Third Quarter 2019

Fixed-Income Outlook: Chart Highlights

Looking Past the Liquidity-Driven Rally

GUGGENHEIM

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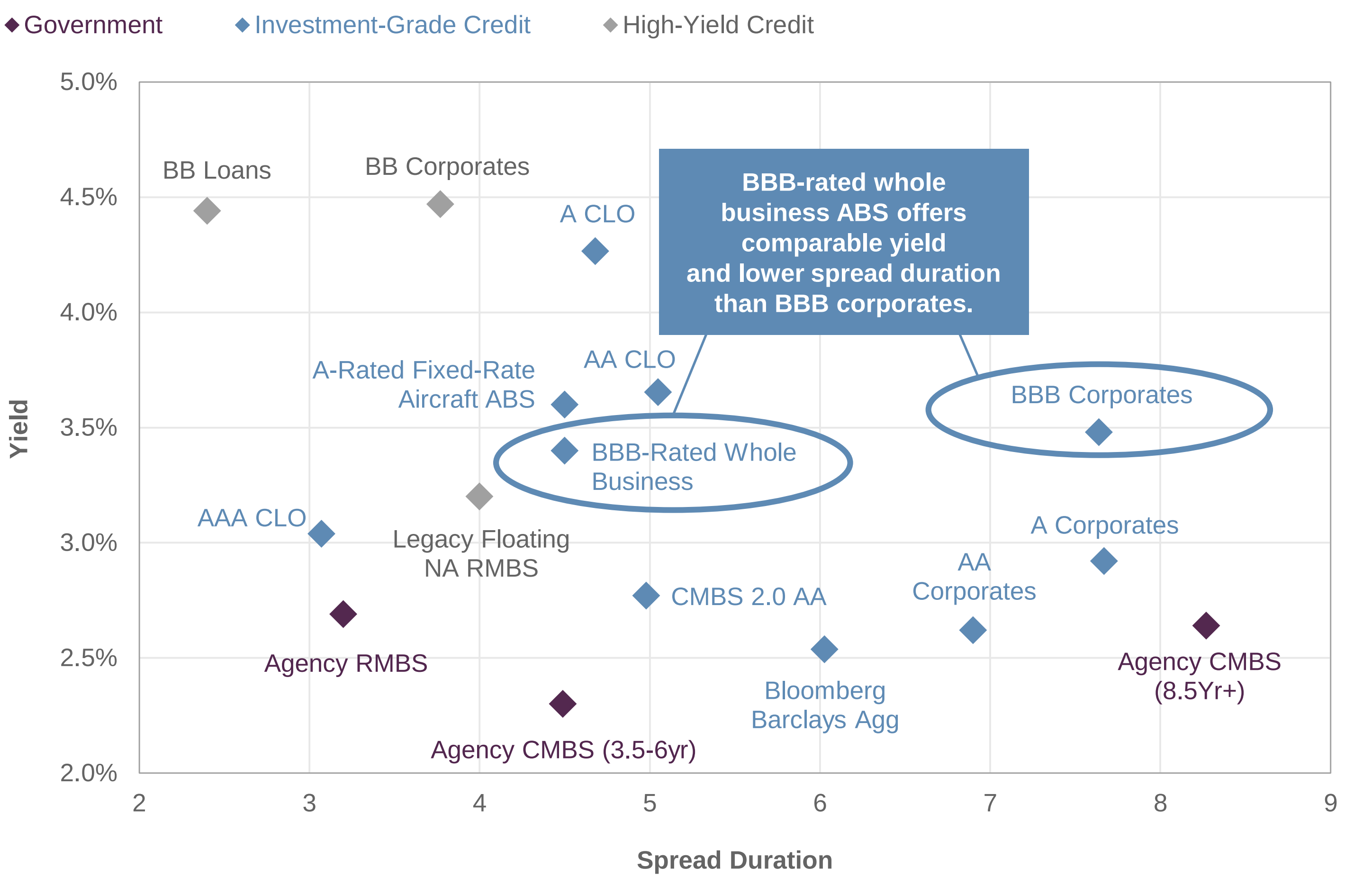
The Guggenheim Investments ("Guggenheim") quarterly Fixed-Income Outlook presents the relative-value conclusions of our 160+ member fixed-income investment team and illuminates the uniqueness of our investment process. This chart book presents selected highlights from the ***Third Quarter 2019 Fixed-Income Outlook***.

