

## Rates

## More Volatility Ahead

Fed interest rate policy will likely cause the yield curve to steepen further.

The third quarter ushered in significant Treasury market repricing and volatility brought on by changes in projected Fed policy for the remainder of this year and into next. While the projected terminal rate remained unchanged at the Fed's last Summary of Economic Projections, the Fed is increasingly uncertain as to the need for any future rate hikes. The Fed will likely continue to rely on forward guidance to attempt the delicate dance of bringing inflation back to target, keeping long run inflation expectations anchored, while trying to engineer a soft landing. This balancing act will likely mean more talk and less action, depending on data and markets.

The magnitude of prior hikes and the Fed talk of a potentially prolonged timespan of higher rates have pushed up nominal and real yields to levels not seen since 2007 as the market required more term premium for purchasing Treasury securities. The selloff also brought into focus debt financing costs and the impact of quantitative tightening amid future increases of Treasury supply

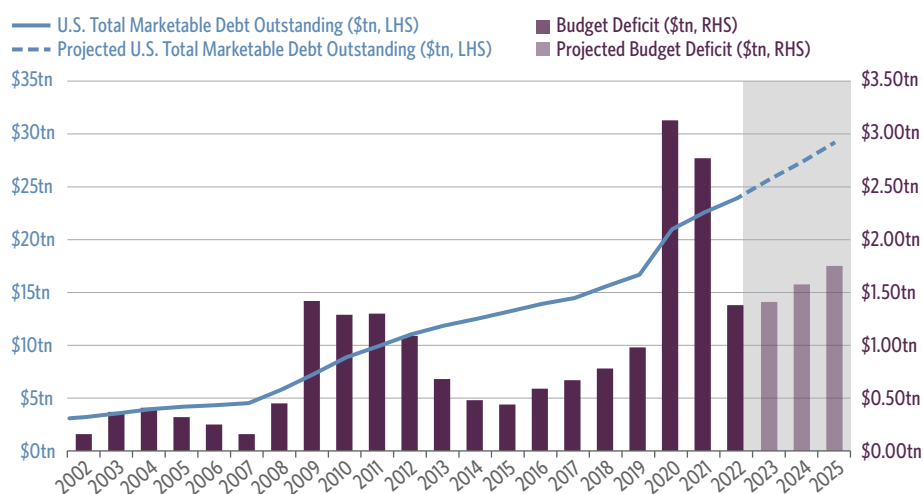
to finance fiscal spending. Excluding the extraordinary level of fiscal stimulus during the pandemic, budget deficits have been on an upward trajectory since 2016, pushing U.S. Treasury debt held by the public to \$25.7 trillion, nearly 100 percent of nominal gross domestic product (GDP).

Looking forward, we continue to believe that the next major move in the yield curve will be an additional steepening, and we continue to position our portfolios accordingly. As Treasury issuance needs increase in 2024, we believe much of the Treasury bill issuance seen since the resolution of the debt ceiling will be termed out along the coupon curve, adding to steepening pressure. Finally, with the significant increase in real yields, particularly at the front end of the curve, short maturity TIPS look relatively attractive.

*By Kris Dorr and Tad Nygren*

Budget deficits have been on an upward trajectory since 2016, pushing U.S. Treasury debt held by the public to \$25.7 trillion, nearly 100 percent of nominal GDP.

### U.S. Debt Will Near \$30tn by 2025



Source: Guggenheim Investments, Bloomberg. Data as of 9.30.2023.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the authors, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

**Investing involves risk, including the possible loss of principal.** Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations ("CLOs"), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

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 Partners Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Partners India Management.

©2023 Guggenheim Partners, LLC. All Rights Reserved. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Guggenheim Partners, LLC. GPIM 59507