

Fourth Quarter 2025

Fixed-Income Sector Views



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Slow Growth, Strong Bonds

As the economy slows, fixed income offers attractive yields and total return potential, but credit selection is critical.

Our baseline U.S. economic outlook projects real gross domestic product (GDP) growth to slow to 1.7 percent this year and remain near that pace next year, as tax cuts and elevated asset prices offset tariff passthroughs and support consumer spending, while business investment—particularly in artificial intelligence (AI)—remains solid. At the same time, lower income households and interest sensitive industries continue to struggle amid elevated inflation, high interest rates, and tariffs, and businesses have slowed hiring. We expect the Federal Reserve (Fed) to execute two more 25 basis point cuts this year, which would bring the upper bound of the fed funds rate to 3.75 percent and continue easing toward 3 percent or lower by the end of 2026. This should bolster the softening labor market and avoid a recession.

Credit and Risk Positioning

Our investment strategy is guided by key market dynamics: The Fed is easing in a non-recessionary environment, which historically has led to strong returns across asset classes, especially in fixed income; nominal and real yields remain elevated, leaving duration still relatively attractive; investor demand for credit remains very strong, even with the recent uptick in issuance; credit fundamentals and earnings growth are solid but divergence should continue to increase, leading us to tighten our credit selection filter and prioritize quality; and overall credit spreads are tight and many relationships are compressed (higher quality vs lower quality, cross sector/industry, across the maturity curve, public vs private), which has led us to neutralize many risk factors.

With this background, our positioning remains focused on generating higher quality income and maintaining a diversified allocation, while leaving some room to add credit beta if spreads were to cheapen. We prefer securitized products, including structured credit, where spreads remain wider relative to fundamental risk, Agency RMBS, where monetizing rate volatility is still attractive, higher quality corporate credit, and sectors with strong secular tailwinds, like infrastructure.

As the economy slows and the Fed continues to reduce policy restrictiveness, credit offers attractive yields and potential price appreciation, while diversification may help buffer downside risks. With credit performance diverging across industries and spreads remaining tight, active selection and risk management are critical.

Duration and Interest Rate Views

The 10-year Treasury yield should remain rangebound between 3.75–4.75 percent, with upward pressure from fiscal policy offset by slowing growth and Fed rate cuts. Though volatility in 10-year Treasury yields has ebbed, we intend to take advantage of brief spikes to tactically add duration—including in Treasury Inflation-Protected Securities (TIPS)—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 premium to compensate for the risk of growing fiscal deficit. In this environment, we favor the belly of the curve, which is poised to outperform as the Fed eases.

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

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

High Income Consumers and AI Investments Fuel Growth

Housing, labor market, and lower income households face challenges.

U.S. economic growth found its footing after decelerating earlier this year, supported by a recovery in consumption and robust investment in AI. Reduced uncertainty and a rebound in financial markets helped consumption recover, particularly for high income households. AI-related investment has been a significant contributor to real GDP growth, even with official data likely understating the gains. Recent data looks relatively robust, prompting upward revisions to third-quarter GDP estimates.

That said, the labor market remains a key risk, as job creation has slowed from a three-month average of 176,000 in January 2024 to just 29,000 by August 2025, with gains narrowly concentrated in healthcare and government sectors. Slower immigration and increased retirements have tempered the impact of weaker job growth, resulting in just a modest rise in the unemployment rate to 4.3 percent in August. We expect it to continue rising gradually to around 4.5 percent by year end, driven mainly by labor force entrants struggling to find jobs rather than widespread layoffs. Risks are skewed toward a sharper rise in unemployment, particularly as the conclusion of the government’s deferred resignation program at the end of September could add up to 150,000 federal layoffs.

Looking ahead, we expect growth to stabilize at around 1.7 percent in 2025 and maintain a similar pace in 2026, supported by fiscal measures under the One Big Beautiful Bill Act (OBBBA), which

includes retroactive tax cuts that should lift personal tax refunds and provisions to broaden business investment. AI optimism and elevated asset prices are likely to sustain high income household consumption, though the economy remains bifurcated. Housing and lower income households continue to face challenges, with depressed home sales, subdued housing investment, and rising credit card and student loan delinquencies.

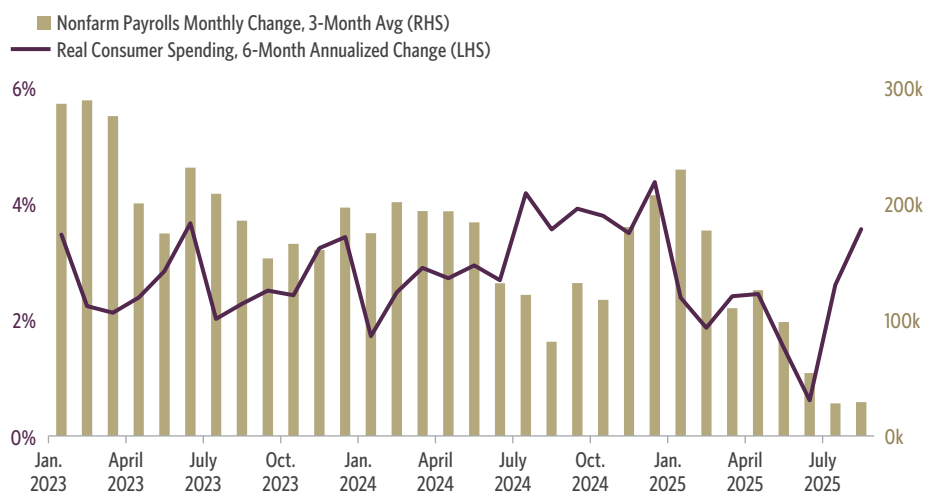
Inflation is expected to remain above target through early 2026, driven by tariff passthrough effects, before resuming a disinflationary trajectory. While actual tariff collections have lagged tariff rates due to delayed implementation and corporate mitigation measures, the administration is closing loopholes. We expect continued gradual tariff pass-through into consumer prices but see these as one-time price adjustments rather than persistent inflation.

