Second Quarter 2018

Fixed-Income Outlook: Chart Highlights

Positioned for Choppier Waters

Guggenheim Investments

GUGGENHEIM

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The Guggenheim Investments ("Guggenheim") quarterly Fixed-Income Outlook presents the relative-value conclusions of our 160+ member fixed-income investment team and illuminates the uniqueness of our investment process. This chart book presents selected highlights from the ***Second Quarter 2018 Fixed-Income Outlook***.

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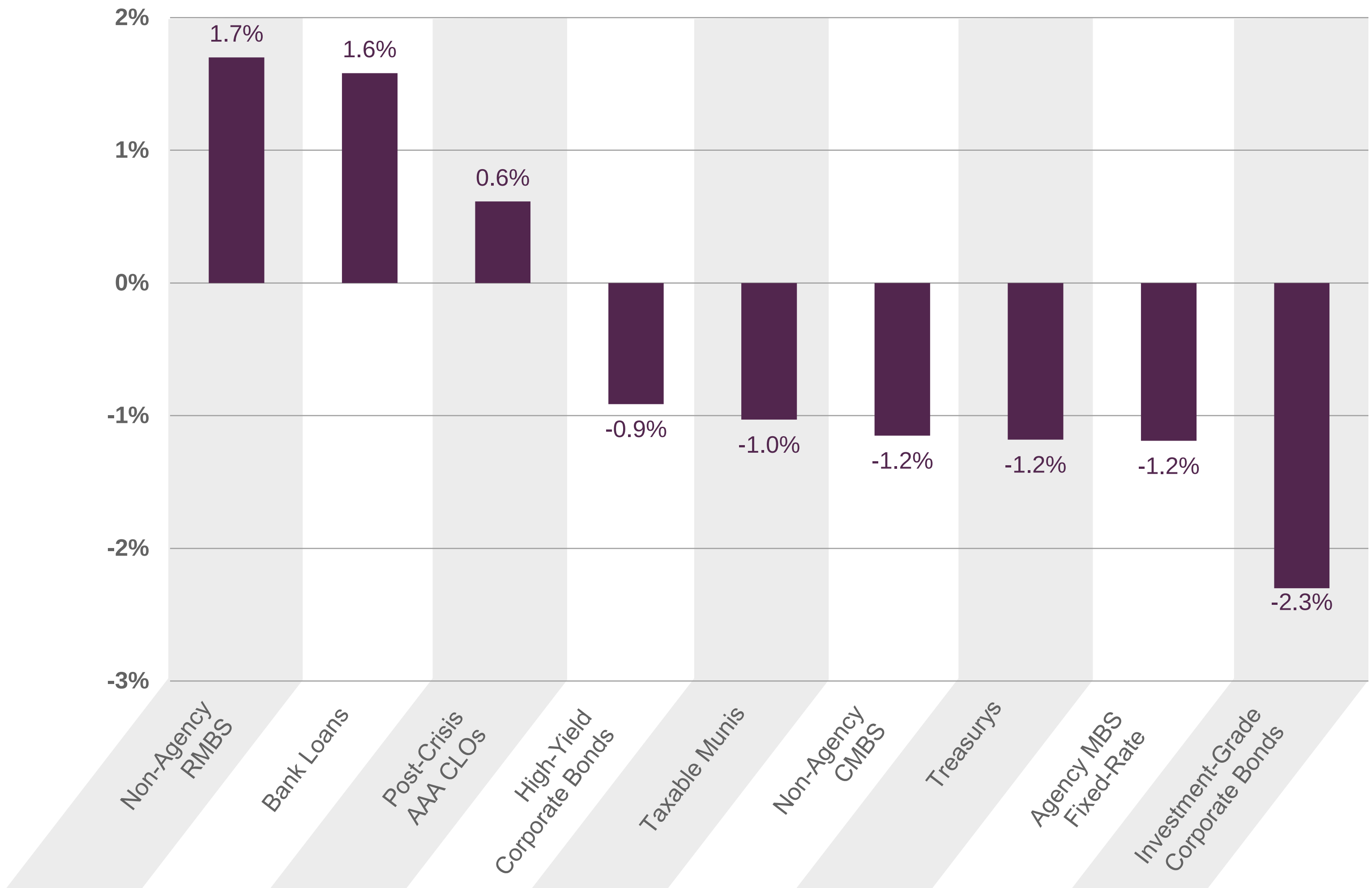
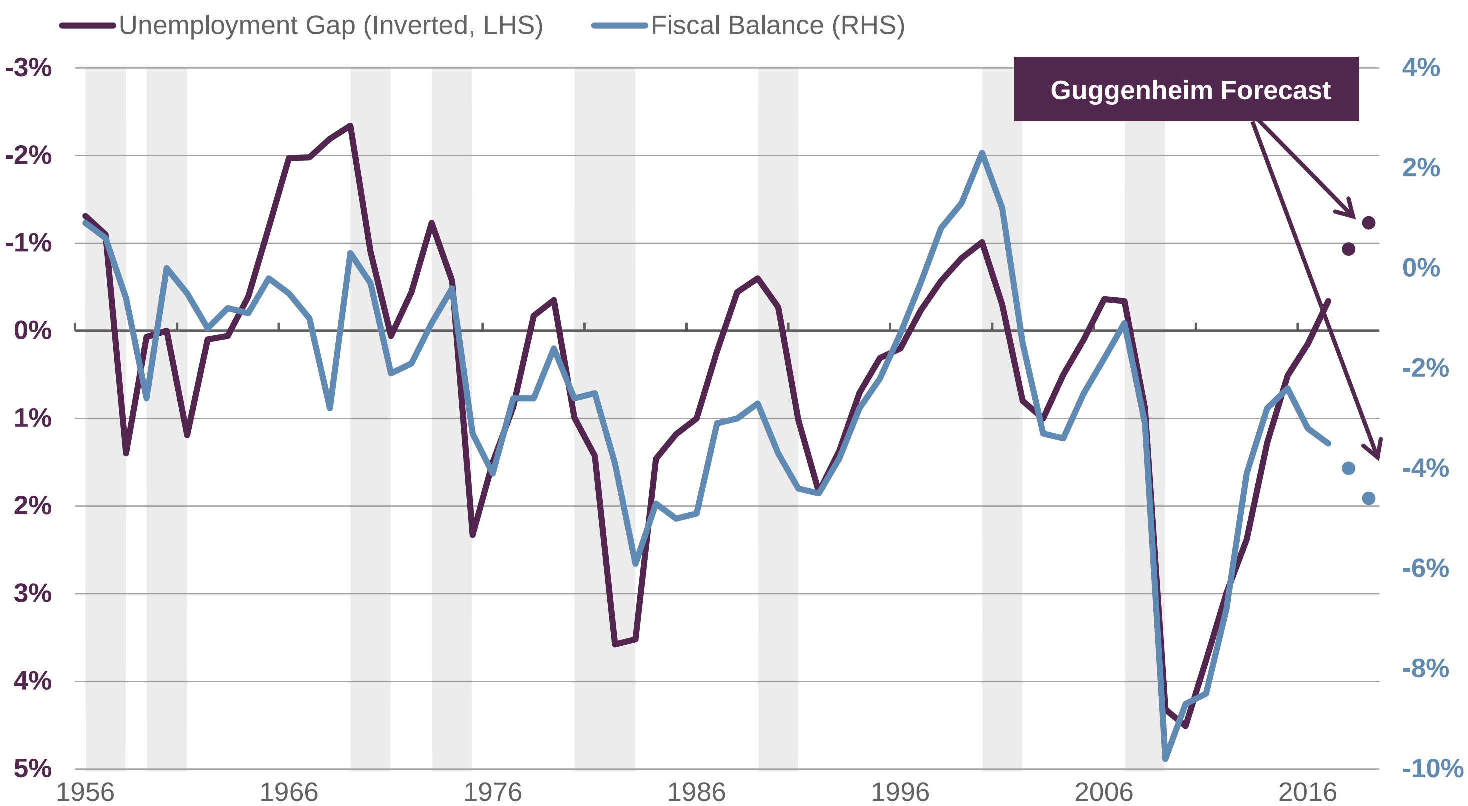
Floating Rate and Short Spread Duration Led First Quarter 2018 Returns