Structured Credit Has Offered Better Relative Value by Ratings Category

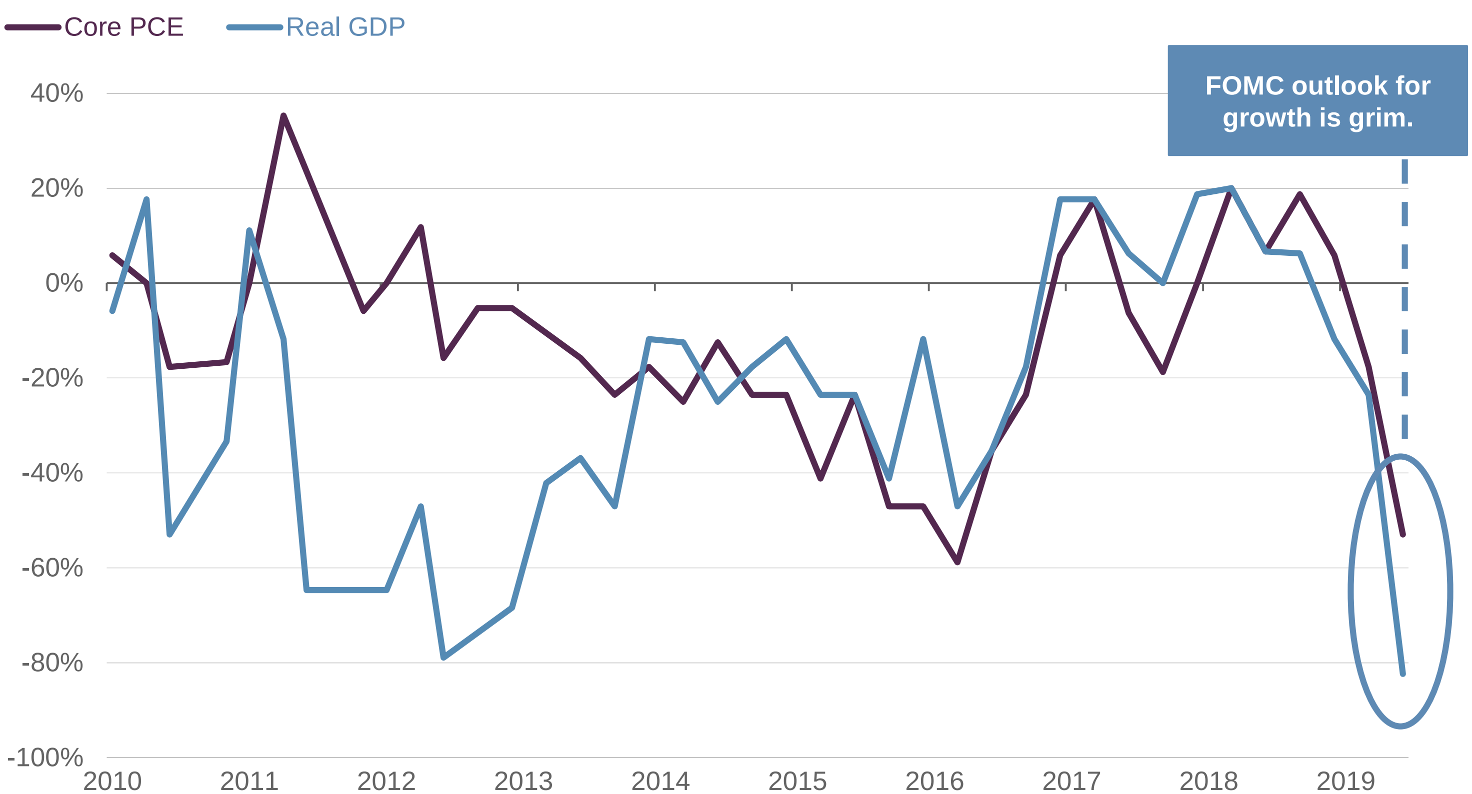


- Yield and spread duration are two metrics that help assess relative value. Spread duration is the percent change in prices for a 100 basis-point move in spreads.
- If BBB corporate bond spreads widen by 100 basis points, for example, BBB corporates lose between 7–8 percent in market price.
- If BBB-rated whole business ABS spreads widen by 100 basis points, those sectors would lose between 4 and 5 percent in price.
- With structured credit offering comparable spreads but less risk in the form of spread duration than corporate bonds, we think they offer better relative value.

Source: Guggenheim Investments, Credit Suisse, Bloomberg, Citi. Data as of 7.25.2019. Representative indexes: BB loans: Credit Suisse Leveraged Loan Index (BB subset); BB Corps: Bloomberg Barclays High-Yield Corporate Bond Index (BB subset); AA, A and BBB Corporate Bonds: Bloomberg Barclays Corporate Bond index (AA, A, and BBB subsets); Agency RMBS and Agency CMBS: Bloomberg Barclays U.S. Aggregate Index (RMBS and CMBS subsets); CLOs: JPM CLOIE Index (AAA, AA, and A subsets); CMBS 2.0 AA: Bloomberg Barclays CMBS 2.0 Index (AA subset), legacy floating non-Agency RMBS, BBB-rated Whole Business and A-rated Fixed-Rate Aircraft ABS: Based on the Guggenheim's sector desk indicative levels.