The Fed is back in easing mode, implementing a “risk management” rate cut in September. While the prospect of above-target inflation remains a risk, Fed policymakers largely expect slower growth to weigh on inflation, and tariff passthrough to be temporary. Meanwhile, slightly higher unemployment has tilted risks to its dual mandate toward a softer labor market. We see the September rate cut as part of a recalibration, with two more cuts this year, and easing to neutral over the course of 2026.

By Matt Bush, Maria Giraldo, and Paul Dozier

The labor market remains a key risk, as job creation has slowed from a three-month average of 176,000 in January 2024 to just 29,000 by August 2025, with gains narrowly concentrated in healthcare and government sectors.

Consumer Spending Has Recovered but Job Creation Remains Weak



Source: Guggenheim Investments, Bloomberg. Data as of 8.31.2025.

Rates

Fed Easing Anticipated to Drive Yield Curve Steepening

Easing monetary policy and inflation trends drive tactical opportunities in Treasuries and TIPS.

Recent market conditions have been defined by subdued volatility, a steepening yield curve, and expectations of additional easing by the Fed. Treasury trading has remained rangebound, encouraging tactical duration adjustments. Elevated inflation and the Fed's policy stance suggest U.S. interest rates may trend lower, with further yield curve steepening anticipated. Treasury Inflation-Protected Securities (TIPS) are likely to remain appealing, supporting a favorable outlook for opportunistic investments in this asset class.

Sector Commentary

- Treasury market volatility remained subdued last quarter, with yields declining 10–15 basis points across the curve as softer labor market data reinforced expectations for Fed easing this fall.
- The Federal Open Market Committee (FOMC) implemented a 25 basis point rate cut on Sept. 17, as anticipated, and projected two additional cuts by year end, with a terminal rate forecast of 3.0 percent.
- Implied volatility across asset classes declined further during the quarter, supported by stable economic and monetary policy conditions, benefiting short-volatility trading strategies in fixed-income markets.
- TIPS outperformed nominal Treasuries by 60 basis points last quarter, driven by Fed easing in a high inflation environment. Year to date as of quarter end, TIPS have returned 6.9 percent, compared to 5.4 percent for nominal Treasuries.

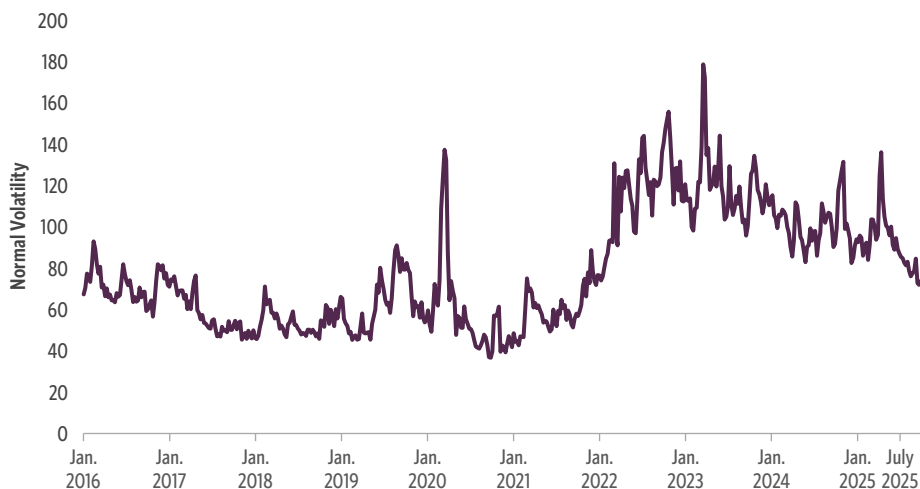
Investment Themes

- The Fed's first rate cut since last December reinforces expectations for lower U.S. interest rates. We anticipate the yield curve to steepen further as monetary policy continues to ease.
- Treasuries have traded within a narrow range, a trend likely to persist. Tactical duration adjustments—reducing during rallies and adding during significant selloffs—remain a preferred portfolio strategy.
- With above-target inflation and the Fed easing policy, we expect TIPS to continue performing well and will invest opportunistically in this asset class.
- Fiscal deficit concerns are keeping term premiums and long-end Treasury yields elevated. However, stronger-than-expected tariff revenue and increased Treasury bill issuance could reduce financing costs, improving the deficit outlook and supporting long-end yields over time.

By Kris Dorr and Tad Nygren

Treasury market volatility remained subdued last quarter, with yields declining 10–15 basis points across the curve as softer labor market data reinforced expectations for Fed easing this fall.

Implied Volatility Continued to Decline During the Third Quarter



Source: Guggenheim Investments, Bloomberg, ICE BofA MOVE Index. Data as of 9.28.2025

Investment-Grade Spreads Tighten to Multi-Decade Lows

Up-in-quality trades favored amid spread compression as growth risks emerge.

Investment-grade corporate bond spreads relative to Treasuries ended the third quarter at 74 basis points, marking the tightest levels since 1998. Despite compressed spreads, robust primary supply, and declining U.S. Treasury yields, demand for investment-grade debt remained strong, supported by steady fund inflows, cash accumulation, and record low spread volatility. However, with these factors expected to weaken into year end and issuance picking up, caution is advised through diversification and a focus on higher quality allocations in the fourth quarter.

Sector Commentary

- Investment-grade corporate fund flows remain strong, with 20 consecutive weeks of inflows totaling approximately \$70 billion year to date as of the third quarter, driven predominantly by ETFs, which account for over two-thirds.
- Spread compression continued, with the option-adjusted spread (OAS) differential between BBB and A-rated bonds narrowing to 29 basis points, near a five-year low.
- While net issuance was negative for two out of three months in the third quarter, gross supply managed to jump 23 percent above the four-year average to \$397 billion.
- Elevated M&A activity is expected to persist as rates decline. Although 2025 total M&A-related issuance is down 25 percent from 2024 totaling just \$150 billion, a robust pipeline of \$77 billion is already anticipated for 2026.