- The shift from quantitative easing to quantitative tightening took its toll in the first quarter of 2018 as rate, credit, and equity volatility all spiked.
- Coupon returns on fixed income are, in many cases, not enough to cushion performance amid a spike in rate and spread volatility, especially in corporate credit.
- Investment-grade and high-yield corporate bonds lost 2.3 percent and 0.9 percent on a total return basis, respectively, while short-duration non-Agency RMBS, floating-rate bank loans, and CLOs outperformed.

Source: JP Morgan, Bloomberg Barclays, ICE Bank of America Merrill Lynch, Credit Suisse, Guggenheim Investments. Data as of 3.31.2018. Non-Agency RMBS: JP Morgan Research; Bank Loans: Credit Suisse Leveraged Loan index; Post-Crisis AAA CLOs: JP Morgan CLOIE Post-Crisis AAA index; High-Yield Corporate Bonds: ICE Bank of America Merrill Lynch High-Yield index; Taxable Municipal Bonds: Bloomberg Barclays Taxable Municipal index; Non-Agency CMBS: Bloomberg Barclays CMBS 2.0 index; Treasurys: Bloomberg Barclays Treasurys index; Agency MBS Fixed Rate: Bloomberg Barclays U.S. MBS index; Investment-Grade Corporate Bonds: Bloomberg Barclays U.S. Corporate Bond index.

