusing on fundamentals. So for example the oil shock is dragging some sectors down like airlines that have suspended forward guidance and are cutting back flights as they face high jet fuel prices. And AI disruption continues to weigh heavily in the software sector, which are down mostly around 20 percent this year. So I think these are things that give you some sense that investors are focusing on fundamentals. I guess what I would say is that even with this focus on fundamentals, risk premiums you get for investing in equities right now seem pretty low for the current environment. Earnings calls across the spectrum have noted that consumers are under pressure and they can't sustain high energy prices indefinitely. And investors at some point may

question AI valuations given the soaring cost of the AI build out. So while I see reasons for equity markets to be rising, I think there's also some potential downside risk that's not really being priced.

Jay Diamond: Now, Adam, I want to stick to the same topic here. The bond market, on the other hand, does seem to be factoring in the inflationary potential of higher oil prices, and we're seeing that in rates. Now, how do you factor in higher oil prices as an input into your work, whether it's an individual credit industry, or portfolio allocations?

Adam Bloch: We worked very closely with Patricia's team at the start of the conflict to build some oil stress scenarios, really to try to map out what higher oil prices and higher-for-longer oil prices might do to the economy and various industries, as Patricia walked through. The conclusion, it was largely the combination of strong growth, steady unemployment and, frankly, the elevated tax refunds expected from the One Big Beautiful Bill Act last year would largely shelter the consumer and the overall economy from persistently elevated oil prices. So that gave us confidence to add risks in certain sectors, obviously, as Patricia mentioned, being very mindful of those more oil-sensitive sectors, but in the non-oil sensitive parts of the market or energy sensitive parts of the market, we were able to add risks over the course of March as spreads widened. Nothing we were doing was a direct bet on higher or lower oil prices. We're generally not in the business of that type of macro forecasting, really more just trying to identify mispricings based on market fear that we thought at various times was quite overstated.

Jay Diamond: Now, Adam, beyond the oil wild card, what is your overall perspective on credit quality right now?

Adam Bloch: So, we've obviously retraced quite a bit from the whites in March across all credit markets. So now spreads are back to relatively tight, more or less where we started at the beginning of the year. But fundamentals and technicals remain very strong. On the fundamental side for per leverage is call it a quarter turn or so below the 20-year average. So companies are less levered than they historically have been. That's true across the rating spectrum, both IG and high yield. Interest coverage ratios, cash to debt ratios, which is a liquidity proxy, are both around long-term averages. The upgrade to downgrade ratio in both IG and high yield is positive, slightly negative in loans, but that's more of a software story than anything, so overall that the fundamental backdrop is really strong for credit right now. And then on the technical side, which we obviously follow quite closely, you know, yields are elevated, call it 70th percentile for IG and other IG corporates and other high quality credit segments, so that's driving a lot of flows into fixed income even throughout the volatility of March. And so that continues to be very supportive for credit. Sometimes we can really simplify the world down to strong fundamentals and high yields being a good backdrop to take risks. There's obviously a lot more under the surface credit selection that needs to take place. But it's overall a fundamentally and technically positive backdrop for taking risk and credit right now.

Jay Diamond: Adam, I want to switch gears a little bit with you, private credit has been in the headlines over the last couple of months, not all positive. What is your take on this asset class? Is private credit a systemic risk for the market to worry about?

Adam Bloch: So we've seen versions of this before. Lots of money gets raised and in a particular market segment, and then on the back of that, some not so great deployment of that capital takes place. And we think largely that's a bit of what has happened over the past few years, particularly with deployment of private credit capital, both in private credit funds and BDCs into the software segment of the loan market. So you have investors quite reasonably concerned about some of these BDC and private credit funds that have higher software exposure. But the reality is the structures of these funds fundamentally prevents investors from being able to make the knee-jerk reactions or redemption decisions that you might otherwise be seeing right now. So private credit funds are generally locked, and BDCs are largely able to limit redemptions to 5 percent of requests. We've done an analysis of the BDC market. Most of the large traded BDCs have liquidity to cover one–two years of redemptions before being forced to start selling any assets so that one–two years of coverage, that's a pretty long time. And with the very uncertain backdrop of how the software story evolves, that gives private credit and BDC managers time to work up other liquidity, tap into other resources and see how things evolve. So in summary, this isn't really a run on the bank-type situation, which is what we would worry about for in terms of spillover and into broader publicly traded credit markets. So the impact on the markets that we focus in should see a pretty limited spillover effect from private credit.

Jay Diamond: Okay, great. Now I want to stay with you one more minute. So given our macro outlook and what you've talked about in terms of the market, where are you finding value right now and what are you avoiding?

Adam Bloch: Much in the securitized credit markets, so both in non-Agency and Agency space, continue to look very attractive to us. I mentioned earlier we were able to add some risk in corporates, both IG and high yield, over the course of March. But now with spreads having retraced back the securities markets are screening quite a bit cheaper to us. So starting with Agency mortgages, the rangebound rate dynamic I mentioned earlier gives us confidence to get paid extra spread to take prepayment risk in Agency mortgages. So when rate vol is high, prepayment risk is perceived to be high because there's a potential for rates to move a lot lower and see refi activity pick up, which is every mortgage investor's worst nightmare. So again, given that rangebound rate environment or expectation for that environment, we don't think the prepayment risk is terribly high, and so we're happy to get paid that at this point, call it close to 100 basis point spread premium versus Treasuries effectively to take that prepayment risk. And that looks pretty attractive compared to the IG corporate market that's now inside an 80 basis point spread versus Treasuries. On the non-Agency structure credit side, two primary areas of focus right now one in non-Agency RMBS, where we're primarily focused on securitizations of more esoteric underlying loan types, particularly second lien and HELOC loans, where 750 or higher FICO borrowers, are using those loans to renovate upgrade the homes, getting back to a cumulative LTV, including their primary

