

Third Quarter 2025

Fixed-Income Sector Views



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Fixed Income Has Generated Strong Returns Year to Date, With Continued Momentum as the Economy Slows

Amid an economic slowdown, fixed income offers the potential for attractive yields, total return, and portfolio ballast, but credit selection is critical.

The macro backdrop remains supportive for fixed income and credit. Our baseline U.S. economic outlook projects real gross domestic product (GDP) growth to slow below 1 percent this year, with inflation rising above 3 percent, as tariff-induced price increases—which have yet to be felt—filter through and cut consumer spending power. Business investment and hiring are slowing amid trade and regulatory uncertainty, a trend we expect will continue, boosting the unemployment rate and prompting the Federal Reserve (Fed) to start easing later this year. We expect Fed cuts to accelerate in 2026 as the one-time tariff price increases fade, taking the policy rate into the low 3s. The upcoming Fed leadership change may lead to markets perceiving a bias towards a lower fed funds rate.

Credit and Risk Positioning

Returns have been strong year to date across all categories of fixed income, with most sectors outperforming their starting yield.

Returns have been very similar across categories, but that could change. Amid a slowing economy and bouts of market volatility, our investment approach is guided by key market dynamics: real yields are very attractive; credit spreads have tightened; risks to our baseline economic outlook are heightened; and corporate fundamentals are strong, but we expect them to diverge among industries as some are more vulnerable to tariffs, international demand or a more stretched consumer.

We continue to prioritize diversification with a high level of income generation. We prefer higher quality credit as credit curves have flattened, particularly structured credit, where spreads remain wider relative to fundamental risk, and defensive assets like infrastructure, which has historically offered inflation-linked income and downside resilience. We prioritize high carry instruments, including non-Agency residential mortgage-backed securities (RMBS), senior collateralized loan obligations (CLO) tranches, and commercial asset-backed securities (ABS). In corporate credit, we favor higher quality high yield (BB-rated) securities with low expected direct and indirect vulnerability to tariff and regulatory risks. We are making tactical rotations, using market weakness to add, and strength to rotate, diversify, and capture opportunities created by the volatility.

Duration and Interest Rate Views

The 10-year Treasury yield should remain range-bound between 3.75–4.75 percent as policy changes unfold, with upward pressure from fiscal policy offset by slowing growth and easing monetary policy. Elevated volatility in the 10-year Treasury presents opportunities for us to tactically add duration when yields reach the higher end of the range and sell when near the lower end. Over the next year, we anticipate the yield curve to steepen further, led by rate cuts on the front end, and persistently higher yields on the long end as investors require greater term premiums to compensate for the risk of growing fiscal deficits. In this environment, we favor the belly of the curve, which we believe is poised to outperform as the Fed eases.

As growth slows and policy uncertainty creates a wider range of economic outcomes, higher quality credit can offer attractive real yields, diversification, and portfolio ballast to help buffer downside risks. As credit performance diverges among industries, however, and the yield curve shifts, active selection and risk management are critical.

By Anne Walsh, Steve Brown, Adam Bloch, and Evan Serdensky

Heightened Tariff Volatility Is Slowing Growth

Fed easing should commence this fall, with some fiscal boost coming in 2026.

The economic landscape continues to be shaped by heightened policy volatility, with historic swings in tariff policy the main source of uncertainty. Despite declining from its peak, the effective tariff rate remains at its highest level in decades at about 15 percent, acting as a tax on the economy. While the full impact of tariff hikes has yet to materialize, the coming months are expected to bring slow growth and rising inflation as businesses absorb some of the higher tariff costs through lower profit margins and pass the rest on to consumers. While peak uncertainty is likely behind us, there is likely to be continued caution from businesses and consumers. Downside risks may be tempered by the administration's reluctance to maintain policies that could inflict significant economic harm.

Meanwhile, the federal budget, shaped by the One Big Beautiful Bill, should provide a modest boost to growth, primarily in 2026. We expect both consumer and business spending to get a lift from tax cuts early next year. Although the bill contains more cost cutting measures than had been anticipated, concerns remain about fiscal sustainability. Even with a potential boost from tariff revenues, fiscal deficits would exceed 6 percent of gross domestic product (GDP) over the next decade. We see U.S. real GDP growth of slightly below 1 percent in 2025, with a modest recovery in 2026. In the near term, households are likely to experience reduced spending power due to

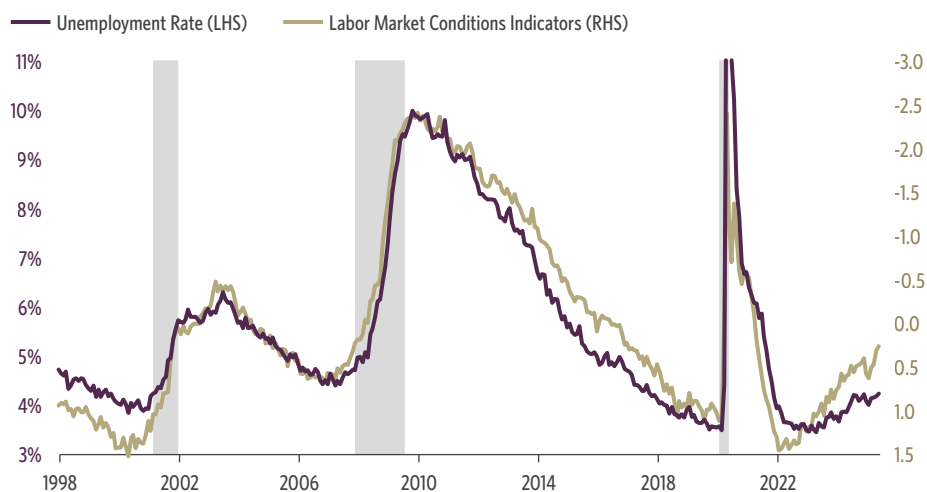
higher prices on imported goods. Indeed, discretionary consumer spending has already seen a sharp pullback in the first half of the year. Business investment is also likely to slow, though AI-related investment remains a notable exception. Weaker consumer and business spending will likely lead to more labor market softening, with unemployment rising to around 4.5 percent by year end.

We see inflation rising above 3 percent by the fourth quarter, driven by tariff-related price increases. However, this is expected to be a one-time boost rather than a persistent trend. Underlying disinflationary forces—such as cooling housing and wage inflation—should eventually prevail as higher unemployment and reduced consumer spending power help contain broader price pressures. The Fed's cautious stance reflects a wait-and-see approach to evolving policy and economic conditions. The Fed might have already been lowering the policy rate again had the uncertainty from tariff policy not been introduced. As some time has now passed, we expect easing to commence later this year as policy certainty increases and labor market weakness becomes more pronounced, with rate cuts accelerating in 2026 to 3.125 percent as the Fed gains comfort that tariff driven price increases will not be an ongoing source of inflation. The Fed is expected to view risks of labor market weakness as a more persistent problem than tariff driven inflation.