Fiscal Stimulus Will Drive Unemployment Below a Sustainable Level

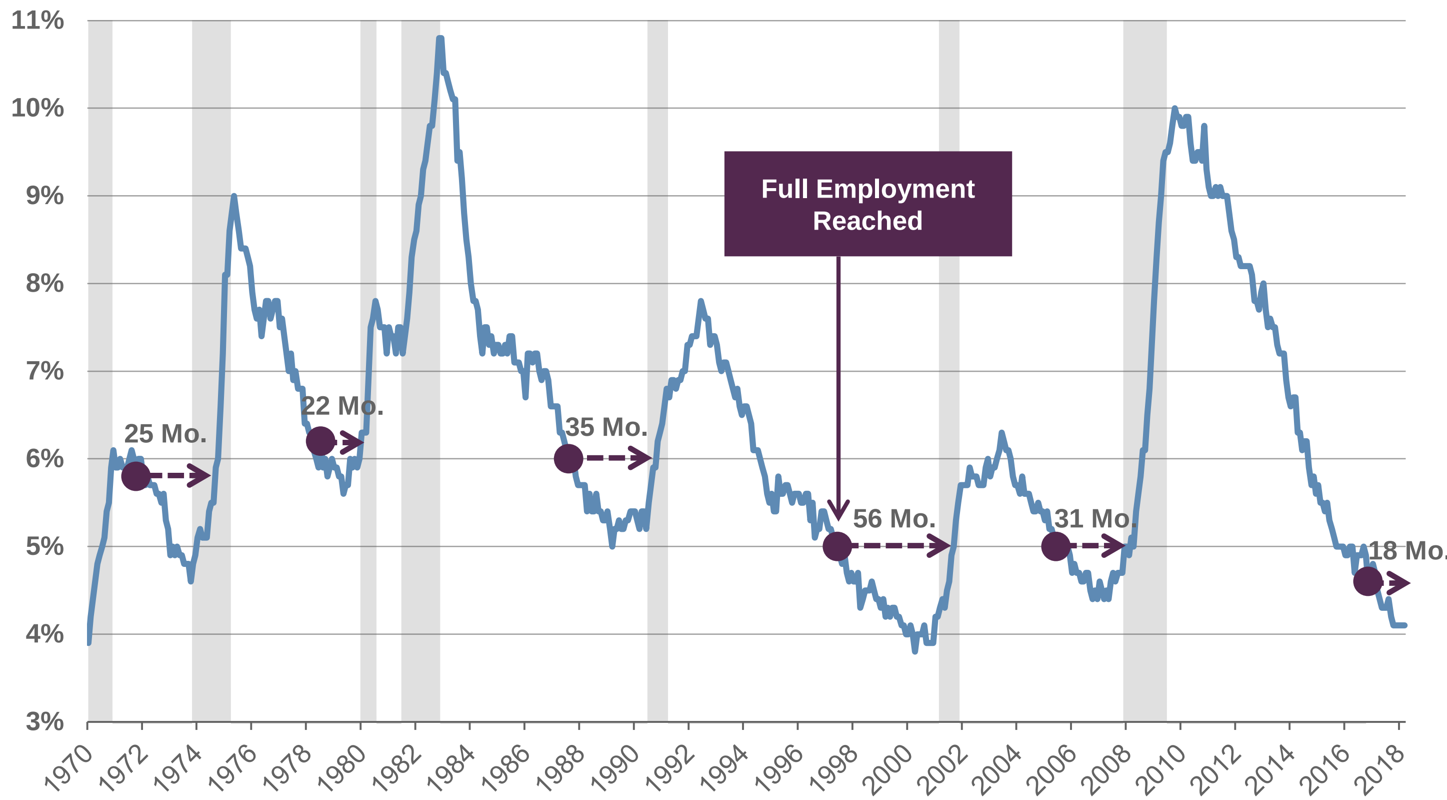


- With significant federal spending increases and tax cuts in the pipeline, the economy will grow well above potential in 2018 and 2019.
- The problem is that above-potential economic growth drives above-potential job creation, which will push the unemployment rate further below its sustainable rate. This will require further monetary tightening that will ultimately end in recession.
- Payroll growth has averaged 211,000 over the last six months and 188,000 over the last year, roughly double the rate that would be necessary to maintain a stable unemployment rate given U.S. demographics.
- We expect the unemployment rate to fall to 3.5 percent or lower—a full percentage point or more below its estimated natural rate—before the cycle ends.

Source: BLS, Haver Analytics, Congressional Budget Office, Guggenheim Investments. Data as of 3.31.2018. Gray areas represent periods of recession. The unemployment gap is the difference between the unemployment rate and the natural rate of unemployment, as estimated by the Congressional Budget Office.. LHS = left hand side, RHS = right hand side.

Recession Risks Rise as the Labor Market Moves Beyond Full Employment

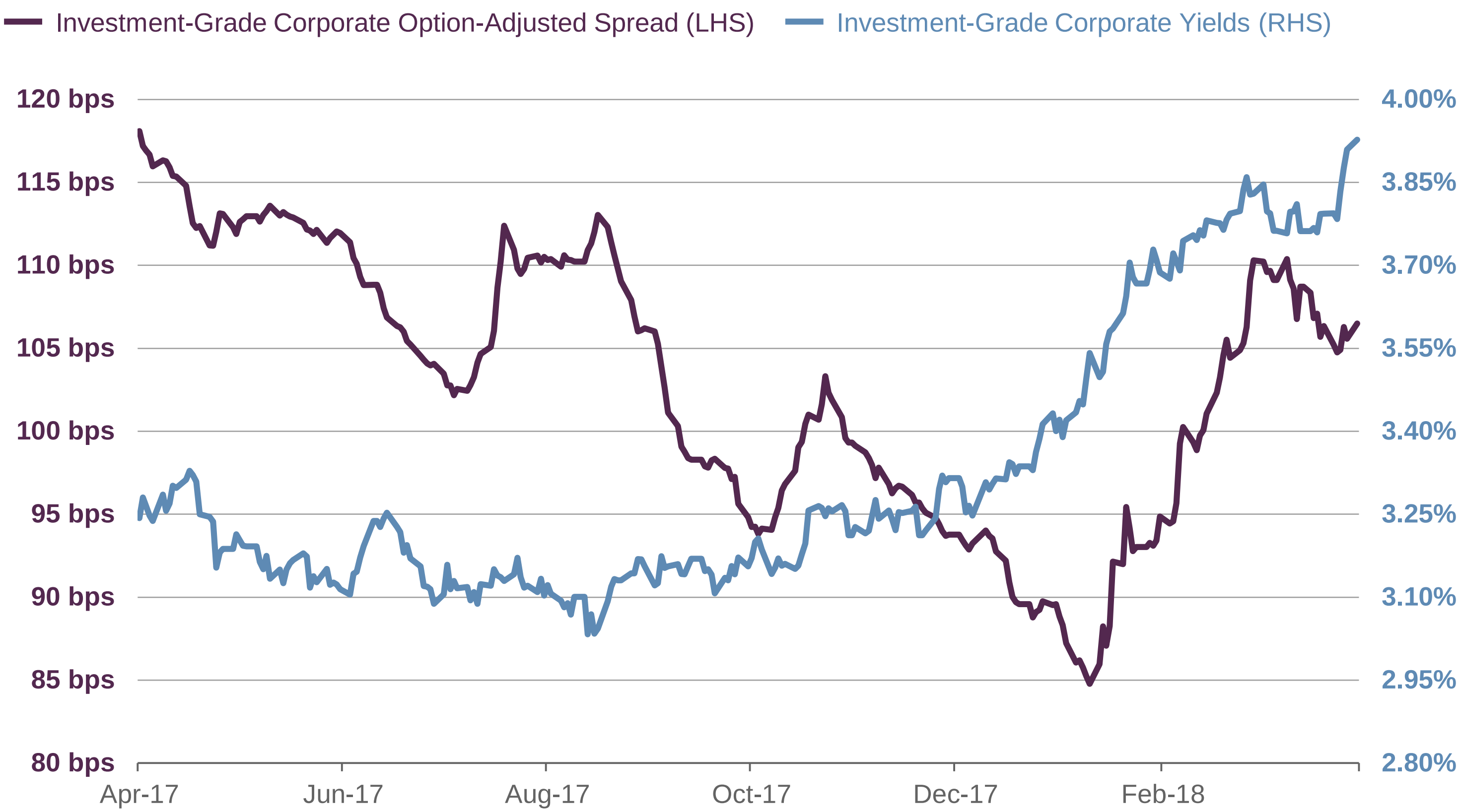
U.S. Unemployment Rate, with the Point When Full Employment Was Reached