mortgage that's still, in many cases, under 60 or 65 percent. Those are some pretty attractive risk profiles where we're getting paid yields close to high yield corporate levels to take single A and higher type risk in those structures, and then secondary in structured aircraft ABS, which has been longstanding one of our favorite places to invest in the structured credit market, the twin dynamics for the aircraft market, supply issues, given Boeing's persistent or continuing production issues, is colliding with demand for air travel being back above pre-COVID levels at this point. So the demand side of the curve is very strong and the supply side is modeling long, so that is a really strong fundamental support for aircraft valuations, which means a lot of the ABS structures were able to lend into very attractive risk. Again, with yields approaching that of the high yield market.

Jay Diamond: Patricia, as I said at the top, the last FOMC meeting was probably Chair Powell's last in the chairman's seat, and it's all but certain that Kevin Warsh will be the Fed chair for the next FOMC meeting in June. So how are you thinking about this development operationally and from a policy perspective?

Patricia Zobel: So, as you mentioned, Chair Powell will be leaving the chairman's seat, and this was his last press conference, which was interesting to see. And I think what we're going to see is Warsh coming in, and this is going to be a bigger transition than I think prior chair transitions, where it was handing over the reins to somebody who was already on the committee, or he considers himself more an agent of change. And when Warsh testified before the Senate Banking Committee, it was the first time we actually heard from him in several months. And to me, it provided a window into his focal points as chair. I think we learned three things. First, he came out strongly in favor of monetary policy resetting independence, and people had questions about his ability to be an independent in the current environment. So that was heartening to see. He indicated that he has not pre-committed to rate cuts and focused most of his remarks on the perils of inflation, and so he laid out a strong case for narrow but firm monetary policy independence. He did carve out a path to lower rates. He favors trimmed mean measures of inflation that have been running lower than the measures that the committee typically focuses on. And he highlighted AI's disinflationary impact. But he didn't commit to any timeline for rate cuts. Second, he favors meaningful changes in how the Fed communicates. And I think this might be the biggest area of change that people will notice under a Warsh chairmanship. He wants less communication. He feels that forward guidance pre-commits the committee to a path of policy, and prefers not to have forecasts like those included in the SEP. He can't move unilaterally on these things, but I think that's the direction of travel, and that will be something for markets to get used to. They're used to having a sense of the path of rates, and that would be something that Adam might focus on when he's thinking about positioning, is understanding where the committee thinks it will be in a year or two. The third area was around the balance sheet, which he's spoken quite a bit about. While he continued to argue for a smaller balance sheet, he didn't set any targets for that and made it clear the process would be slow and deliberate. He suggested that changes would be described well in advance, so that there were no disruptions to financial markets. And so, after much saber-rattling last year on the balance sheet, the picture was one coming out of his testimony of slow change and gradual change on the

balance sheet. Same direction of travel, but nothing too abrupt. So what do I think this means going forward? First, I think he was convincing on rate setting independence, and markets must agree because for most of this podcast we've been discussing how markets have been pricing rate hikes, even as it's clear that Warsh is going to be in place soon. And second, I think we should expect some changes on communications and the balance sheet. Of course, Warsh is going to operate as part of the committee. The FOMC is a group of people who have their views on this, and he has to influence those in order to make change. And so I think we should expect that to be somewhat gradual.

Jay Diamond: How could a change in the communications policy or the balance sheet policy potentially affect markets.

Patricia Zobel: Depending on how it evolves, and I think it could evolve slowly, but what you could see is somewhat more surprises. If people aren't seeing how committee members' thinking is evolving or understanding how they were projecting the rate path, I think the best you can do with communications is lay out how you would respond under different environments, because I think that gives people a base of information to react to incoming data. And if there's less communications on reaction function or how people are seeing the environment, you could see the environment have a little bit more rate volatility.

Jay Diamond: Thank you so much for your time, both of you. Now, before I let you go, Adam, what would be the main takeaway you'd like to leave our listeners with?

Adam Bloch: Well, despite a very volatile Q1 where we sit here recording the beginning of May, yields are relatively high still, core inflation is relatively contained, and as Patricia outlined, broadly trending lower. So, the backdrop for fixed income is still very strong. [We] talked about some of the areas within credit that we're finding particularly unique value. And we think now is really a great time to be allocating to those credit segments, particularly given the backdrop of record high equity markets and weakness, or at least uncertainty in certain segments of lower quality and private credit. Yields for IG average-quality portfolios that are in the mid to high single digit area, is something that will perform well and allow for attractive compounding income over the next several years.

Jay Diamond: Well, thank you Patricia. You get the last word. Any final thoughts for our listeners?

Patricia Zobel: I think I would just say that the U.S. economy continues to have an underlying strength and that supply shocks are certainly going to create some challenges. But the resilience has been remarkable in recent years, and it will depend on the path of the shock going forward, what we'll see. But the underlying resilience is likely to sustain us through this year.

Jay Diamond: Well, thank you again for your time, both Adam and Patricia. I hope you'll visit us again soon. And thanks to all of you who have joined us for our podcast. If you like what you are hearing, please rate as five stars. And if you have questions for Adam, Patricia, 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 recently published fixed-income sector views, visit GuggenheimInvestments.com/Perspectives. So long.

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