By Matt Bush and Maria Giraldo

Easing is expected to commence later this year as labor market weakness becomes more pronounced, with rate cuts accelerating in 2026 to 3.125 percent as the Fed gains comfort that tariff driven price increases will not be an ongoing source of inflation.

A Softening Labor Market Should Prompt Fed Easing Later this Year



Source: Guggenheim Investments, Haver. Data as of 5.30.2025. Gray areas represent recession.

Volatility and Yield Curve Dynamics Present Tactical Opportunities

We still expect the curve to steepen over the longer term.

Elevated fiscal deficits leave the long end of the Treasury curve vulnerable to selloffs as investors seek higher yields to compensate for the risk associated with increasing supply. The passage of the One Big Beautiful Bill by the House in May exacerbated these concerns, highlighting the potential for further volatility. Regulatory changes may offer banks some balance sheet relief, but they are unlikely to significantly enhance their appetite for Treasuries, keeping the market wary of fiscal policy's effects on Treasury demand.

Sector Commentary

- Tariff announcements in April induced volatility across asset classes, with Treasuries trading within a 25–50 basis point range. The S&P 500 dropped over 10 percent before rebounding following the Trump administration's 90-day tariff pause.
- Elevated volatility throughout the quarter led to a markedly steeper yield curve. Short-term Treasury yields decreased by 10–15 basis points, while long-term yields increased by 20–25 basis points.
- Concurrently, a weaker-than-anticipated inflation report and a moderating labor market have bolstered market expectations for a Fed rate cut this year, potentially starting in the third quarter.
- The appointment of Michele Bowman as Vice Chair for Supervision of the Board of Governors is anticipated to lead to an easing of bank regulatory requirements.

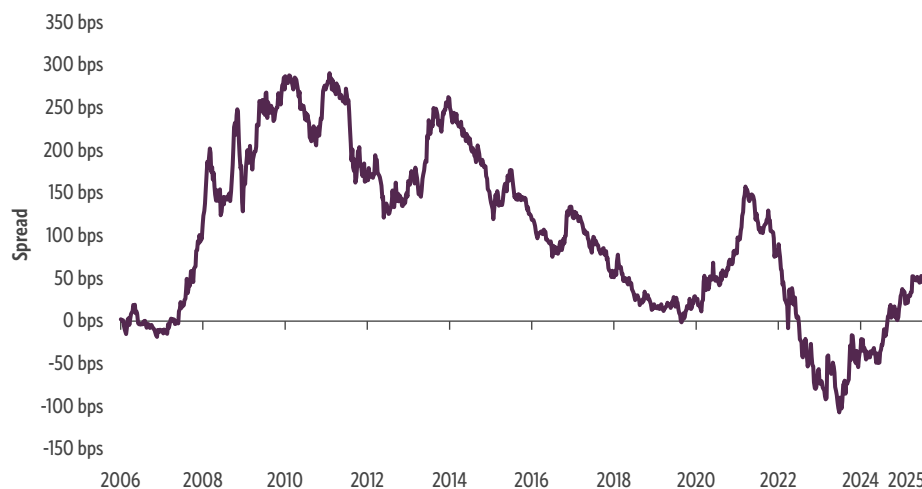
Investment Themes

- With the Fed nearing a potential easing of monetary policy, we favor owning duration in the front and intermediate segments of the Treasury curve.
- Elevated volatility in the long end of the curve presents opportunities to tactically add duration. The 10-year Treasury remains at the higher end of its 3.75–4.75 percent trading range, supporting this strategy.
- As longer maturity sovereign yields rise globally, and U.S. dollar-hedged carry remains attractive due to higher U.S. short-term rates compared to other developed countries, we see potential value in owning duration in non-U.S. dollar sovereign bond markets and hedging back to U.S. dollars.
- Current Treasury yields create a favorable environment for investing in higher quality fixed-income securities.

By Kris Dorr and Tad Nygren

Elevated volatility throughout the quarter led to a markedly steeper yield curve. Short-term Treasury yields decreased by 10–15 basis points, while long-term yields increased by 20–25 basis points.

Historical 2s10s Yield Curve Is Likely to Steepen



Source: Guggenheim Investments, Bloomberg. Data as of 7.11.2025.

Strong Demand for Long-Duration Bonds Despite Rich Valuations

We prefer defensive sectors given historically tight spreads and policy uncertainty.

Investment-grade (IG) credit markets have remained resilient and technically strong, with spreads at or near year-to-date tight levels. Despite macroeconomic uncertainties, including fiscal policy shifts, trade tensions, and geopolitical risks, supportive fundamentals such as robust corporate earnings, elevated all-in yields, and strong technicals from limited net primary supply are expected to support investment-grade spreads in the third quarter. This outlook underscores the market's capacity to navigate potential headwinds while capitalizing on favorable conditions.

Sector Commentary

- Insurance and institutional demand for long-duration investment-grade bonds remains robust, particularly when yields approach 6 percent. However, stretched valuations limit bullish sentiment.
- Primary market activity is steady, skewed toward financial issuers and shorter maturities. New issue concessions are low, and oversubscriptions are high.
- Higher ongoing coupon payments support higher reinvestment in the sector. Owing partially to this dynamic, net supply is down materially versus 2024 and on a three-year look back.
- Credit fundamentals remain solid, with debt growth slowing, leverage normalizing, and interest coverage remaining high, despite rising interest expenses.
- Foreign demand for U.S. IG remains intact despite concerns regarding overseas selling, as its relative value has improved compared to European IG.

Investment Themes

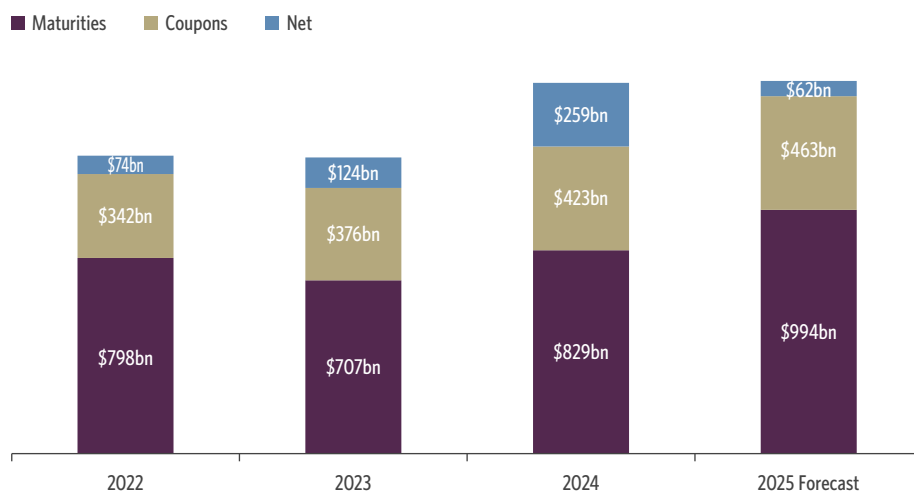
- We anticipate the IG market will remain rangebound, with dips likely to be shallow and bought. However, the risk/reward for further spread tightening appears unattractive.
- We prefer long-duration corporates from a yield and supply technical perspective, as negative net bond supply is more pronounced in the 30-year maturity bucket. In the front end of the credit curve, two-year BBB corporates offer good potential carry and roll down.
- We favor preferred securities with high current dividends or short callable vintages, with comparable yield-to-call. These securities also benefit from negative net issuance.
- Given historically tight spreads and macroeconomic uncertainties, we prefer more defensive sectors such as telecom, utilities, aerospace/defense, life insurance, and banks.