Mounting Downside Risks Drive the Fed into Easing Mode

Net Upside/Down Risk to SEP Projections: % of FOMC Participants

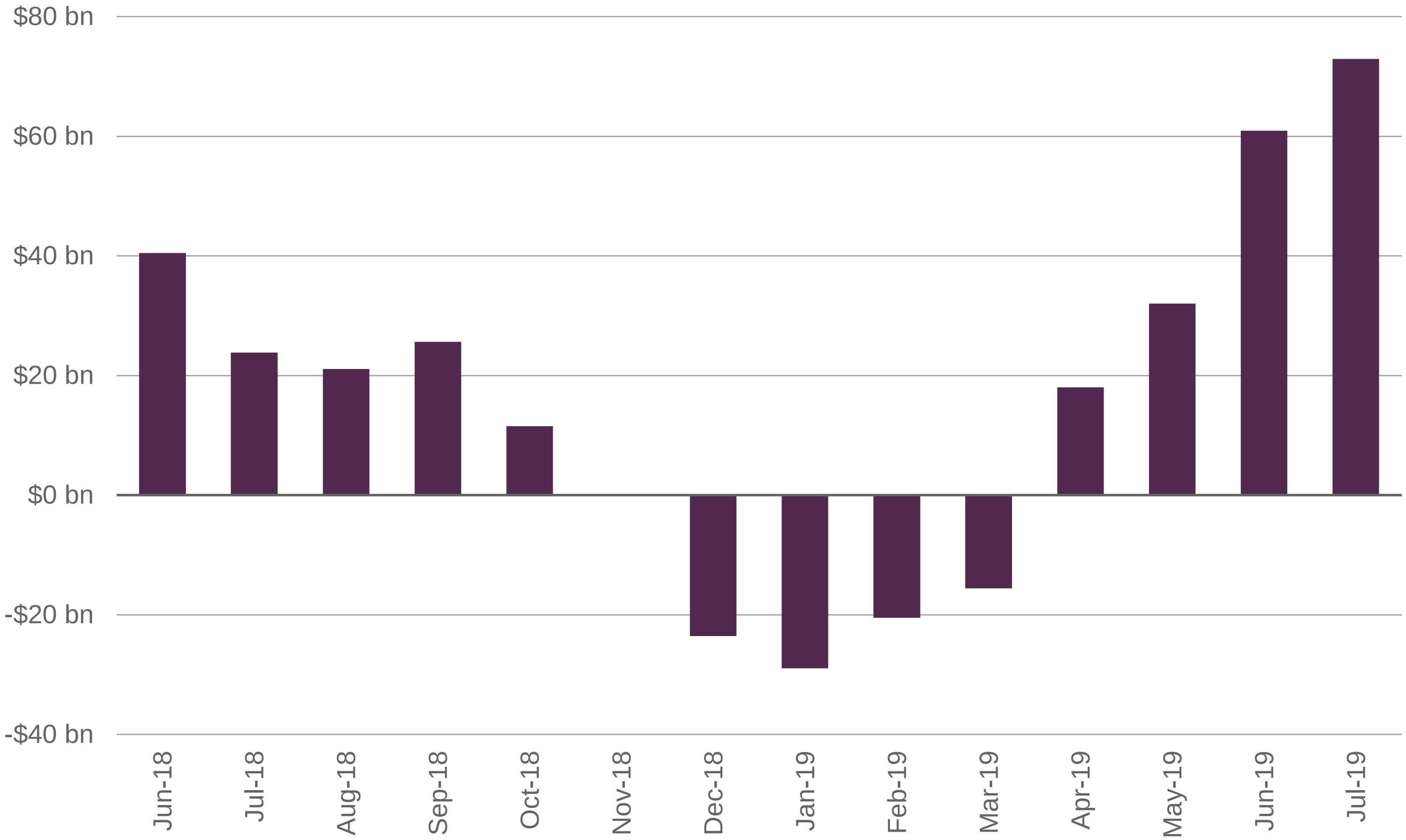


- Although the U.S. economy is in good shape overall, on July 31 the Fed announced its first rate cut since 2008 amid growing downside risks to policymakers' baseline growth and inflation forecasts.
- We expect two more rate cuts in 2019 as Fed Chair Jay Powell seeks to sustain the expansion.
- In our view, this could serve to embolden the White House to impose new tariffs on China and Europe later this year, which would in turn further cloud the outlook for global growth.

Source: Guggenheim Investments, Federal Reserve. Data as of 6.19.2019.