- With lawmakers doubling down on fiscal stimulus at a time when the labor market is beyond full employment, the Fed will need to tighten monetary policy further.
- The chart illustrates that recession occurs approximately two to three years after full employment is reached. For example, the last recession began 31 months after full employment was reached.
- In the current expansion, full employment was reached 18 months ago.
- We expect the Fed to deliver three more rate hikes in 2018 and another four in 2019 as it attempts to engineer a soft landing.
- However, history suggests that its odds of success are low. We continue to forecast that a recession will begin around early 2020, when a fading fiscal impulse collides with tight monetary policy and an overextended economy.

Source: BLS, CBO, Haver Analytics, Guggenheim Investments. Data as of 3.31.2018. Gray areas represent periods of recession.

Spread Tightening May Be Reaching Its Natural Conclusion

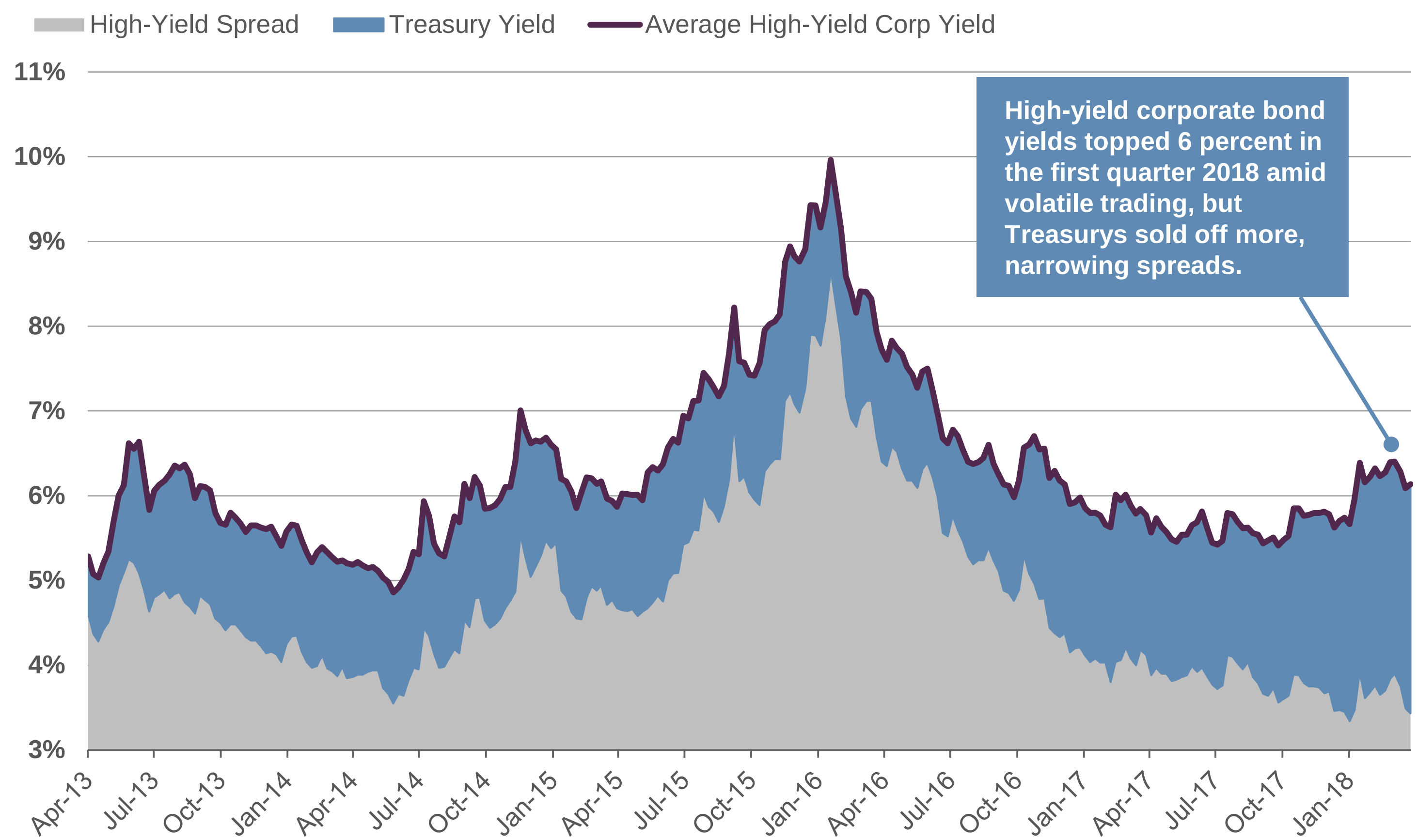


- Foreign holdings of U.S. corporate debt remain high, but rising foreign exchange hedging costs could stymie the technical support bid for U.S. dollar-denominated corporate bonds.
- With longstanding technical strength beginning to weaken, spreads will likely experience bouts of fatigue over the next quarter, and tightening may be nearing its natural conclusion.
- As spreads come under pressure and negative technicals become more pronounced, we believe deep fundamental analysis will be key to identifying the pitfalls and the opportunities of a more challenging investment environment.