By Justin Takata

Due to a wave of COVID era bonds maturing with higher coupons payments from the increase in rates, net supply is down materially versus 2024 and on a three-year look back.

IG Net Supply Is Down Significantly Compared to Prior Years

IG Corporate Issuance, \$bn



Source: Guggenheim Investments, JP Morgan. Data as of 6.30.2025.

Spreads Revert to Tights as Policy Uncertainty Eases

Solid fundamentals and low default rates highlight the appeal of high yield in a shifting policy landscape.

High yield markets were volatile in the second quarter of 2025, initially due to widening spreads from tariff concerns. Spreads retraced, however, after the administration's postponed reciprocal tariffs. Progress on trade agreements, stable earnings, and fiscal stimulus discussions have reduced policy uncertainty. Spreads tightened from 355 to 296 basis points, nearing historic lows, marking the sector's eleventh consecutive positive quarter. Strong inflows, robust credit fundamentals, and low default rates support the market, favoring higher quality high yield bonds for their risk-reward balance.

Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index tightened from 355 to 296 basis points in the second quarter, remaining in the 4th percentile of historical levels.
- The high yield index achieved a 3.6 percent total return for the quarter, marking the eleventh consecutive quarter of positive returns, aided by a modest decline in benchmark Treasury yields.
- Year to date, higher quality is outperforming lower quality, with BBs, Bs, and CCCs posting returns of 4.9 percent, 4.2 percent, and 3.2 percent, respectively. However, CCCs led in the second quarter as risk appetite increased following the tariff pause.
- As of quarter-end, high yield bonds yielded 7.4 percent on average, 40 basis points above the decade average, despite a shortened maturity profile of 4.7 years compared to a 6.8-year average since index inception.

Investment Themes

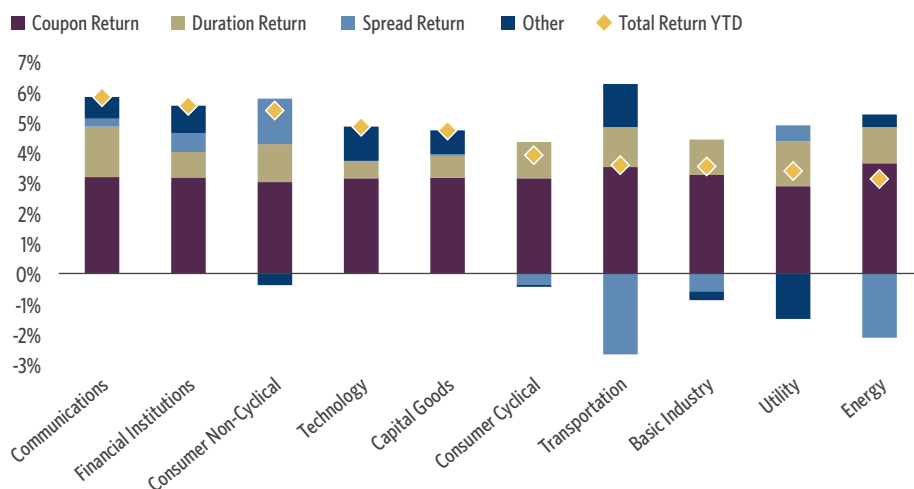
- Investors continue to find high yield corporate bonds attractive despite policy uncertainty, with \$9.2 billion in net fund inflows this year. Expectations of Fed rate cuts are fueling additional appetite as high coupons support returns.
- Strong credit fundamentals make weak periods attractive entry points to add yield. The trailing 12-month par-weighted default rate declined to 1.1 percent, well below the 20-year average of 3.5 percent.
- Refinancing activity is dominating primary issuance, keeping net supply low and containing spreads near historically tight levels.
- The spread difference between weakest and strongest credits is narrower than year-to-date wides. In a slowing growth environment, we prefer higher quality high yield bonds (rated B or above) for their stronger fundamentals and lower default risk, offering attractive yields and relative risk mitigation.

By Thomas Hauser and Maria Giraldo

As of quarter-end, high yield bonds yielded 7.4 percent on average, 40 basis points above the decade average, despite a shortened maturity profile of 4.7 years compared to a 6.8-year average since index inception. The high yield index achieved a 3.6 percent total return for the quarter, marking the eleventh consecutive quarter of positive returns.

Carry and Spread Tightening Supported Positive Returns

YTD Returns through June 30, by Industry



Source: Guggenheim, Bloomberg. Data as of 6.30.2025. Attribution returns are estimates. "Other" may capture other sources of return including roll down and index constituent changes.

High Yields and Stable Coupons Attract Investors

Bank loans continued to deliver positive returns as discount margins tightened and a higher share of loans traded above par.

Bank loans have returned 3.0 percent year to date, bolstered by robust yields and tighter discount margins. The rebound in loans trading above par has invigorated refinancing activity, reflecting renewed investor interest after significant outflows. Despite favorable technical conditions, elevated rates and potential tail risks calls for caution. Focusing on higher quality issuers and prudent credit selection is crucial to navigate the current landscape effectively.

Sector Commentary

- The S&P UBS Leveraged Loan Index recorded a total return of 2.3 percent in the second quarter, bringing year-to-date returns to 3.0 percent. CCC-rated bank loans have outperformed year to date, with returns of 4.2 percent compared to 3.1 percent for BB-rated and 2.7 percent for B-rated loans.
- The three-year discount margin on the S&P UBS Leveraged Loan Index tightened from 567 to 459 basis points by the end of the second quarter. Three-year bank loan yields stood at 8.0 percent.
- Approximately 40 percent of loans traded above par at the end of June, rebounding from May lows, re-incentivizing refinancing and repricing activity.
- High yields and stable coupon levels continue to make bank loans an attractive option for investors in the current market environment.