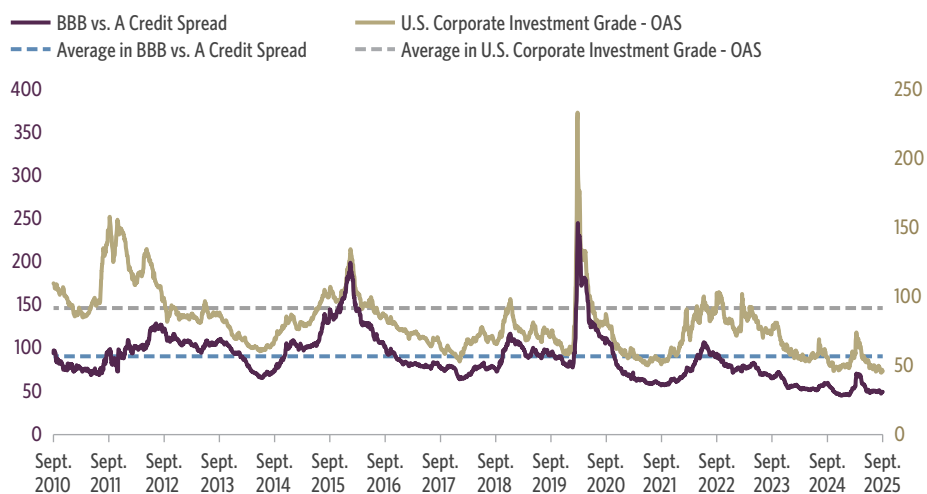
Investment Themes

- The compression of A versus BBB-rated bond spreads to five-year tight supports up-in-quality trades, as overall spreads remain at historically tight levels.
- Within financials, we favor banks and insurance across unsecured and preferred securities. Preferred securities remain attractive for buy-and-hold investors and offer reasonable carry for total return strategies.
- Insurance and industrial hybrids provide attractive relative value versus high yield unsecured debt, with utility hybrids benefiting from coupon floors amid declining rates.
- Despite 10/30s credit curve being on the flatter side, limited primary supply in 30-year bonds and a steepening yield curve should support long-duration securities.
- Diversification is prudent given spreads are at 25-year tight and the potential for slower economic growth.

By Justin Takata

The compression of A versus BBB-rated bond spreads to five-year tight supports up-in-quality trades, as overall spreads remain at historically tight levels.

IG Spreads Are Compressed and at Their Tightest Levels in Decades



Source: Guggenheim Investments, Bloomberg, Barclays Research. Data as of 9.30.2025.

Low Default Rates Support Constructive Outlook

High yield bonds extend positive streak supported by strong technicals.

High yield spreads approached historic lows in the third quarter, marking the twelfth consecutive quarter of positive performance for the sector. This momentum was underpinned by strong investor inflows, limited new issuance outside of refinancings, solid credit fundamentals, and low default rates. These factors suggest a constructive outlook for high yield bonds, though investors should remain mindful of potential risks as valuations tighten further.

Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index tightened from 296 to 280 basis points in the third quarter, placing them in the 4th percentile of historical levels.
- The high yield index delivered a 2.4 percent total return for the quarter, marking its twelfth consecutive quarter of positive performance, aided by a modest decline in benchmark Treasury yields.
- Year-to-date performance shows higher-quality segments outperforming, with BB-rated, B-rated, and CCC-rated bonds returning 7.2 percent, 6.7 percent, and 7.0 percent, respectively. CCC-rated bonds led in the third quarter as risk appetite increased.
- New issuance remained strong, totaling \$118 billion in the third quarter and \$263 billion year to date, with approximately 78 percent allocated to refinancing activities.

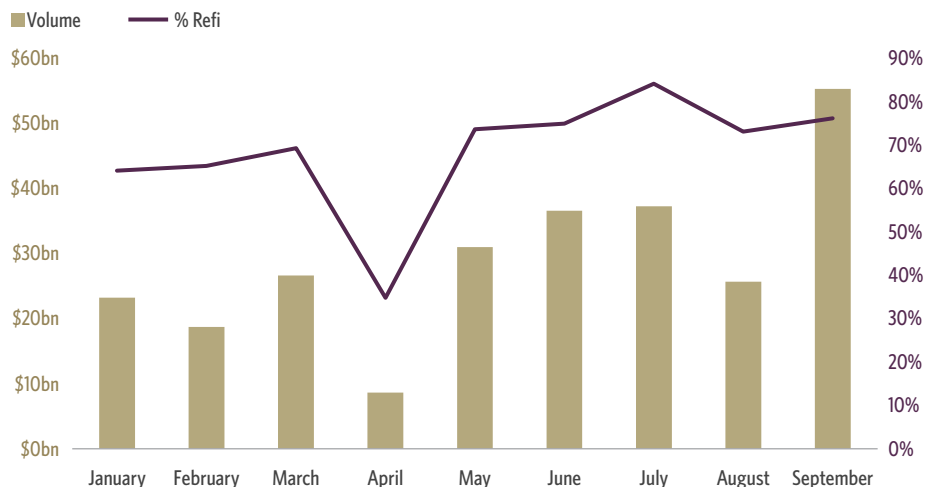
Investment Themes

- High yield bonds attracted \$14.2 billion in net inflows year to date, including \$4.9 billion in the third quarter, as expectations of Fed rate cuts and high coupons drive investor demand.
- Issuers in the high yield market maintain strong credit fundamentals, with the trailing 12-month par-weighted default rate of 1.2 percent, significantly below the 20-year average of 3.5 percent. Defaults are expected to remain low.
- Refinancing activity dominates primary issuance, keeping net supply constrained and spreads near historically tight levels. The large issuance enabled us to remain selective for investment opportunities.
- Average bond prices have risen approximately 2.6 points this year to about \$98. With nearly half the market trading to their call prices, future returns are likely to be driven primarily by coupon income.

By Thomas Hauser and Ravi Tamboli

Refinancing activity dominates primary issuance, keeping net supply constrained and spreads near historically tight levels. The large issuance enabled us to remain selective for investment opportunities.

Refinancing Volumes Shape 2025 High Yield Market Dynamics



Source: Guggenheim Investments, Bloomberg, BAML, Pitchbook. Data as of 9.30.2025.

Bank Loans Clip Coupons as Technicals Bolster Returns

Subdued M&A and LBO activity limits issuance to refinancings and repricings.