Investment-Grade Fund Inflows Supported Net Buying of Credit

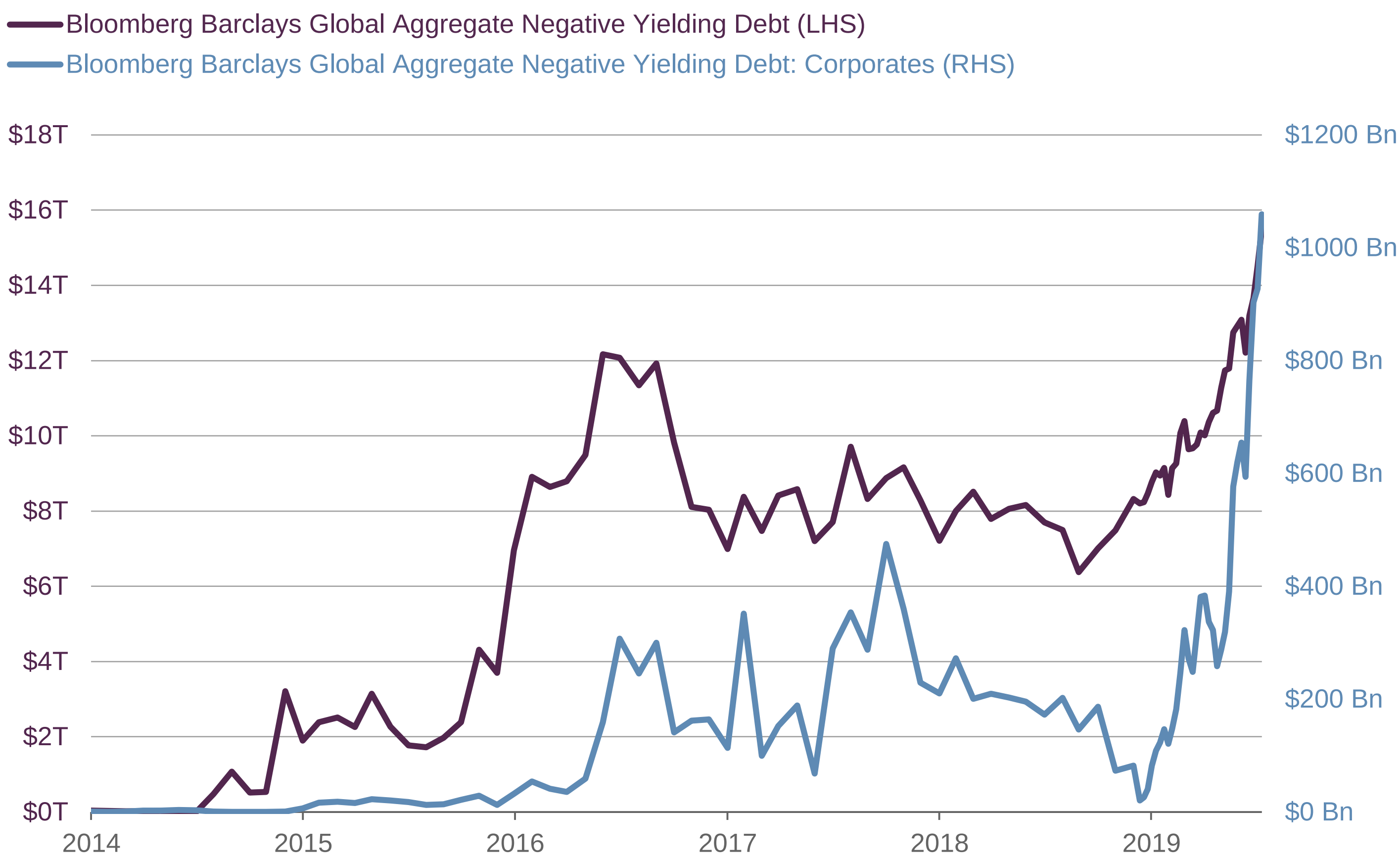
Investment-Grade Mutual Fund Flows, Six-Month Rolling Total



- Healthy investment-grade fund inflows to the tune of $70 billion over the last six months resulted in steady net buying of credit.
- Investment-grade corporate spreads experienced another strong quarter of performance despite heightened trade war fears and increased geopolitical tensions. The technical backdrop of low supply and continued inflows, coupled with accommodative shifts in global monetary policy, remain the drivers of the strong corporate bond market.
- The underlying technical environment remains robust. Gross and net issuance continue to slide into negative territory with gross issuance down 8.6 percent and net issuance down 29.6 percent year to date relative to 2018.

Source: Guggenheim Investments, Investment Company Institute. Data as of 7.31.2019. June and July based on estimated weekly fund flows.

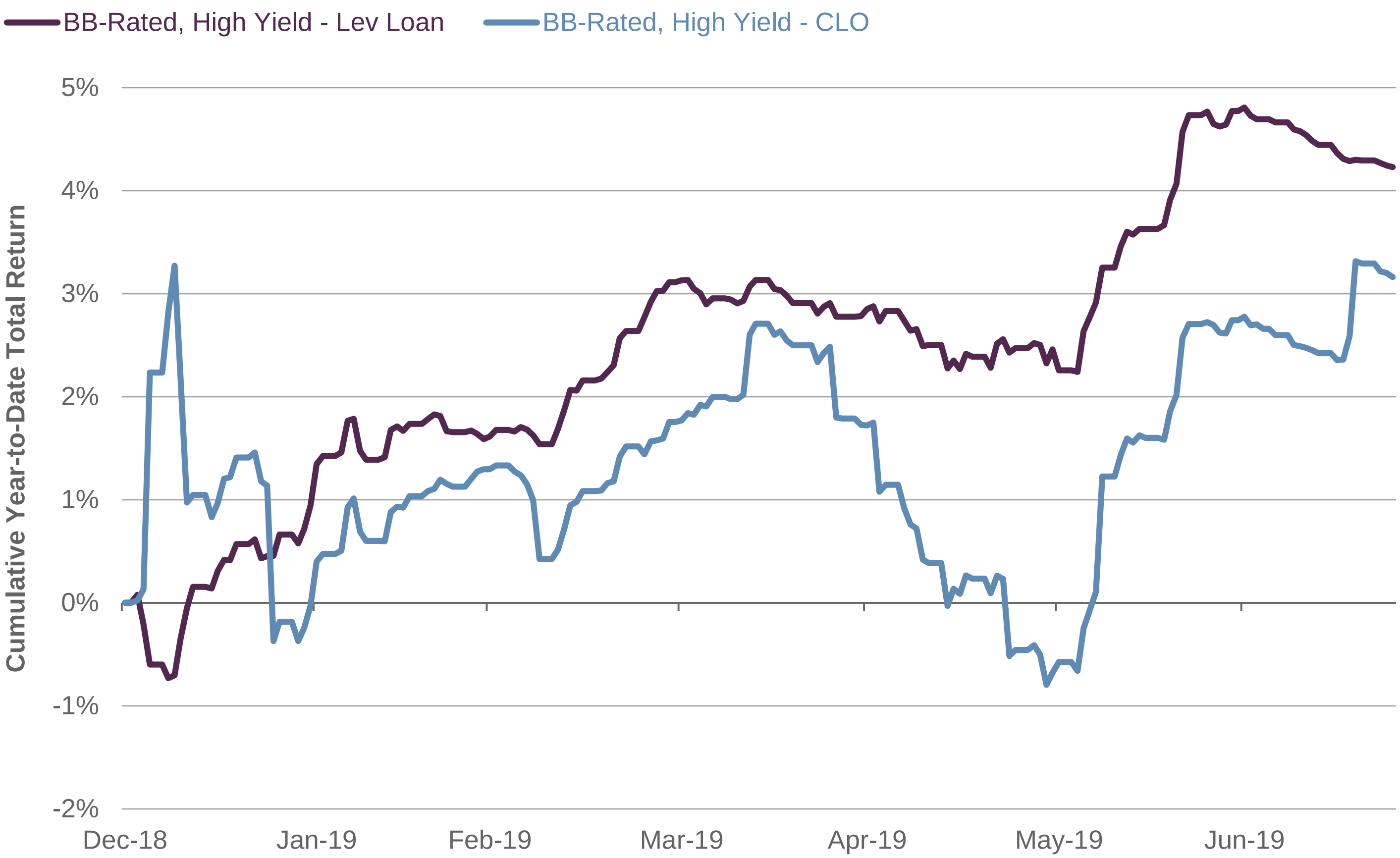
A Record $15 Trillion in Global Debt Is Yielding Below Zero