Investment Themes

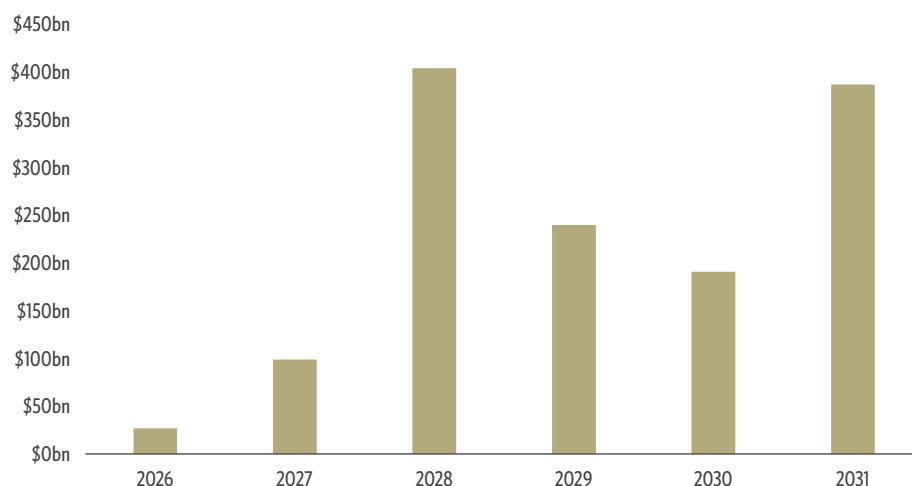
- The technical backdrop is expected to support the bank loan market, with a large share of loans trading above par. Refinancing and repricing activity should remain robust, keeping net supply limited.
- Bank loan fund flows have partially recovered from significant outflows in April but remain down nearly \$4 billion year to date.
- Caution is warranted due to tail risks, as elevated rates may impact issuers' interest costs. While eventual rate cuts will aid debt servicing, credit selection remains critical to navigating the current environment and capitalizing on evolving opportunities.

By Christopher Keywork and Christopher Squillante

The technical backdrop is expected to support the bank loan market, with a large share of loans trading above par. Refinancing and repricing activity should remain robust, keeping net supply limited.

With Limited Near-Term Financing Needs, Issuers May Start Tackling Longer Dated Maturities Later This Year

Schedule Maturities in the Loan Index, \$bn



Source: Guggenheim Investments, Barclays Research, Pitchbook LCD. Data as of 6.30.2025.

Diverse Sourcing Capabilities Are Vital Amid Volatility

More than half of year-to-date direct lending deals were concentrated in just three industries.

U.S. policies, notably the “Liberation Day” tariff announcement on April 2, slowed the anticipated M&A recovery in early 2025. Direct lending loan volume and deal count are lagging last year’s figures, attributed to fewer large buyouts financed by direct lenders amid prevailing uncertainty. In the first quarter of 2025, companies refinanced direct lending deals with syndicated loans totaling \$8.8 billion according to Pitchbook data as of June 30, marking the second-highest quarterly volume in four years, following \$11.7 billion in the first quarter of 2024.

Sector Commentary

- Direct lending volumes in the first quarter of 2025 were primarily focused on leveraged buyouts (LBOs), accounting for 32 percent of volume, with refinancing activity accounting for 27 percent.
- Dividend payouts constituted 6 percent of origination volume in the first quarter of 2025, down from 10 percent and 8 percent in the fourth and third quarter of 2024, respectively, but higher than 4 percent in the first quarter of 2024, according to Wells Fargo data. Dividend activity is expected to remain a meaningful use of proceeds as sponsors face pressure to return capital in a volatile M&A environment.
- We remain optimistic about deal volumes and are continuing to find higher quality transactions with attractive risk-adjusted returns in the current environment.

Investment Themes

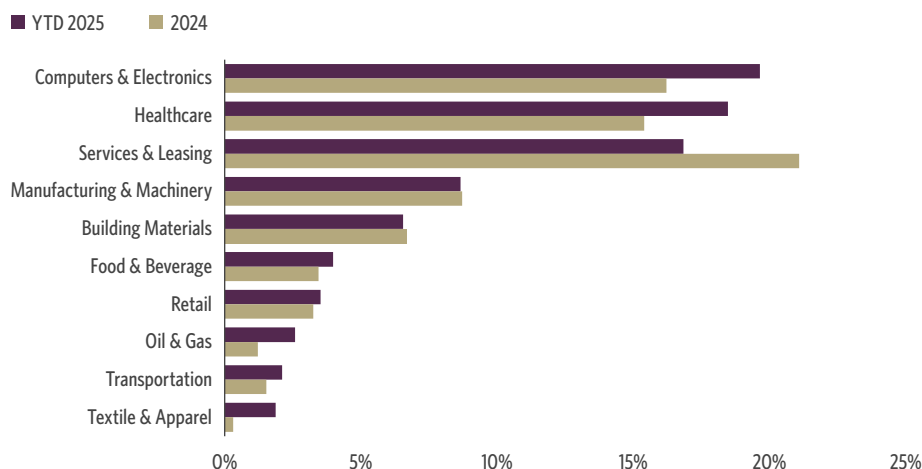
- Healthcare, technology (including computers and electronics), and business services dominated direct lending, representing over 50 percent of deals so far in 2025.
- Technology borrowers led in the first half of 2025, capturing a 19 percent share by deal count, up from 16 percent in 2024.
- We caution against private debt portfolios with high levels of industry concentration.
- In our view, the current environment favors managers who can source transactions from a diverse range of networks and sectors, outside of traditional volume-driven channels and industries.

By Joe McCurdy, Joe Bowen, Mark Pridmore, and Zac Huwald

Healthcare, technology (including computers and electronics), and business services dominated direct lending, representing over 50 percent of deals so far in 2025.

Healthcare, Technology, and Business Services Dominated 1H25 Direct Lending Volumes

New-Issue Direct Lending Top 10 Sectors, Share by Deal Count



Source: Guggenheim Investments, Pitchbook LCD. Data as of 6.30.2025. Direct lending analysis is based on transactions covered by LCD News.

Managing Risk and Opportunity in ABS and CLOs

Strategic positioning in ABS and CLO markets for enhanced return potential.

Asset-backed securities (ABS) spreads have rebounded from April's widening, yet still trail IG corporate bonds, presenting potential opportunities. Year-to-date ABS issuance remains strong at \$164 billion, approximately 8 percent below record 2024 levels. This presents opportunities to invest in the primary markets, as secondary market activity remains subdued with few motivated sellers. Collateralized loan obligation (CLO) new issuance is also strong, at \$97 billion year to date, just 4 percent below record 2024 levels. As spreads have tightened, CLO refinance and reset activity have resumed, with high supply being met with strong investor demand across the capital stack.