Bank loans delivered a 1.68 percent return in the third quarter, bringing year-to-date performance to 4.69 percent, supported by robust CLO issuance that continues to exceed record 2024 levels. Ratings performance was mixed, with CCC-rated loans underperforming while B-rated loans slightly outpaced BB-rated counterparts. Limited net new issuance, driven by subdued mergers and acquisitions (M&A) and leveraged buyout (LBO) activity, has concentrated primary market activity on refinancings and repricings. The importance of credit selection remains amid elevated tail risks and expected market volatility. Market volatility could present opportunities for investors moving forward.

Sector Commentary

- The S&P UBS Leveraged Loan Index posted a total return of 1.68 percent in the third quarter, bringing year-to-date performance to 4.69 percent.
- CCC-rated loans underperformed with 3.73 percent returns, reversing their second-quarter outperformance. B-rated loans marginally outperformed BB-rated loans, delivering returns of 4.67 percent and 4.65 percent, respectively, reflecting mixed performance across credit ratings.
- The three-year discount margin on the index tightened from 459 to 451 basis points during the quarter, while three-year bank loan yields remained relatively unchanged at 7.8 percent.
- By the end of September, 37 percent of loans traded above par, down from 40 percent at the end of June, as the overall index price declined by 6 cents during the quarter.

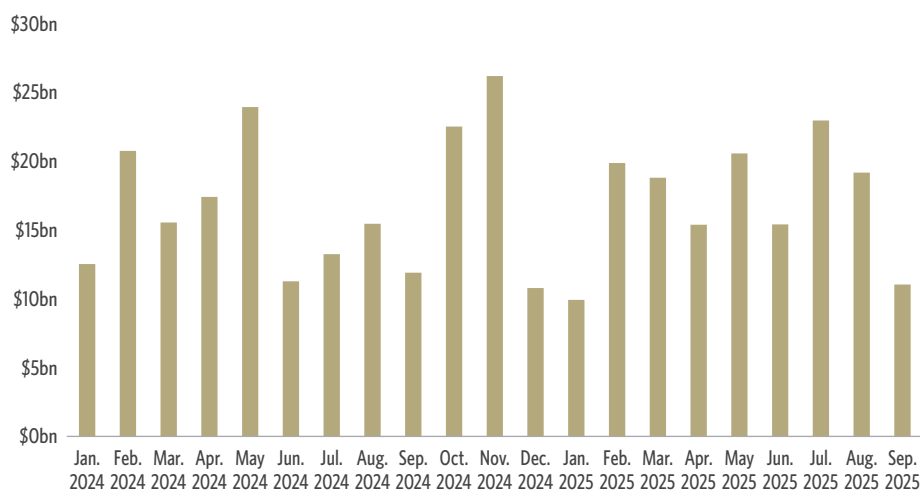
Investment Themes

- Strong CLO issuance continues to support the bank loan market, with volumes surpassing record 2024 levels. September 2024 year-to-date CLO issuance totaled \$141 billion, while year-to-date CLO issuance totals \$154 billion. However, 82 percent of the \$404 billion 3Q25 issuance was refinancing and repricing related, as M&A and LBO activity remain subdued.
- Bank loan fund flows were negative in the third quarter, reversing inflows from the end of the second quarter. Year-to-date outflows stand at \$4.4 billion.
- Credit selection is increasingly critical. The B3/B- portion of the S&P UBS Leverage Loan Index now represents greater than 20 percent of market value, versus the long-term average of -5 percent. The Fed's most recent interest rate cut may be supportive of overall credit metrics, but the elevated market value percent of B3/B- credits increases tail risk in the market.

By Thomas Hauser, Joe Bowen, and Brian McAuliff

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CLO Issuance Continues to Surpass 2024's Record Levels



Source: Guggenheim Investments, Pitchbook. Data as of 9.30.2025.

Spread Compression and Increasing Occurrence of PIK

Disciplined underwriting remains critical in navigating structural market changes.

Direct lending spreads compressed further in the third quarter of 2025, averaging the Secured Overnight Financing Rate (SOFR) +485 basis points across the market broadly and averaging SOFR+460 basis points for deal sizes greater than \$1 billion, according to Pitchbook. Consistent competition for deals and limited supply amid muted M&A volumes have contributed to the further compression of spreads. Deal structures and documents in the upper middle market increasingly mirror those in the broadly syndicated market, with covenant-lite terms and payment-in-kind (PIK) features becoming more common, reflecting weakening downside protections.

Sector Commentary

- The residual effects of tariffs and policy uncertainty from the second quarter have persisted into the third quarter, driving continued volatility and a decline in deals financed by private credit loans.
- Private credit deal volume in 2025 has fallen short of expectations, despite initial optimism that the second Trump administration would implement looser regulations to encourage dealmaking.
- The lack of M&A activity has posed challenges for market participants reliant on volume-driven strategies, constraining their ability to deploy capital effectively.
- Among the 12 largest publicly traded business development companies (BDCs), new investment fundings in the first half of 2025 declined by 11.6 percent year over year, while repayments and exits increased by 13.7 percent, reflecting a shift in market dynamics.

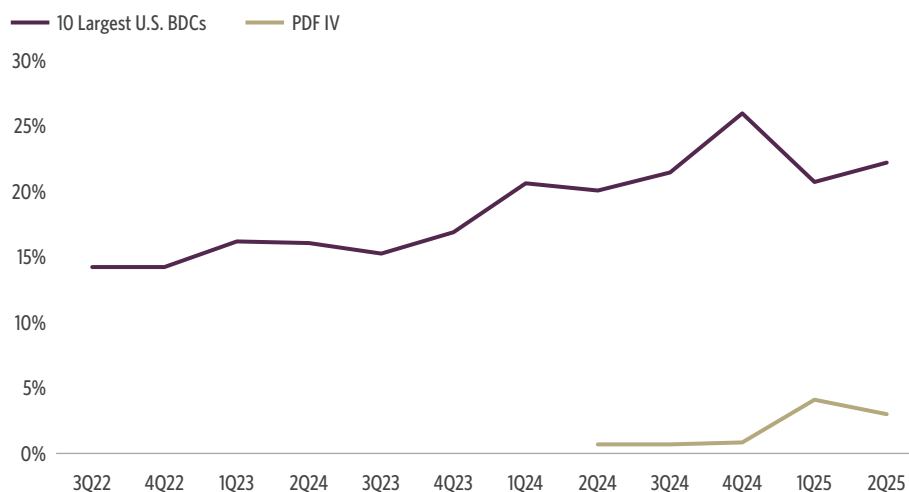
Investment Themes

- The rising use of PIK interest in larger deals is a growing concern, signaling a shift in market practices.
- Among the 13 largest publicly traded BDCs, PIK as a share of net investment income increased from 14.2 percent in the third quarter of 2022 to 22.3 percent through the second quarter of 2025, with some BDCs reporting levels as high as 40 percent, according to Pitchbook.
- PIK interest has become standard in many middle-market transactions, with borrowers often allowed to PIK up to 50 percent of current coupon at the time of origination. We caution against the increasing prevalence of PIK structures.