- With a record $15 trillion in global debt yielding below zero, including over $1 trillion of negative-yielding corporate debt, positive-yielding U.S. dollar-denominated credit should remain attractive to domestic and foreign investors alike.
- The increased attractiveness of high-yield corporates due to their fixed-rate nature gave the market a meaningful boost in performance over similarly rated floating-rate sectors in a falling interest-rate environment.

Source: Guggenheim Investments, Bloomberg. Data as of 8.9.2019.

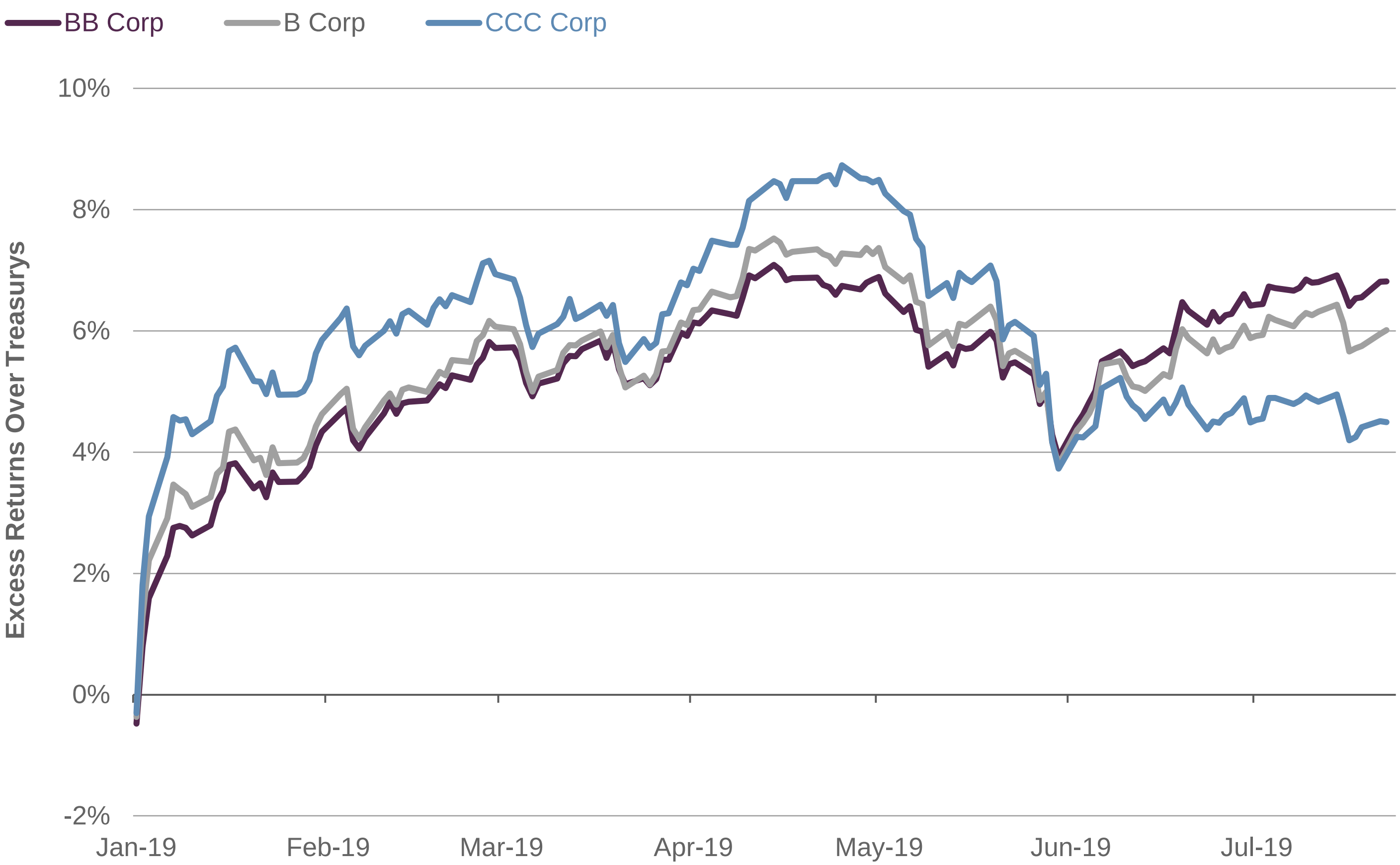
High-Yield Corporates Outperformed Similarly Rated Floating Rate Sectors