Sector Commentary

- **ABS:** The spread differential between ABS and IG corporate bonds widened to the 66th percentile, presenting modest excess yield opportunities. In commercial ABS, new issuance has been concentrated in data centers, fiber telecommunications, and aircraft, while issuance in whole business restaurant franchises has been muted.
- **CLOs:** CLO spreads ended the quarter slightly tighter than the first quarter, despite significant volatility following April's tariff announcements. These announcements raised concerns about higher costs for corporate borrowers, temporarily depressing loan prices and allowing managers to enhance portfolio quality by acquiring discounted loans. As markets stabilized, loan prices rebounded, and CLO fundamentals remained robust, with decreasing CCC-rated portfolio concentrations and healthy overcollateralization cushions, indicating strong underlying credit quality.

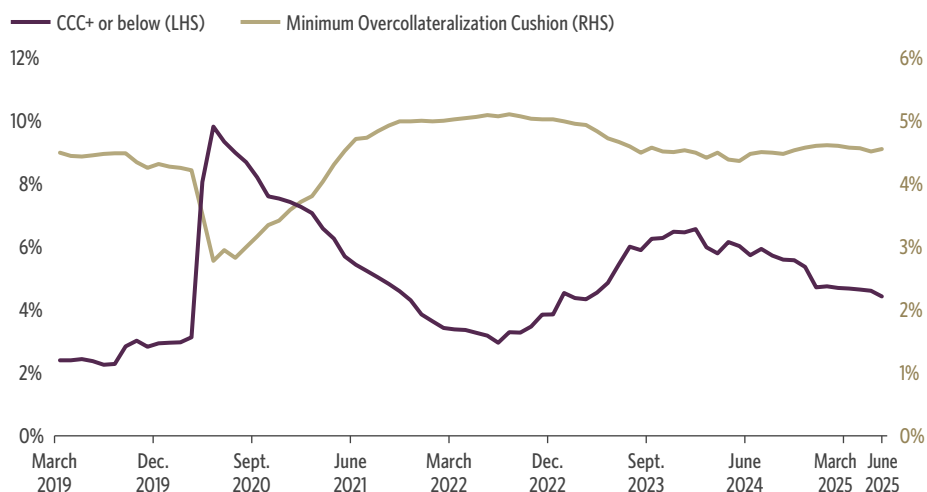
Investment Themes

- **ABS:** We prefer commercial ABS with senior exposures in longer-duration opportunities backed by higher quality collateral, such as franchise royalties, fiber networks, and shipping containers. Consumer subsectors, including home improvement loans, provide exposure to higher credit quality borrowers. However, policy uncertainty may pose challenges to certain subsectors, necessitating close monitoring.
- **CLOs:** Both senior and mezzanine CLO tranches offer attractive relative value compared to similarly rated corporate debt. Credit spreads between private credit (PC) and broadly syndicated loan (BSL) CLO tranches have begun widening from historically tight levels, and the absolute yields are appealing for both. CLO equity from top-tier managers presents an opportunity to capitalize on potential market volatility, as experienced managers can actively manage portfolios and opportunistically acquire quality loans at favorable prices.

By Karthik Narayanan, Michael Liu, and Scott Kanouse

Credit spreads between private credit and broadly syndicated loan CLO tranches have begun widening from historically tight levels, and the absolute yields are appealing for both.

BSL Fundamentals Remain Healthy



Source: Guggenheim Investments, Intex. Data as of 6.30.2025.

Value in Senior Securities Amid a Slowing Housing Market

Despite the slowdown in home-price appreciation, credit fundamentals remain strong for non-Agency RMBS.

Opportunities for robust investment income persist within the non-Agency residential mortgage-backed securities (RMBS) sector, even as home price appreciation decelerates in 2025. We expect mortgage credit performance to remain stable, supported by tight lending standards, substantial home equity gains, and a resilient, albeit slowing, labor market. Elevated mortgage rates are likely to curtail prepayment activity, thereby favoring higher coupon, income-oriented securities. This environment presents a favorable backdrop for investors seeking income opportunities in the RMBS sector.

Sector Commentary

- New issue non-Agency MBS volume reached \$35 billion for the second quarter of 2025, marking a 5 percent increase over the same period in 2024. Spreads have normalized following the initial widening after the April tariff announcement.
- At 6.77 percent, average mortgage rates, remain historically high, though nearly 100 basis points below the October 2023 peak. These elevated rates have significantly reduced housing affordability and demand.
- Home price growth in 2025 has consistently lagged previous years. Although prices have risen monthly, each increase has been below the pre-pandemic average, reflecting a deceleration in the housing market.

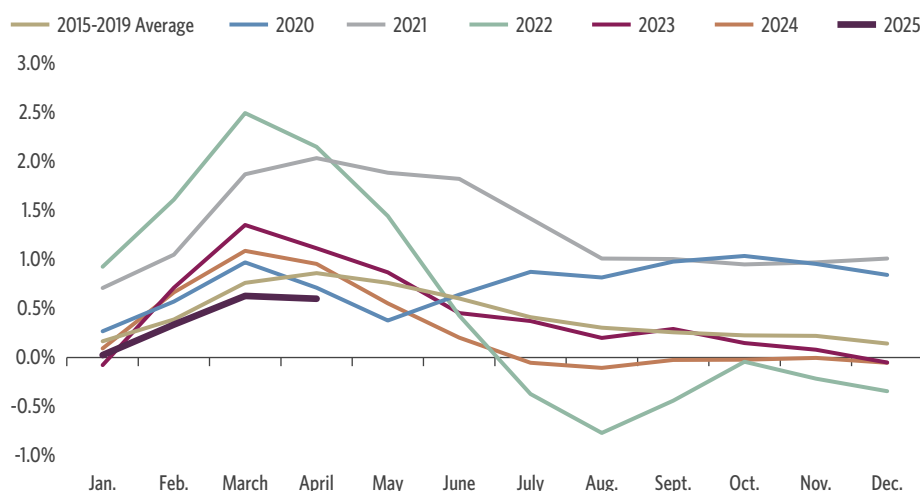
Investment Themes

- Amid moderate headwinds to home price growth, we prefer senior securities with solid carry income. These securities are structured to help limit extension risk and withstand diverse credit stresses, offering potential for resilience in uncertain markets.
- Investment-grade securities from non-qualified mortgage (non-QM) transactions and senior securities from closed-end second (CES) lien and home equity line of credit (HELOC) transactions present attractive income and valuations, and in our view represent compelling investment opportunities.

By Karthik Narayanan and Roy Park

Home price growth in 2025 has consistently lagged previous years. Although prices have risen monthly, each increase has been below the pre-pandemic average, reflecting a deceleration in the housing market.

Home Price Growth in 2025 Has Consistently Lagged Previous Years
Monthly Home Price Change by Calendar Month



Source: Guggenheim Investments, Bank of America, CoreLogic. Data as of 4.30.2025.