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

PIK as a share of net investment income has increased steadily in BDC vehicles.

Prominence of PIK In Private Debt



Source: Guggenheim Investments, Pitchbook. Data as of 9.30.2025.

Tightening Spreads Highlight Resilience in Structured Credit

Inflationary pressures and consumer risks shapes ABS and CLO investment strategies.

Credit spreads in ABS have continued to tighten, but remain elevated compared to investment-grade corporate bonds, presenting a relative value opportunity. Year-to-date ABS gross issuance stands at \$257 billion, consistent with record 2024 levels, but the overall market size has only expanded by \$47 billion given paydowns and refinancings. CLO new issuance reached \$154 billion through the third quarter, driven by strong demand across the capital structure, resulting in market size growth of \$94 billion year to date. Tightening spreads have also spurred increased CLO refinancing and reset activity, with heightened supply absorbed by sustained investor interest.

Sector Commentary

- **ABS:** The spread differential between ABS and investment-grade corporate bonds has widened to the 70th percentile, offering a reasonable relative value entry point. In commercial ABS, issuance has been concentrated in sectors such as data centers, fiber telecommunications, and aircraft, while activity in whole business restaurant franchises has slowed compared to last year.
- **CLOs:** CLO spreads tightened across all tranches during the quarter. Feedback from bank loan borrower management teams indicates that companies have largely absorbed the initial impact of tariffs, bolstering investor confidence and driving loan prices higher. This dynamic has supported CLO fundamentals, with overcollateralization ratios and CCC-rated loan pool balances remaining at benign levels, underscoring the sector’s resilience amid evolving macroeconomic conditions.

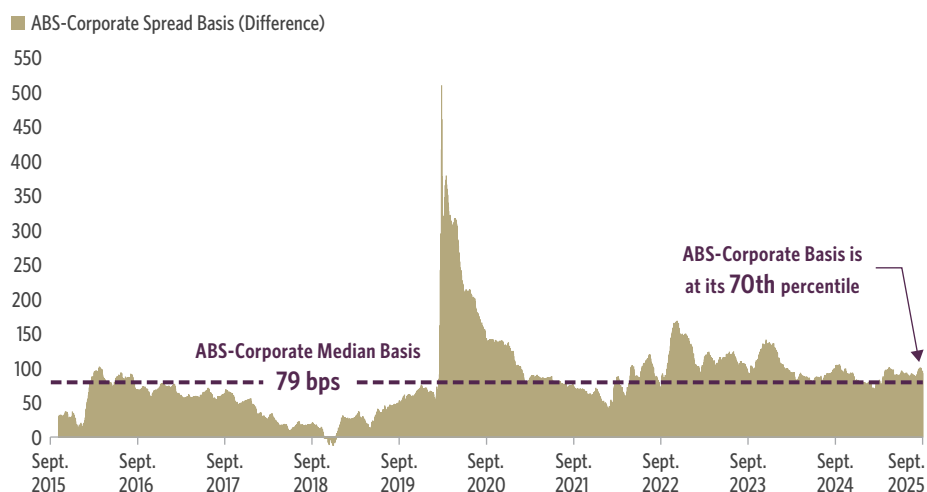
Investment Themes

- **ABS:** We favor commercial ABS with senior exposures in longer-duration opportunities supported by higher quality collateral, such as franchise royalties, fiber networks, and shipping containers. Consumer subsectors, including home improvement loans, offer exposure to higher credit quality borrowers with structural protections through amortization and credit enhancement. However, uncertainty surrounding economic policy, inflation, and tariffs may challenge certain subsectors and lower- to middle-income consumers, and we maintain limited exposure to this borrower profile.
- **CLOs:** Attractive relative value and strong credit fundamentals support our view that CLOs offer compelling investment opportunities. Lower CLO issuance is expected as price increases and refinancings in the bank loan market have reduced the incentives for new creation. This supply constraint supports CLO prices and spreads in the secondary market.

By Karthik Narayanan, Michael Liu, and Scott Kanouse

The spread differential between ABS and investment-grade corporate bonds has widened to the 70th percentile, offering a reasonable relative value entry point.

Commercial ABS Spreads Remain Attractive vs Similarly Rated Corporates



Source: Guggenheim Investments, ICE BofA AA-BBB ABS Index, Bloomberg Corporate IG Index. Data as of 9.30.2025.

Select Opportunities in CMBS Amid Broader Challenges

Multifamily opportunities screen favorably, while office markets remain under duress.

Senior CMBS spreads rallied in the third quarter, with AAA CMBS yields falling below 5 percent for the first time this year. Robust demand for higher quality, investment-grade structured credit supported the sector, even as year-to-date issuance increased by 50 percent. AAA spreads tightened by 5-10 basis points, in line with investment-grade corporate bonds of similar duration. Security selection remains critical, as properties facing secular challenges are likely to struggle despite the tailwind of lower mortgage rates.

Sector Commentary

- Historical data suggests that lower interest rates alone are unlikely to significantly enhance commercial real estate (CRE) values, challenging traditional assumptions about the relationship between borrowing costs and asset performance.
- A JPMorgan study analyzing data since 1999 reveals a negative correlation between cap rate spreads and 10-year Treasury yields, indicating that declining borrowing costs have been offset by widening cap rate spreads historically.
- Property fundamentals remain a key determinant of valuation. Multifamily and industrial assets in resilient markets better positioned for refinancing amid current market conditions, while office properties in weaker markets continue to face significant refinancing challenges.
- The divergence in refinancing outcomes underscores the importance of sector and geographic resilience in navigating the current CRE landscape.