- BB corporates have outperformed BB loans by 4 percentage points year to date through July 24, and they have outperformed BB CLOs by 3 percentage points.
- Total return through the first half of 2019 for the ICE BofA Merrill Lynch High-Yield Constrained index was 10.2 percent, with excess return over Treasurys representing 5.9 percent of that.
- The increased attractiveness of high-yield corporates due to their fixed-rate nature gave the market a meaningful boost in performance over similarly rated floating-rate sectors.

Source: Guggenheim Investments, ICE BofA Merrill Lynch, JP Morgan, Credit Suisse. Data as of 7.24.2019.

CCC Excess Return Divergence from BB and B Signals Credit Concerns

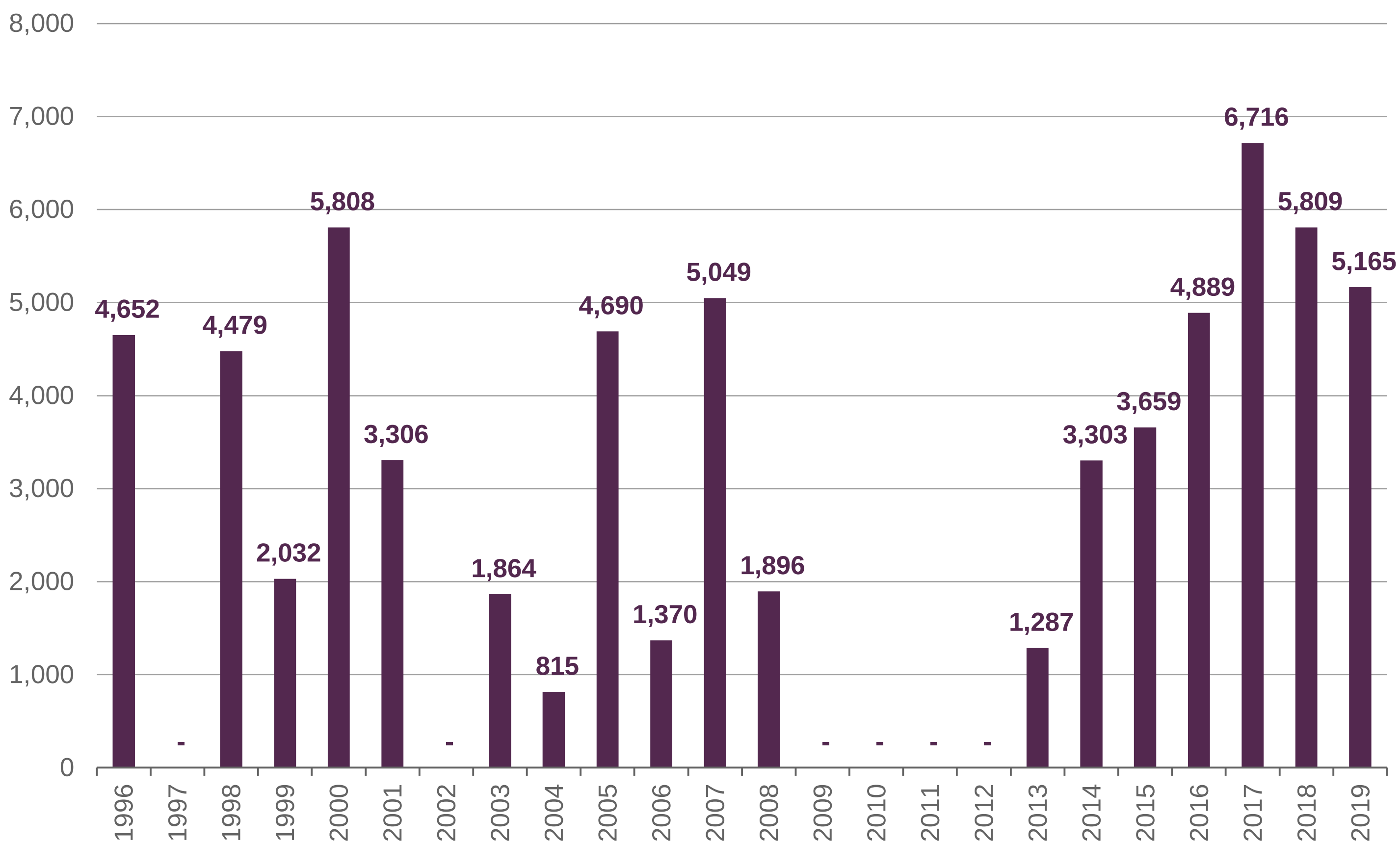


- Since the beginning of June when the Fed sent clearer signals about a possible rate cut in July, CCC excess returns over Treasurys have been largely flat while BBs and Bs earned positive returns over Treasurys.
- We forecast that the 12-month trailing par-weighted default rate will climb to about 3 percent by year end, up from less than 1 percent currently, and will ease in early 2020. But the gap in excess return between higher beta CCCs and lower beta BBs points to brewing market concerns over credit risk.
- Even as the Fed's stance has become more accommodative, this rally is more driven by liquidity than fundamentals and may leave the riskiest borrowers exposed.