Municipal Bonds

Positive Technicals and Reduced Tail Risk Support Tax-Exempts

Federal austerity measures may challenge municipal budget stability.

We expect tax-exempt municipal bonds to outperform as we approach the summer months, driven by positive technical factors and diminished tail risk concerning changes to their tax-exempt status. While long-end municipal bonds have underperformed relative to shorter maturities, we think the current steep yield curve presents opportunities for investors to extend duration. This environment may offer attractive entry points for those seeking the potential for enhanced returns in the municipal bond market.

Sector Commentary

- Tax-exempt municipal bonds ended the second quarter with a -0.1 percent total return. Initial weak technicals improved as large principal and interest payments absorbed elevated supply, while reduced risk of tax exempt status changes bolstered buyer confidence. Front-end tenors outperformed the long end, driven by separately managed accounts, leading to a decline in muni/Treasury yield ratios.
- New money deals jumped 29 percent year over year to \$195 billion, contributing to record primary volumes in 2025. High principal and interest payments through August are expected to continue mitigating supply/demand imbalances.
- Taxable municipal spreads remained mostly unchanged, underperforming investment-grade corporate bond spreads. Static spreads led to a 0.8 percent total return as Treasury rates declined. Year-to-date issuance remains anemic at \$18 billion, a 3 percent increase over the same period in 2024.

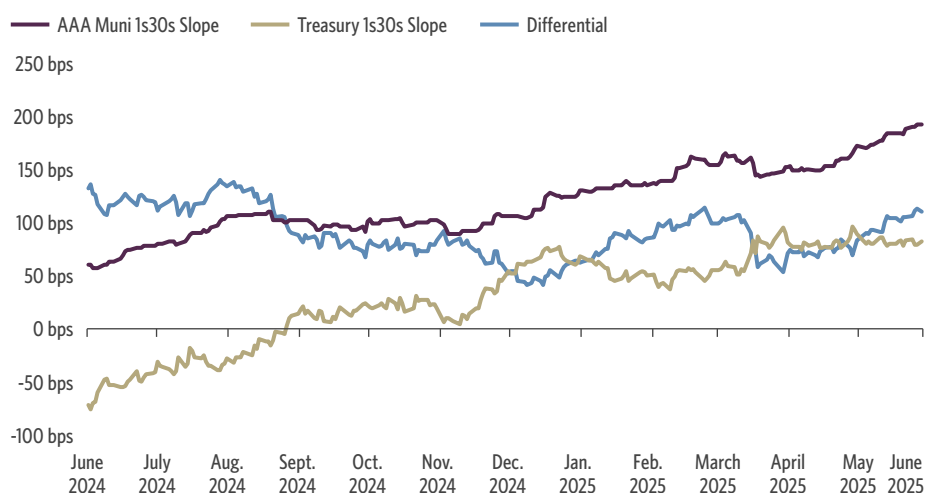
Investment Themes

- The municipal yield curve has steepened to 211 basis points, its widest in 12 months, due to front-end tenor outperformance and reduced retail demand for long bonds. This presents an opportunity to add duration with attractive tax-exempt long bonds.
- Tax-exempt bonds avoided severe tail risk as budget bills from both the House and Senate did not alter the tax exemption. However, proposed federal austerity measures may pressure municipal budgets, forcing them to either draw reserves or cut benefits.
- States that have reduced personal income taxes since 2021 may face greater budget-balancing challenges than those that maintained tax levels, as they navigate the fiscal pressures from federal austerity measures.

By Allen Li and Michael Park

The municipal yield curve has steepened to 211 basis points, its widest in 12 months, due to front-end tenor outperformance and reduced retail demand for long bonds. This presents an opportunity to add duration with attractive tax-exempt long bonds.

Steep Yield Curve Presents Opportunities for Investors to Extend Duration 1s30s Slopes: AAA Muni vs Treasury



Source: Guggenheim Investments, Municipal Market Monitor. Data as of 6.30.2025.

Attractive Relative Value in Agency MBS

Agency RMBS remains one of our favorite sectors given cheap valuations and constructive market backdrop.

Relatively wide spreads, elevated rate volatility and a rangebound yield environment drive our investment thesis in the sector. Limited supply, potential Fed easing, reduced rate volatility, and relaxed bank regulations should support carry and potential spread tightening. The sector remains susceptible to bouts of spread widening from investor flows, which we would see as an opportunity to add exposure. The Bloomberg Agency Mortgage-Backed Securities (MBS) Index recorded total and excess second quarter returns of 1.15 percent and 0.17 percent. Although it underperformed other spread products after the April tariff announcement, its excess returns align with both IG and the broader Agg.

Sector Commentary

- Premium coupon Agency MBS—6 percent and above—have outperformed due to a steeper Treasury curve, stable rate environment, and strong demand for collateralized mortgage obligations (CMOs). As interest rates decline, we favor par-priced, 5.5 percent coupons for their attractive yield, spread, and reduced prepayment risk.
- In early April's risk-off environment, mortgages faced selling pressure due to their strong liquidity and year-to-date outperformance versus the Bloomberg Investment Grade Corporate Index. Lower coupons, comprising much of the Agency MBS Index, were disproportionately affected.
- Agency MBS performance rebounded in June as equities reached all-time highs, causing passive investors to reallocate capital to fixed income—a trend we expect to persist if equity markets continue to rise.

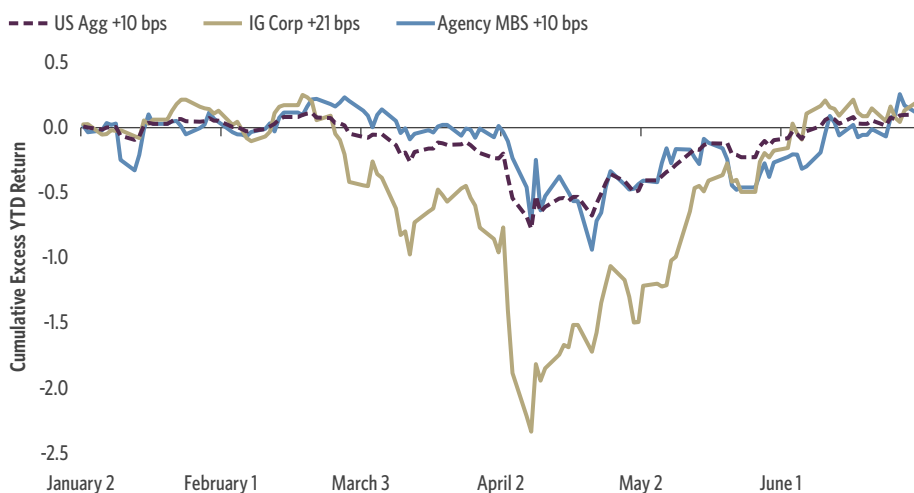
Investment Themes

- Banks must resume Agency MBS buying in earnest to sustain spread tightening. Regulatory progress includes proposed relaxation of Supplementary Leverage Ratio (SLR) rules and lifting the Wells Fargo asset cap, though the Basel III resolution is pending. Still, deposit growth is needed for banks to increase capital deployment into securities, with coupon income driving total returns.
- President Trump's comments have alleviated concerns of full privatization for government-sponsored enterprises (GSEs). His support for maintaining an implicit government guarantee suggests a potential public offering while retaining government involvement. The profits generated by GSEs may be challenging to forgo in a fiscally constrained environment, removing a downside tail risk from the market.