Source: Bloomberg Barclays, Guggenheim Investments. Data as of 4.23.2018. LHS = left hand side, RHS = right hand side.

High-Yield Corporate Bonds

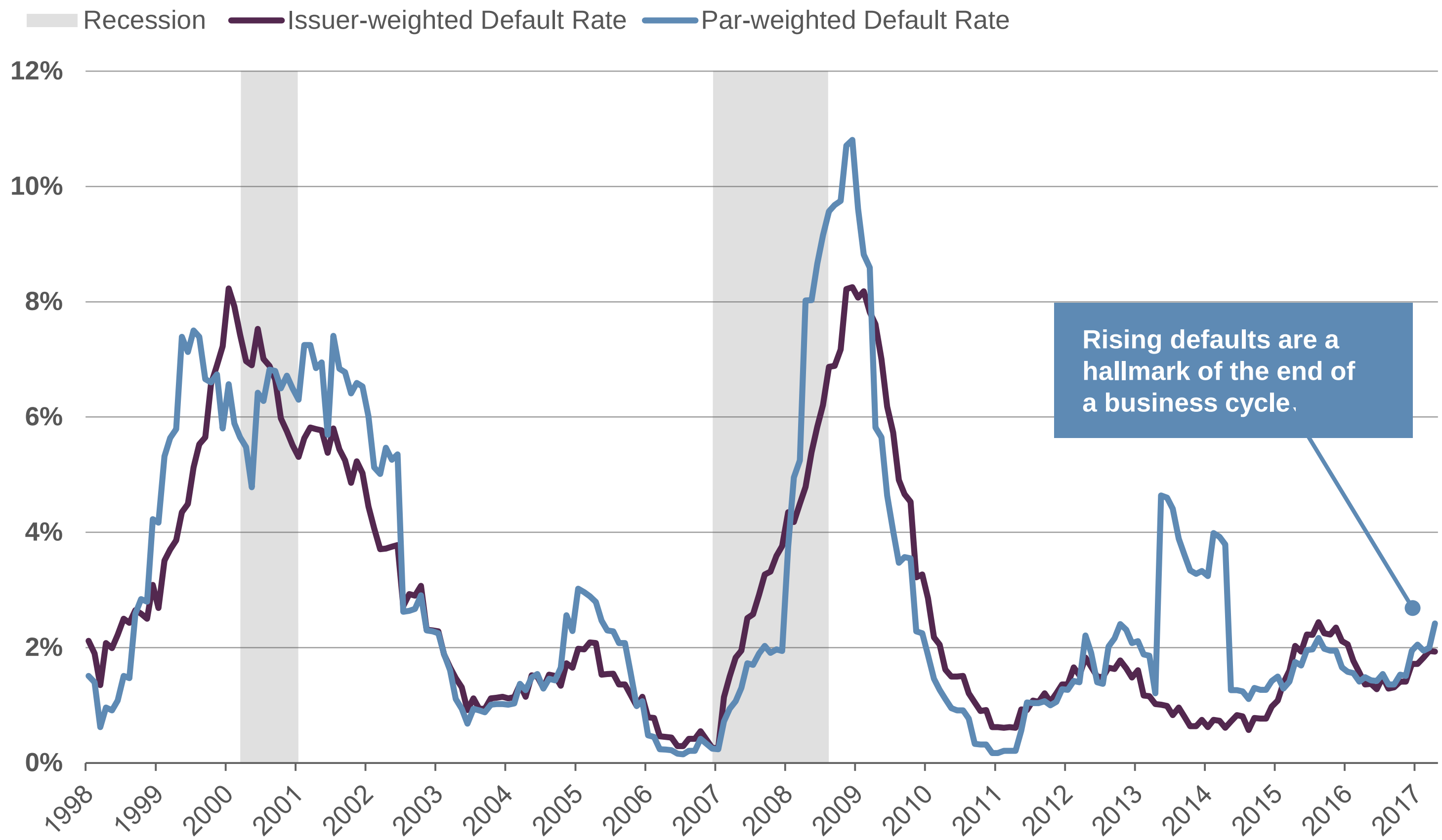
High-Yield Corporate Bond Yields Top 6 Percent, but Spreads Are Tighter



Source: ICE Bank of America Merrill Lynch, Guggenheim Investments. Data as of 4.24.2018.

- High-yield corporate bonds are trading at yields above 6 percent for the first time since December 2016, mostly due to the backup in benchmark Treasury rates.
- While five-year Treasury yields rose 61 basis points year to date through April, spreads are 26 basis points tighter, continuously retesting cycle lows as higher yields drive investor demand.
- Although we saw a pickup in volatility in the first quarter, we believe higher yields against a relatively benign credit backdrop will stem a mass exodus from the high-yield market.
- To the extent investors are looking for opportunities in high yield as volatility levels off, we view B-rated credits relatively favorably in the current environment as they balance credit and duration risks and offer wider spreads compared to their own history than other rating categories.