Source: Guggenheim Investments, ICE BofA Merrill Lynch. Data as of 7.24.2019.

2019 Sets Record for Aircraft ABS Issuance

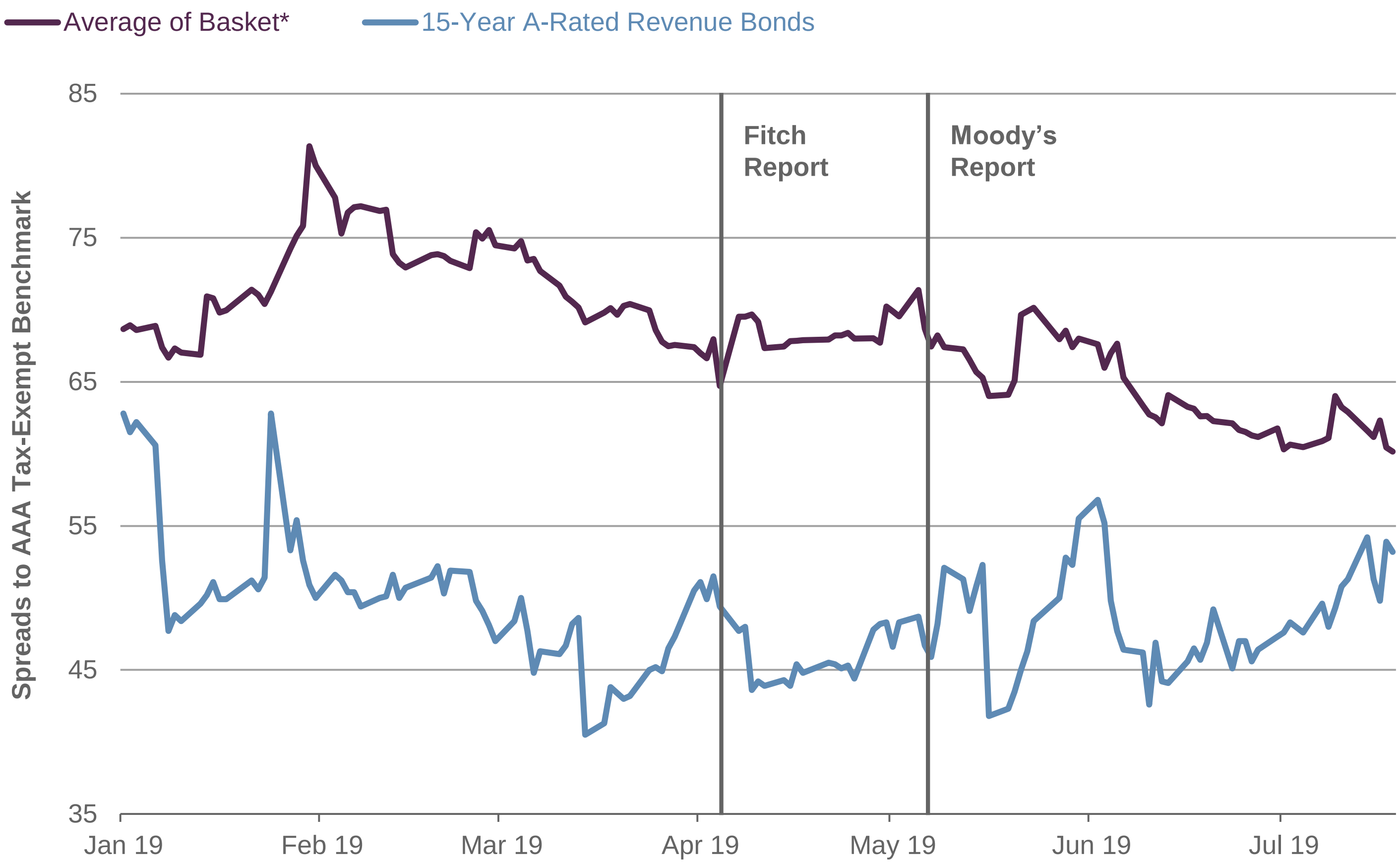
Issuance in $millions



- The number of lessors accessing the aircraft ABS market and the issuance of aircraft ABS has surged in recent years. Aircraft ABS issuance year to date in 2019 has already almost reached the total issuance volume of 2018, one of the strongest years of issuance on record for aircraft ABS.
- Ongoing strength in air traffic growth, continued good credit performance, and syndicated equity transaction structures have increased investor sponsorship of aircraft ABS.
- While we remain skeptical about the marketed economics of syndicated equity investments, investor enthusiasm for the space is undeniable and has contributed to the growth in the aircraft ABS market.
- We expect our investment focus to remain on bespoke opportunities, middle-market CLOs, commercial ABS, and aircraft ABS.