By Louis Pacilio

The Bloomberg Agency MBS Index recorded total and excess returns of 1.15 percent and 0.17 percent, respectively, in the second quarter. Although it underperformed other spread products after the April tariff announcement, its year-to-date excess returns align with both the Bloomberg Investment-Grade Corporate Index and the broader U.S. Aggregate Index.

Year-to-Date Agency MBS Excess Returns Align with IG, Agg
Cumulative Excess YTD Returns



Source: Guggenheim Investments, Bloomberg. Data as of 6.30.2025.

Opportunities in Senior Securities with Enhanced Credit Features

Navigating CMBS market complexities amid volatility and legacy issues.

Commercial real estate remains an extremely bifurcated market. However, as in other IG credit sectors, April's volatility did little to slow the CMBS market's momentum, with spreads tightening quarter over quarter and new issuance volumes reaching a post-Global Financial Crisis high. This trend seems technically driven rather than fundamentally justified, given cap rates generally are less than 0.5 percent above mortgage rates. Legacy issues persist, with less than half of office loans in conduit CMBS refinancing on schedule. Therefore, subsector allocation and security selection are crucial to navigating CMBS market complexities and risks.

Sector Commentary

- Non-Agency CMBS issuance reached \$75 billion through the second quarter of 2024, marking a 68 percent increase compared to the same period last year.
- Issuance trends from the previous quarter persisted, with a focus on single asset/single borrower (SASB) transactions, as investors prefer large loan deals for concentrated positioning.
- Office-backed deals accounted for 28 percent of total SASB issuance, driven by investor interest in financing offices in Tier 1 sub-markets, notably New York City.
- Despite healthy new issuance, the seasoned CMBS universe faces challenges. The serious delinquency rate for conduit CMBS loans rose by 0.9 percentage points year to date, reaching 7.3 percent, with office loans hitting 12.4 percent.

Investment Themes

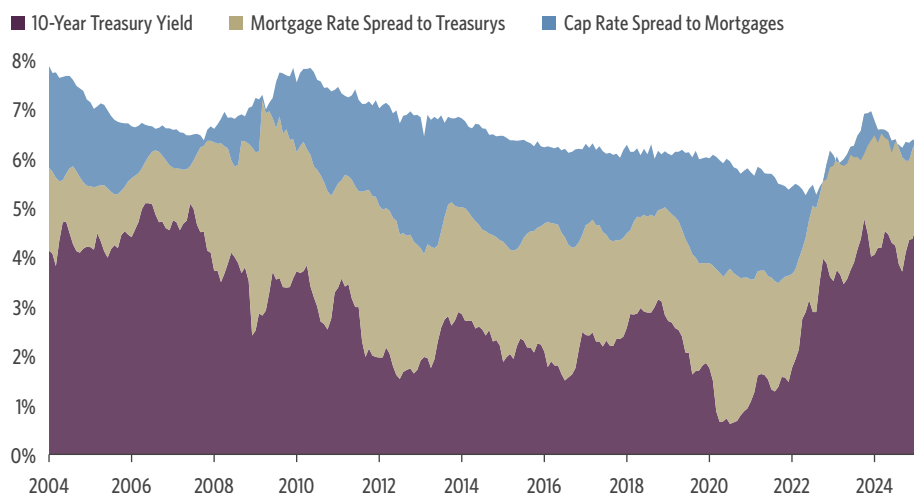
- We maintain our preference for senior securities with higher credit enhancement, capable sponsorship, and limited exposure to legacy real estate issues, such as most offices, and to market cyclicity, including certain hotels.
- Most mezzanine and junior bonds across commercial CMBS subsectors do not adequately compensate investors at current levels.
- Select commercial real estate collateralized loan obligation (CRE CLO) transactions, particularly those backed by top-tier real estate investment trusts (REITs) and debt funds, and SASB deals, especially those backed by well-located apartments or well-tenanted data centers, continue to offer attractive risk-adjusted returns compared to other fixed-income sectors in our view.

By Tom Nash and Hongli Yang

April's volatility did little to slow the CMBS market's momentum, with spreads tightening quarter over quarter and new issuance volumes reaching a post-Global Financial Crisis high. This trend seems technically driven rather than fundamentally justified, given cap rates generally are less than 0.5 percent above mortgage rates.

Cap Rate Spreads Over Mortgage Rates Remain at 20-Year Lows

Blended Core CRE and Multifamily Cap Rate Spreads to Mortgages, Treasuries



Source: Guggenheim Investments, MSCI Real Assets, JP Morgan. Data as of 6.30.2025.

The Office Market Is Recovering, Performance Is Bifurcated

Office conversions are on pace to exceed new construction as struggling markets offer incentives.

Office real estate has still not recovered from the COVID pandemic, but it is adjusting to new realities. Developers have responded to high vacancy rates by curtailing new construction and accelerating demolitions and conversions. In 2024, 94 office conversion projects were completed, a notable increase from the annual average of 58 between 2018 and 2024. While these conversions, primarily to multifamily use, have not substantially increased the national housing supply, they are impactful locally, especially in cities with suitable infrastructure and incentivizing policies.

Sector Commentary

- Overall supply is declining, although the response to falling demand for office space varies by submarket. For example, San Francisco has a high office vacancy rate, but it has not experienced an uptick in conversions or demolitions.
- Most projects focus on converting legacy office spaces into multifamily units, addressing local housing needs more than national supply.
- Cities with suitable infrastructure are seeing meaningful local impacts from multifamily conversions, though nationally the housing supply boost has been limited.
- Key markets, including Manhattan, Washington, D.C., Houston, Chicago, and Dallas/Ft. Worth, are offering incentives such as subsidies and expedited processes to encourage conversion projects. Washington, D.C.'s "Office to Anything" program exemplifies this trend, offering up to 15 years of tax abatement for qualifying properties to promote conversions.