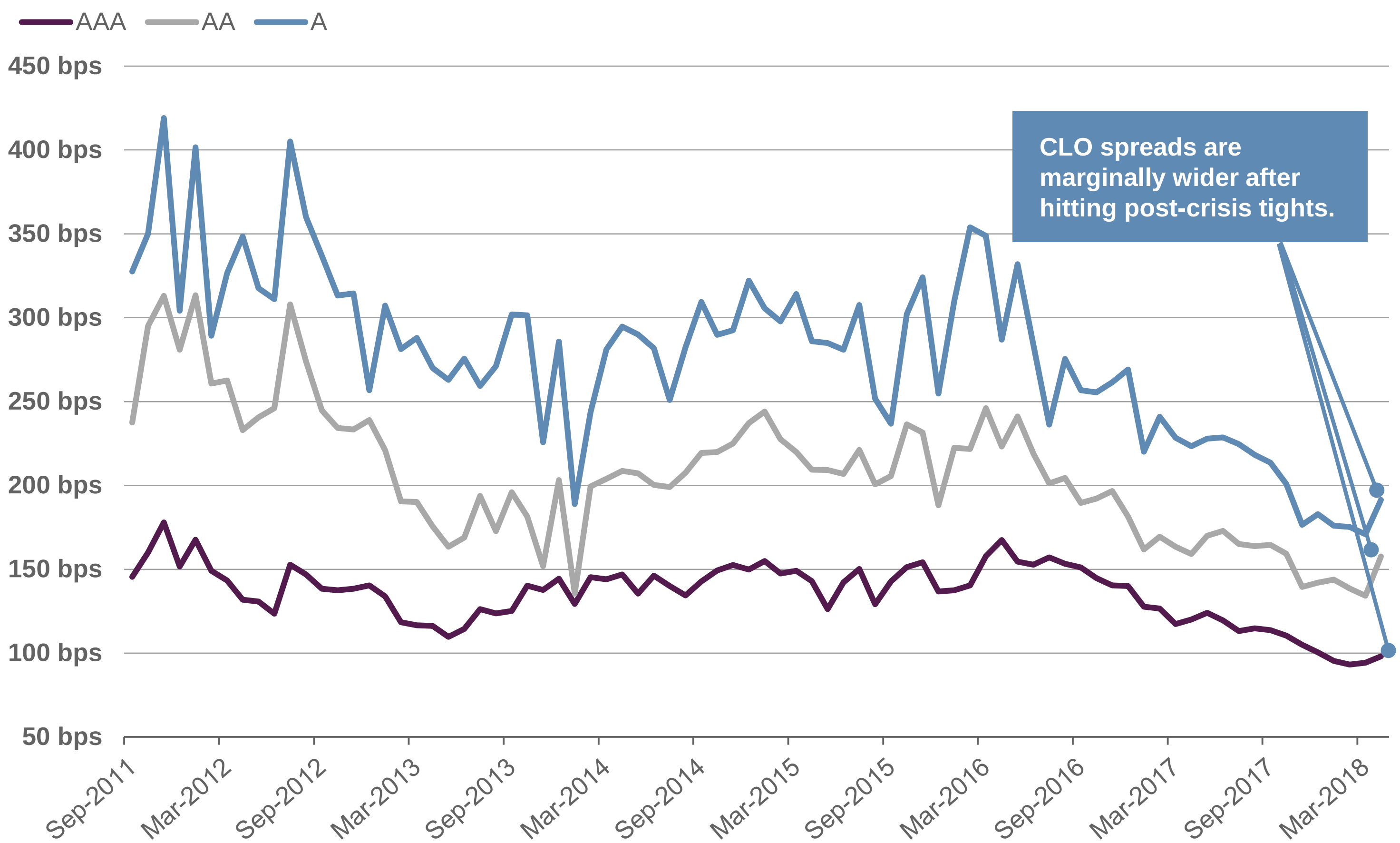
Loan Defaults Are Ticking Higher in 2018 as Rates Rise



- Rising rates will have negative consequences for some borrowers. This is highlighted in the recent uptick in default activity, with both the 12-month trailing par- and issuer-weighted default rates going up in the first quarter of 2018.
- Nevertheless, the loan market continues to look healthy, with no widespread deterioration at this stage.
- Loan interest coverage stands at 3.8x compared to the 15-year average of 3.5x and historical low of 2.6x. This is largely the result of heavy refinancing activity last year, which helped drive loan spreads tighter and kept the increase in borrowing costs contained.
- We do not expect meaningful deterioration in loan interest coverage until Libor reaches 3 percent or more, but we could see some early casualties as borrowing costs rise.

Source: S&P LCD, Bloomberg, Guggenheim Investments. Data as of 3.31.2018. Shaded areas indicate recession.