Source: Guggenheim Investments. Data as of 8.15.2019.

Investors Shrugged Off Court Ruling That Could Freeze Debt Service Payments



- The U.S. First Court of Appeals ruled that debtors are permitted, but not required, to make debt service payments during bankruptcy proceedings, which would provide a form of automatic stay protection from bondholders.
- Subsequently, Moody's and Fitch highlighted 13 issuers vulnerable to downgrades, but this action did not precipitate any unusual pricing volatility.
- Although low volatility has permeated most credit sectors, including municipals, we did not envision that such highly visible tail risks would be largely ignored.
- While municipal buyers' risk tolerance continues to grow, investors should take the opportunity to shift portfolios to higher quality when possible.

Source: Bloomberg, Moody's, Fitch. Data as of 7.19.2019. *Basket includes 10 issuers vulnerable to rating downgrades related to potential treatment of special revenues bonds, as highlighted by Moody's and Fitch.

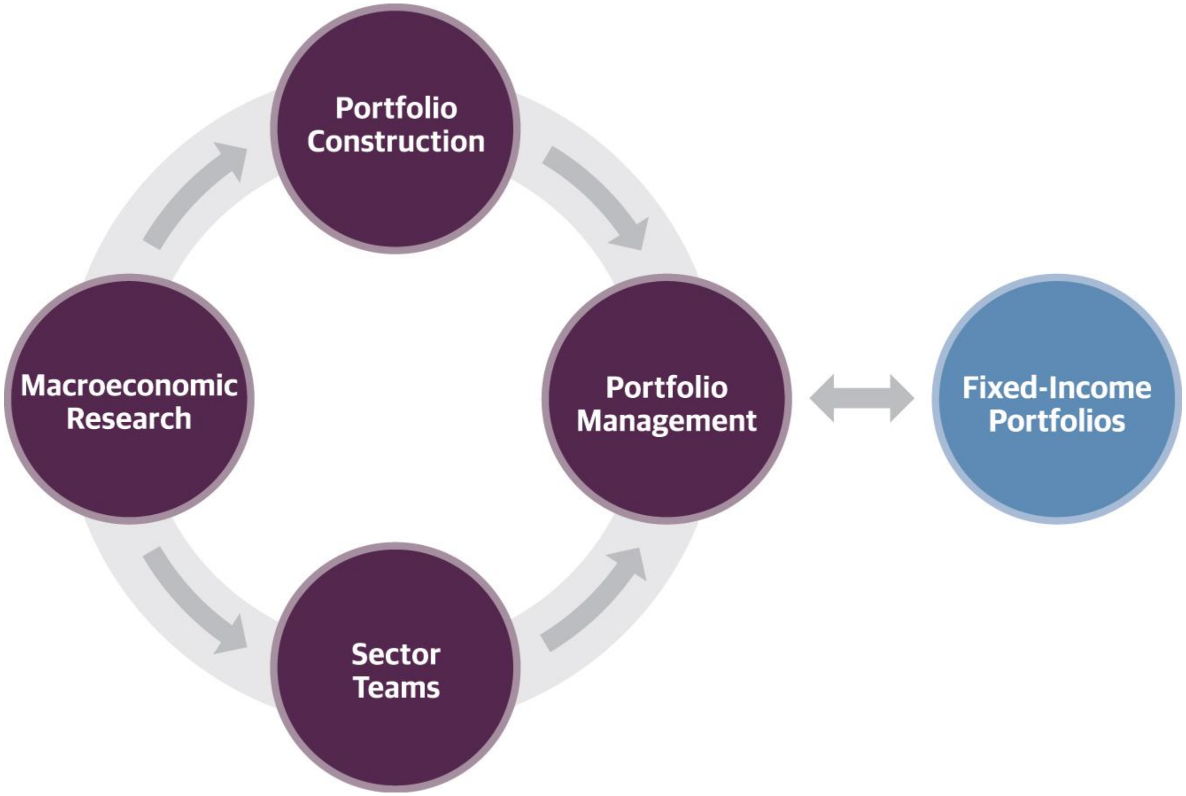
Market Is Pricing in Sharp Fed Funds Cuts for 2019 and 2020

Federal Funds Rate Cuts Priced in by Calendar Year in Basis Points

- During the second quarter, the fed funds futures market added two more expected rate cuts through the end of 2020, with the implied rate on December 2020 fed funds futures falling to 1.3 percent by quarter-end.
- The FOMC also ended the second quarter with a decidedly more dovish outlook, with members lowering their 2019 median target projection for the fed funds rate in 2020. The Fed then proceeded to lower the target range by 25 basis points in July despite a string of solid economic data in the weeks leading up to the meeting.
- As of July 31, the fed funds futures market was pricing in 70 basis points of additional rate cuts for 2019 following July's ease, and more by the end of 2020.

Source: Guggenheim Investments, Bloomberg. Data as of 8.15.2019.

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 results in asset allocations that differ significantly from broadly followed benchmarks.

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One **basis point** is equal to 0.01 percent.

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