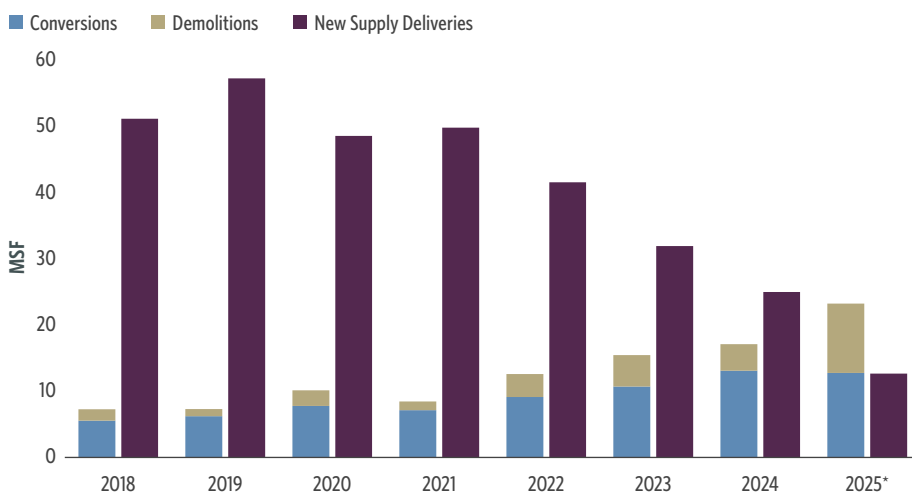
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- Office market performance is bifurcated, with tenants preferring newer Class A buildings with amenities over older structures.
- Developers are cautious due to potential tariffs and market uncertainty under President Trump's agenda, which may deter new demolition or construction projects.
- Five years after COVID, office investment sales and financing markets are showing increased activity. Opportunistic investors with patient capital are targeting distressed office buildings, anticipating a price bottom.
- Lenders favor well-performing office properties, though at lower leverage than pre-COVID levels. Our managed commercial mortgage loan (CML) portfolio shows a higher percentage of maturing office loans achieving refinance exits at par.
- While the office market is not yet orderly, signs of improvement are evident, indicating a gradual recovery in the sector.

By Jennifer A. Marler and Karen Karwoski

Developers have responded to high vacancy rates by curtailing new construction and accelerating demolitions and conversions. In 2024, 94 office conversion projects were completed, a notable increase from the annual average of 58 between 2018 and 2024.

Office Conversions and Demolitions are on Pace to Exceed New Deliveries This Year



Source: Guggenheim Investments, CBRE Research. Data as of 6.30.2025. *Forecast.

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Investing involves risk, including the possible loss of principal. In general, the value of a **fixed-income security** falls when interest rates rise and rises when interest rates fall. Longer term bonds are more sensitive to interest rate changes and subject to greater volatility than those with shorter maturities. During periods of declining rates, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as comparable fixed rate securities. Investors in **asset-backed securities**, including **mortgage-backed securities**, **collateralized loan obligations (CLOs)**, and other structured finance investments generally receive payments that are part interest and part return of principal. These payments may vary based on the rate at which the underlying borrowers pay off their loans. Some asset-backed securities, including mortgage-backed securities, may have structures that make their reaction to interest rates and other factors difficult to predict, causing their prices to be volatile. These instruments are particularly subject to interest rate, credit and liquidity and valuation risks. **High yield bonds** may present additional risks because these securities may be less liquid, and therefore more difficult to value accurately and sell at an advantageous price or time, and present more credit risk than investment grade bonds. The price of high yield securities tends to be subject to greater volatility due to issuer-specific operating results and outlook and to real or perceived adverse economic and competitive industry conditions. **Bank loans**, including loan syndicates and other direct lending opportunities, involve special types of risks, including credit risk, interest rate risk, counterparty risk and prepayment risk. Loans may offer a fixed or floating interest rate. Loans are often generally below investment grade, may be unrated, and can be difficult to value accurately and may be more susceptible to liquidity risk than fixed-income instruments of similar credit quality and/or maturity. **Municipal bonds** may be subject to credit, interest, prepayment, liquidity, and valuation risks. In addition, municipal securities can be affected by unfavorable legislative or political developments and adverse changes in the economic and fiscal conditions of state and municipal issuers or the federal government in case it provides financial support to such issuers. A company's **preferred stock** generally pays dividends only after the company makes required payments to holders of its bonds and other debt. For this reason, the value of preferred stock will usually react more strongly than bonds and other debt to actual or perceived changes in the company's financial condition or prospects. Investments in **real estate** securities are subject to the same risks as direct investments in real estate, which is particularly sensitive to economic downturns. **Private debt** investments are generally considered illiquid and not quoted on any exchange; thus they are difficult to value. The process of valuing investments for which reliable market quotations are not available is based on inherent uncertainties and may not be accurate. Further, the level of discretion used by an investment manager to value private debt securities could lead to conflicts of interest.

S&P bond ratings are measured on a scale that ranges from **AAA** (highest) to **D** (lowest). Bonds rated **BBB-** and above are considered investment-grade while bonds rated **BB+** and below are considered speculative grade.

One **basis point** is equal to 0.01 percent. Likewise, 100 basis points equals 1 percent. **Beta** is a statistical measure of volatility relative to the overall market. A positive beta indicates movement in the same direction as the market, while a negative beta indicates movement inverse to the market. Beta for the market is generally considered to be 1. A beta above 1 and below -1 indicates more volatility than the market. A beta between 1 to -1 indicates less volatility than the market. **Carry** is the difference between the cost of financing an asset and the interest received on that asset. **Duration** is a measure of sensitivity of a price of a bond to a change in interest rates. In general, the higher the duration, the more the bond's price will change with interest rate movements.

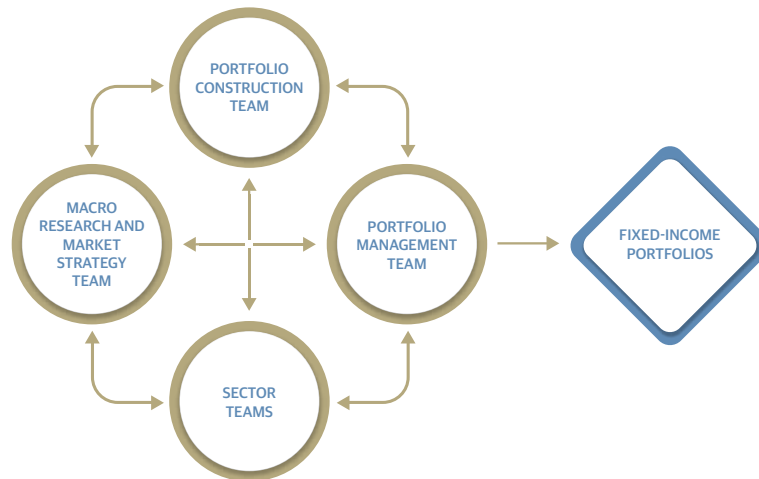
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Guggenheim Partners

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