CLO Spreads Tightened to Post-Crisis Tights in the First Quarter

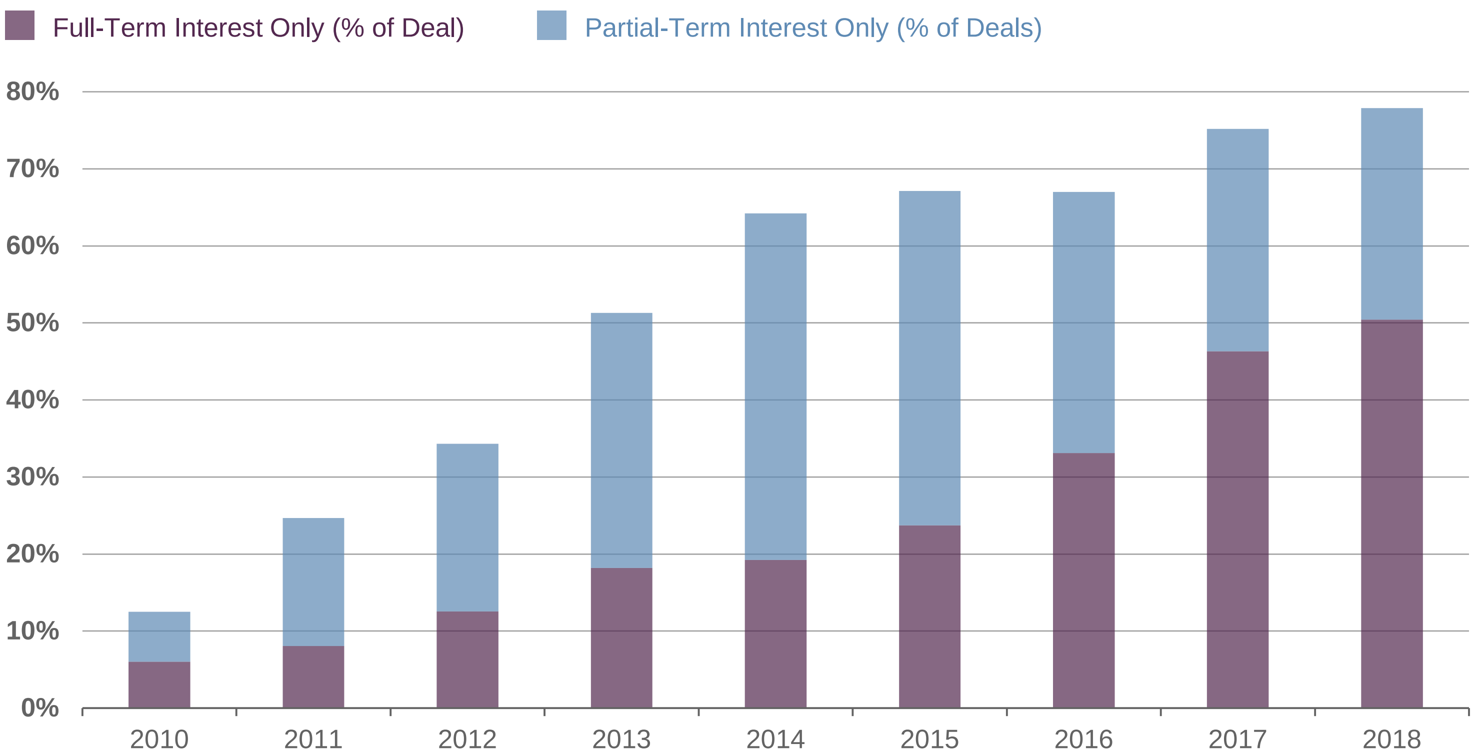


- AAA CLO spreads tightened to below 100 basis points in early March, but have backed off marginally since then. A- and AA-rated CLOs also reached tights not seen since 2014, but have since widened.
- We continue to favor investment-grade refi CLOs with relatively short spread durations, as they offer reasonable spreads for a short and loss-remote profile.
- We also remain alert to the extension risk in new-issue CLO securities and the impact on option-adjusted spreads and price volatility.

Source: S&P LCD, Guggenheim Investments. Data as of 4.30.2018.

Interest-Only Deals Have Increased as Underwriting Standards Weaken

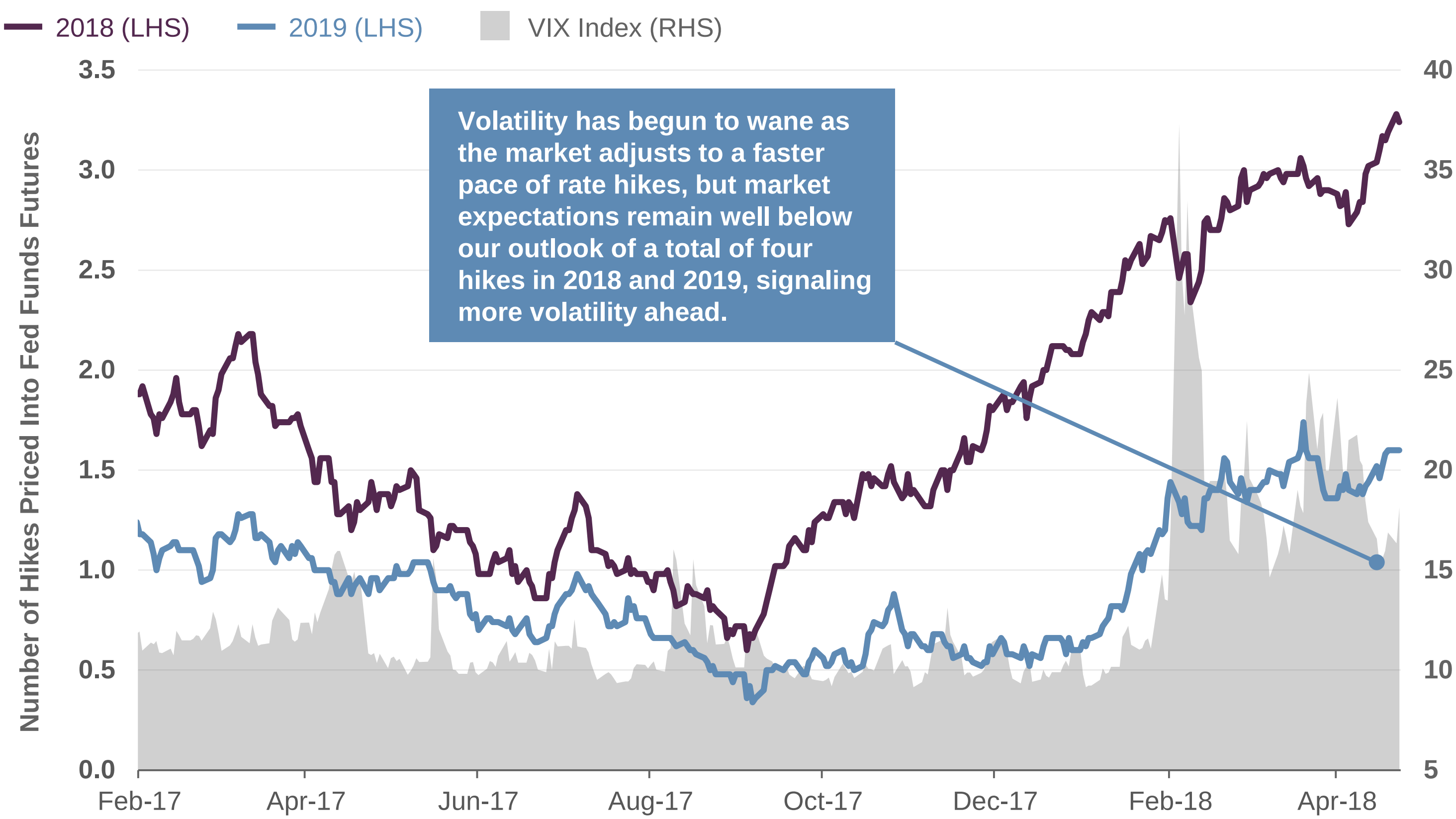
Average % of Interest-Only Exposure in Conduit Deals, by Vintage



Source: Trepp, Guggenheim Investments. Data as of 3.31.2018.