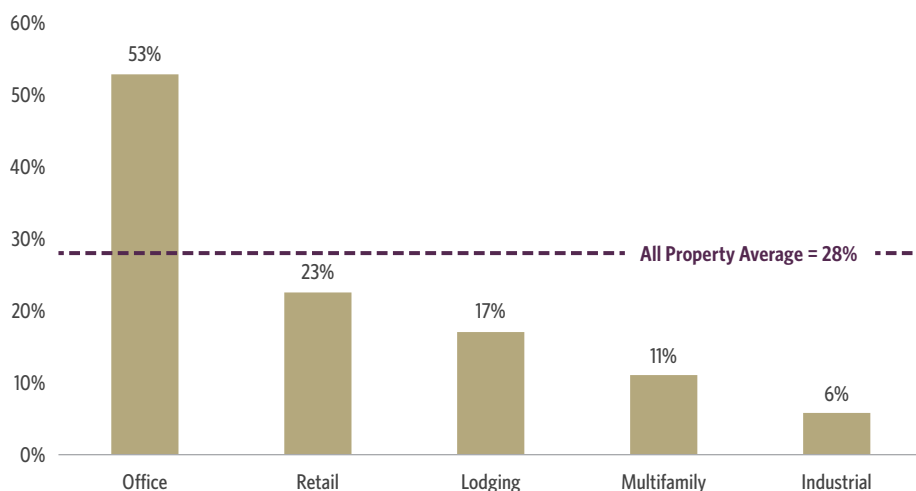
Investment Themes

- Credit selection remains critical in the CMBS market, as certain segments, such as single asset/single borrower (SASB) bonds backed by office properties, face mounting losses, even on originally AAA-rated securities.
- Multifamily CMBS in supply-constrained markets with strong absorption rates offer attractive opportunities with higher returns relative to more liquid corporate bonds, and resilience to interest rate fluctuations, supporting steady performance.
- For CMBS backed by other property types, senior securities with strong sponsors and favorable credit attributes are preferred. In the data center sector, bonds with long-term leases to investment-grade tenants and scalable green energy access offer compelling spreads of 75-100 basis points over comparable corporate bonds, compensating for structural and liquidity risks.

By Tom Nash and Hongli Yang

Property fundamentals remain a key determinant of valuation. Multifamily and industrial assets in resilient markets better positioned for refinancing amid current market conditions, while office properties in weaker markets continue to face significant refinancing challenges.

Office Underperforms, Multifamily and Industrial Outperform Average
% of Conduit Loans Due to Pay Off in 2025 That Did Not Refinance on Time



Source: Guggenheim Investments, JPMorgan, Trepp. Data as of 9.30.2025.

NA RMBS Opportunities in a Rate Rally

Recent rate moves place greater focus on securities that offer prepayment protection.

Recent declines in mortgage rates have raised concerns about refinancing activity for outstanding mortgages. This environment underscores the appeal of subsectors such as closed-end second (CES) liens, home equity lines of credit (HELOCs), and non-qualified mortgages (non-QMs), which exhibit favorable convexity profiles. Tight lending standards, substantial home equity gains, and a resilient labor market support stable mortgage credit performance. However, as prepayments rise, investors are likely to focus on collateral types that mitigate prepayment volatility.

Sector Commentary

- Spreads tightened in the third quarter, nearing the year's lows, despite a 30 percent year-over-year jump in new issue volume in the third quarter of 2025 to \$42 billion.
- The average mortgage rate declined to 6.30 percent, approximately 50 basis points lower than late June levels. We expect this decline will support higher issuance volumes as refinancing activity and originations increase, creating a more favorable environment for issuers.
- CES liens, HELOCs, and non-QM transactions offer attractive convexity profiles and prepayment protection. CES and HELOC loans benefit from low loan balances, while non-QM pools have a high concentration of investor loans with call protection, reducing prepayment sensitivity to rate changes.

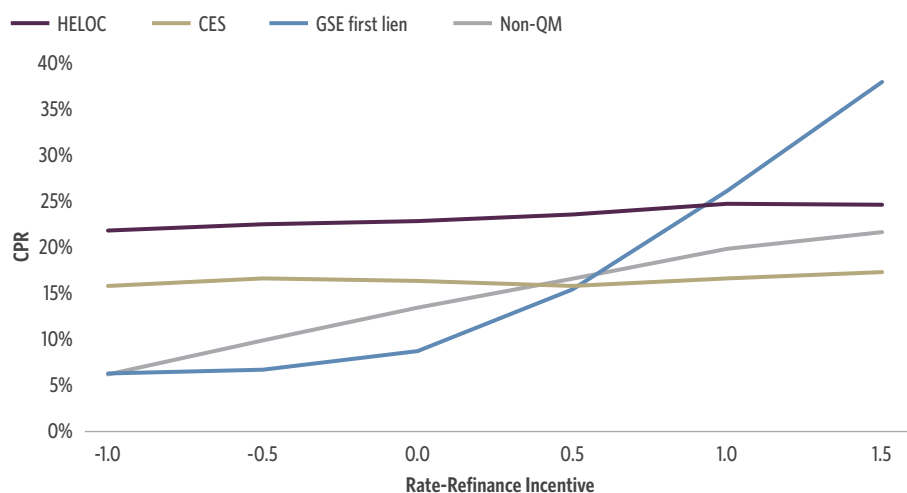
Investment Themes

- Senior securities with favorable convexity profiles remain our preferred choice, offering solid carry income alongside structural features designed to mitigate extension risk. These securities are well-positioned to withstand a broad spectrum of credit stress scenarios, making them attractive for investors seeking stability and income generation.
- Investment-grade securities from non-QM transactions and senior securities from CES liens and HELOC transactions, provide compelling opportunities. Due to the combination of their credit profiles and structural features, these instruments offer attractive income and valuations while effectively limiting both credit and extension risk.

By Karthik Narayanan and Roy Park

CES liens, HELOCs, and non-QM transactions offer attractive convexity profiles and prepayment protection. CES and HELOC loans benefit from low loan balances, while non-QM pools have a high concentration of investor loans with call protection, reducing prepayment sensitivity to rate changes.

CES, HELOC, and Non-QM Loans Offer More Stable Prepay Profiles Across Various Rate Environments



Source: Guggenheim Investments, Nomura, CoreLogic, Freddie Mac, and Intex. Data as of 9.30.2025.

Par Coupons Offer Compelling Value Amid Market Uncertainty

Dovish Fed policy path supports long-duration Agency MBS demand.

Agency mortgage-backed securities (MBS) delivered positive total and excess returns in the third quarter of 2.43 and 0.35 percent, though emerging refinance concerns suggest the outperformance of higher coupon MBS earlier in 2025 may be waning. Prepayment risks and convexity hedging have shifted investor flows toward deep discount coupons (2–3 percent) and par coupons (4.5–5 percent). Nevertheless, borrowers’ potential response to lower rates is uncertain, making it prudent to position in par coupon MBS with limited prepayment risk.

Sector Commentary

- 30-year 5 percent or par coupon MBS offer attractive spreads and yields relative to the Bloomberg Aggregate Bond Index. Short-term spread widening is likely due to increased supply, but longer-term support may come from limited investment alternatives, a dovish Fed, and potential government-sponsored enterprise (GSE) backing.
- Lower coupon MBS (30-year 2–3 percent) outperformed as 10-year Treasury yields neared 4 percent in mid-September, driven by a supply-demand imbalance. We expect these under-allocated securities to outperform Treasuries during future rate rallies.
- Premium-priced MBS coupons face limited support as primary rates fall. With October prepayment data pending, attractive to-be-announced (TBA) carry is unlikely to return soon, favoring continued investor flows into lower coupon MBS.

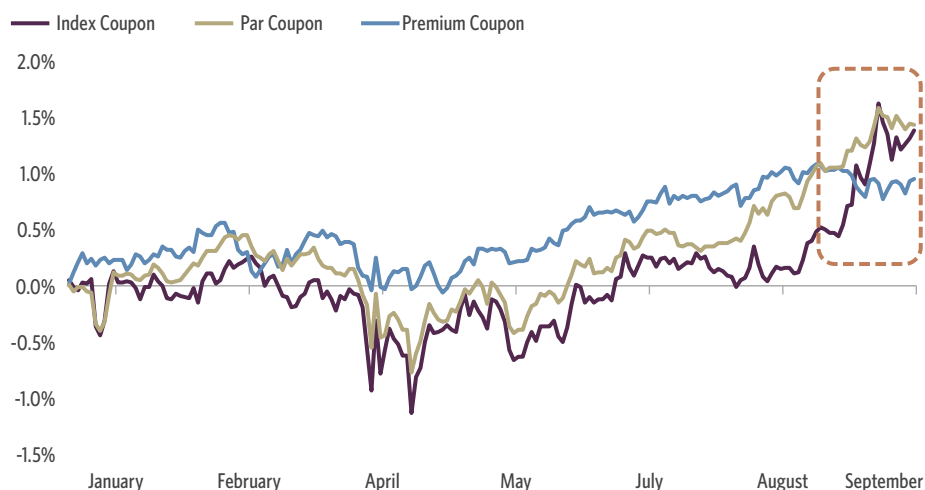
Investment Themes

- Speculation around the return of GSE MBS portfolios has grown following an increase in their MBS holdings. Reinstating these portfolios could provide income and attract equity investors, while opportunistic additions during risk-off periods may help stabilize spreads by reintroducing a buyer of last resort.
- The rates market is pricing in a dovish Federal Reserve path through 2026, which is necessary for banks to re-engage with longer-duration, fixed-rate securities. However, regulatory uncertainty and persistently above-target inflation remain key obstacles to a bullish case for Agency MBS.
- Par coupon MBS currently offer the widest spreads and highest yields, presenting a compelling opportunity for investors amid ongoing market uncertainties.

By Louis Pacilio

Premium-priced MBS coupons face limited support as primary rates fall. With October prepayment data pending, attractive to-be-announced (TBA) carry is unlikely to return soon, favoring continued investor flows into lower coupon MBS.

Par and Discount Coupons Outperformed in Q3 as Premium Coupons Faltered



Source: Guggenheim Investments, Bloomberg. Data as of 9.26.2025. Index (30yr 3%), Par (30yr 5%), Premium (30yr 6.5%) coupons.

Municipal Bonds

Long-Dated Munis: Relative Value Amid Yield Curve Steepness

Fiscal challenges emerge as federal stimulus depletes, impacting municipal credit dynamics.

Longer-dated municipal bonds are likely to maintain their relative outperformance over shorter maturities, supported by the steepness of the municipal yield curve both in absolute terms and compared to the Treasury curve. However, state and local governments may face increasing fiscal challenges as pandemic-era federal stimulus funds are depleted, potentially influencing both technical and credit spreads, and funding strategies in the municipal market.

Sector Commentary

- Tax-exempt municipal bonds returned 3.0 percent in the third quarter, with long-dated maturities outperforming as the yield curve flattened from prior steep levels. Performance improved following the Fed's September rate decision.
- Principal and interest payments are entering a seasonal lull, averaging \$49 billion per month from October to December, compared to \$72 billion during the summer. New issuance, averaging over \$10 billion weekly since September, may pressure tax-exempt/Treasury yield ratios without sustained mutual fund and ETF inflows.
- Taxable municipal bonds posted a 2.5 percent return in the third quarter, driven by tighter spreads and a Treasury rally, though spreads underperformed investment-grade corporates. Year-to-date issuance of \$25 billion reflects a 10 percent decline from the same period in 2024, highlighting reduced supply in the taxable municipal market.

Investment Themes

- The AAA tax-exempt yield curve has flattened by 58 basis points from its 12-month wide, with a 184 basis point spread between 1-year and 30-year maturities. The municipal curve remains steeper than the Treasury curve.
- Municipal/Treasury yield ratios have compressed following the recent rally, potentially slowing further curve flattening. Long-dated tax-exempt bonds offer attractive relative value versus shorter maturities, compensating investors for duration risk.
- Fiscal year 2026 marks the first full budget cycle for most states without residual federal stimulus funds from COVID-era programs. States like Michigan and Pennsylvania face extended budget negotiations, while Louisiana and others experience revenue declines from prior tax cuts. These fiscal pressures are expected to cascade to local entities, widening budget gaps for cities, schools, and other municipal issuers.