- The increased competition among conduit originators, insurers, and banks will likely result in weaker underwriting standards for conduit loans.
- We expect conduit underwriting standards to migrate lower throughout the remainder of the year and feature more interest-only, higher loan-to-value, and storied properties.
- The percentage of deals with some interest-only exposure has steadily risen. In the first quarter of 2018, more than half of conduit deals are full-term interest only, and 77 percent have at least some interest only.
- We continue to favor more defensive, loss-remote investments in conduit CMBS and CRE CLO transactions.
- We have also remained active in SASB where the underlying property quality is high and transaction terms are fairly balanced between lender and borrower.

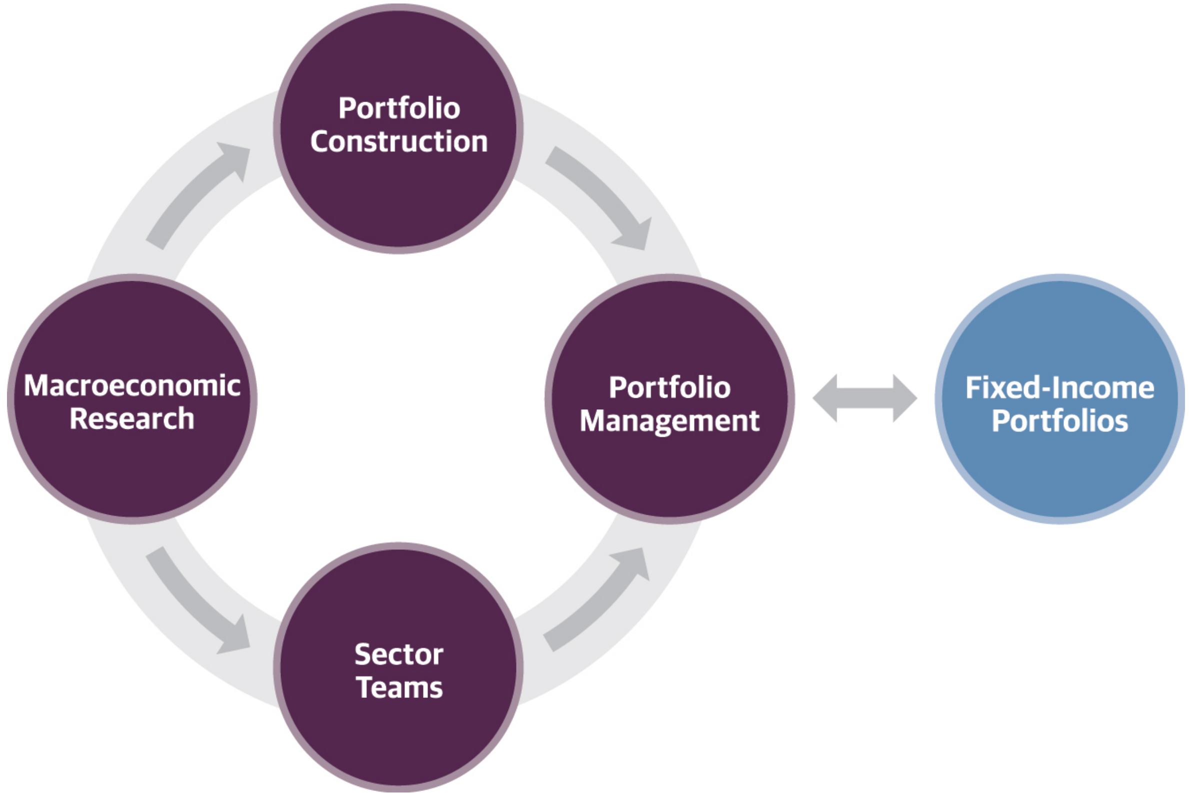
Equity Volatility Spiked as the Market Priced in More Rate Hikes



- We have witnessed increased volatility in risk assets, and with the Fed set to continue tightening monetary policy, this volatility is unlikely to subside anytime soon.
- Federal Open Market Committee (FOMC) economic projections remained at three hikes for 2018, although the individual data actually showed a migration toward four expected hikes for 2018.
- The FOMC projections for 2019 and longer term were revised slightly higher as well. We believe the Fed will raise rates three more times in 2018 for a total of four, and four times in 2019.
- In response, our portfolio managers have been shortening portfolio duration, opportunistically moving up in credit, and maintaining a reasonable liquidity buffer for picking up undervalued credits in periods of market weakness.

Source: Bloomberg, Guggenheim. Data as of 4.24.18. VIX is the ticker for the Chicago Board Options Exchange SPX Volatility index, which reflects a market estimate of future volatility. LHS = left hand side, RHS = right hand side.

Guggenheim's Investment Process



Guggenheim's fixed-income portfolios are managed by a systematic, disciplined investment process designed to mitigate behavioral biases and lead to better decision-making. Our investment process is structured to allow our best research and ideas across specialized teams to be brought together and expressed in actively managed portfolios. We disaggregated fixed-income investment management into four primary and independent functions—Macroeconomic Research, Sector Teams, Portfolio Construction, and Portfolio Management—that work together to deliver a predictable, scalable, and repeatable process. Our pursuit of compelling risk-adjusted return opportunities typically result in asset allocations that differ significantly from broadly followed benchmarks.

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