By Allen Li and Michael Park

Municipal/Treasury yield ratios have compressed following the recent rally, potentially slowing further curve flattening. Long-dated tax-exempt bonds offer attractive relative value versus shorter maturities, compensating investors for duration risk.

Municipal/Treasury Yield Ratios Have Compressed Following the Recent Rally



Source: Guggenheim Investments, Municipal Market Monitor. Data as of 9.30.2025.

Sustained Market Momentum and Deal Flow Drive Real Assets

Infrastructure debt issuance surges, offering compelling spreads and growth potential.

Real assets remain well positioned, supported by elevated inflation, declining interest rates, and robust secular trends. Deal flow remains healthy as sponsors refinance existing assets and fund capital expenditures for infrastructure, including digital buildouts, conventional energy, and transmission. Pricing remains attractive, with spreads of 225–250 basis points for investment grade and 300–400 basis points for below investment grade. In commercial real estate, many markets are stabilizing with steady vacancy rates and rental growth—the office sector being a notable exception.

Sector Commentary

- Infrastructure transaction activity remains robust despite elevated rates. As inflation moderates and capital costs decline, valuations may improve, creating greenfield opportunities.
- Significant capital is required to modernize infrastructure for the digital economy and grid electrification. Investors should remain cautious of technology, construction, and commodity risks.
- Private infrastructure accounts for less than 6 percent of institutional portfolios, despite its inflation-linked, risk-adjusted return profile. Refinancing opportunities are expected to grow over the next decade.
- Declining interest rates are anticipated to increase margins by lowering debt costs and reduce cap rates, stabilizing real estate valuations in markets with favorable demographics and economic fundamentals. Slower construction starts should ease supply pressures, supporting rent growth by 2026.

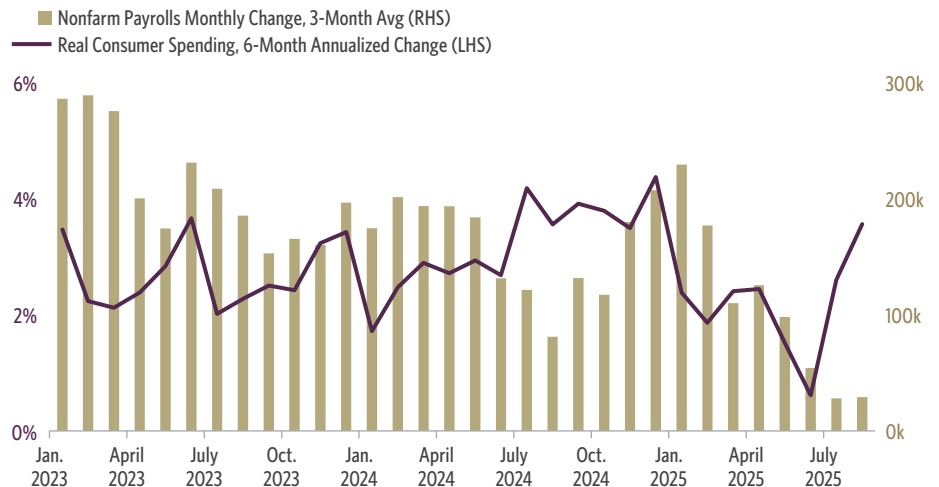
Investment Themes

- AI is transforming data centers into utility-scale energy loads, with global electricity demand projected to more than double by 2030. Investments in power, storage, and transmission may offer stable, contracted returns.
- Reshoring, driven by domestic manufacturing incentives and geopolitical shifts, is channeling capital into U.S.-based logistics, telecom equipment, and resilient supply chains, including ports and intermodal hubs.
- Multifamily housing is expected to see modest rent growth of 2–2.6 percent and vacancy normalization in 2025. Improved fundamentals are anticipated in 2026 as construction deliveries decline, supported by affordability constraints, demographic trends, and a rental housing shortage.
- Retail sales set to exceed 2024 levels, with grocery-anchored and convenience-driven properties investor favorites.

By John Tanyeri

Deal flow remains healthy as sponsors refinance existing assets and fund capital expenditures for infrastructure, including digital buildouts, conventional energy, and transmission.

Refinancing Opportunities Are Expected to Grow Over the Next Decade



Source: Guggenheim Investments, InfraLogic. Data as of 9.22.2025.

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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.

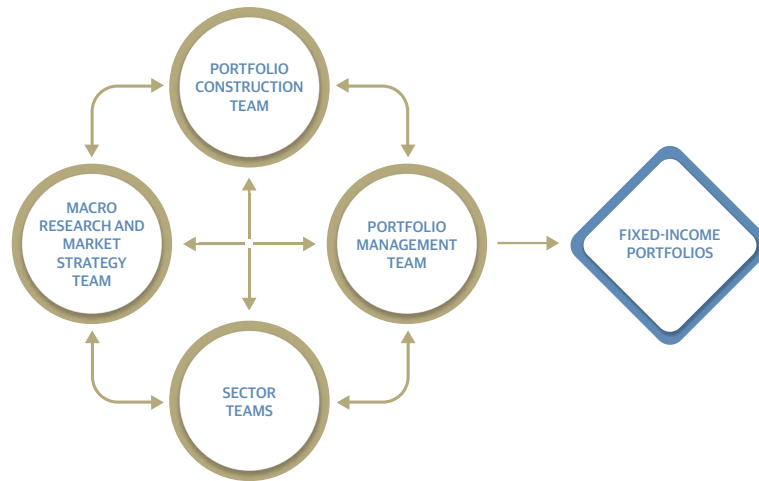
Duration is a measure of sensitivity of a price of a bond to a change in interest rates. In general, the higher the duration, the more the bond's price will change with interest rate movements.

Not FDIC insured. Not bank guaranteed. May lose value.

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1. Total Assets are as of 6.30.2025 and includes \$253.9bn in GI Assets Under Management (AUM), plus \$103.9bn in non-advisory GI Assets Under Supervision (AUS) for a total of \$357+bn. AUM includes leverage of \$14.8bn. Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Private Investments, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC. Numbers may not total due to rounding.