GUGGENHEIM

Macroeconomic Outlook

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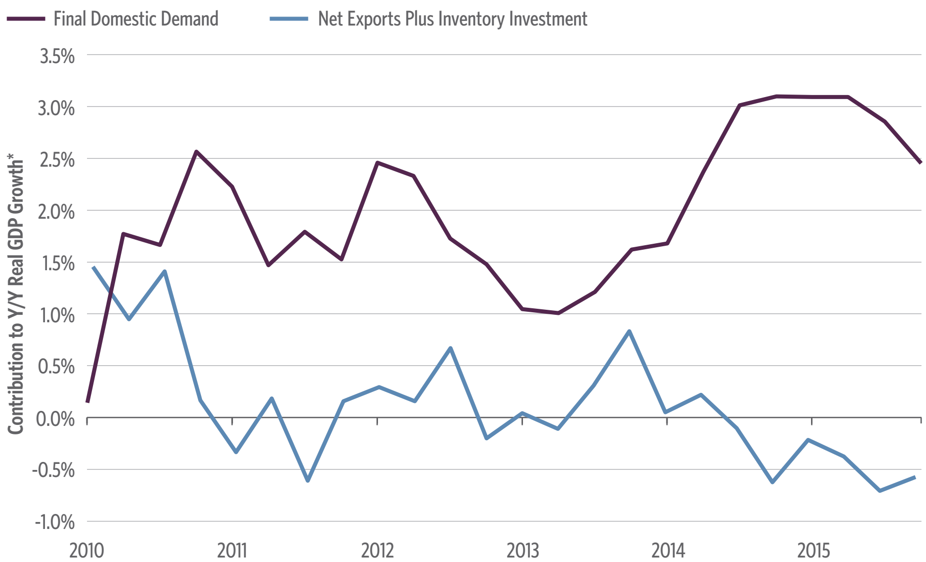
Fears of a 2016 U.S. recession are overblown. A rebalancing oil market should calm markets in the second half of the year.

A sharp selloff in global equities and continued volatility in credit markets have rattled investors, but we do not believe the factors roiling the markets will derail the ongoing U.S. expansion. A stronger dollar has weighed on the U.S. economy, but consumer spending, which accounts for 70 percent of the U.S. economy, has been resilient. Aided by the windfall of lower energy prices, final domestic demand contributed 2.5 percentage points to real GDP growth in 2015 (see chart, top right). The labor market is now operating near full employment with the unemployment rate at 4.9 percent, and tight labor market conditions are beginning to spur faster wage growth. Based on our analysis of these and other factors, we believe the U.S. economy is fundamentally sound, and find little evidence to support the conclusion that the economy will fall into a recession in 2016. Our base case is that the next recession will arrive in 2018 or later.

The decline in oil prices may be helping consumers, but as our sector managers relate throughout this report, it has taken a toll on corporate credit. Our research team's oil model indicates that oil prices will rise toward $40 per barrel in 2016, however, as global supply and demand rebalance (see chart, bottom right).

Despite the relative health of the U.S. economy, markets are questioning the Fed's resolve to increase rates. Giving rise to this view are concerns that sluggish global growth will hold back the U.S. expansion, that inflation will remain below the Fed's target for longer, and that tighter conditions in credit markets have raised recession risks. Our view is that the Fed remains focused on fulfilling its dual mandate objectives of maximum employment and price stability, and thus is biased toward normalizing policy. We expect further declines in the unemployment rate as job gains outstrip growth in the labor force. Meanwhile, core and headline inflation should move closer to the Fed's target by year end, reflecting our forecasts for a tighter labor market and a modest rise in oil prices. This should keep a couple of Fed rate hikes on the table in 2016, which we would interpret as a sign that the expansion remains intact. A solid macroeconomic backdrop and a rebalancing oil market should support an improving credit picture in the second half of 2016.

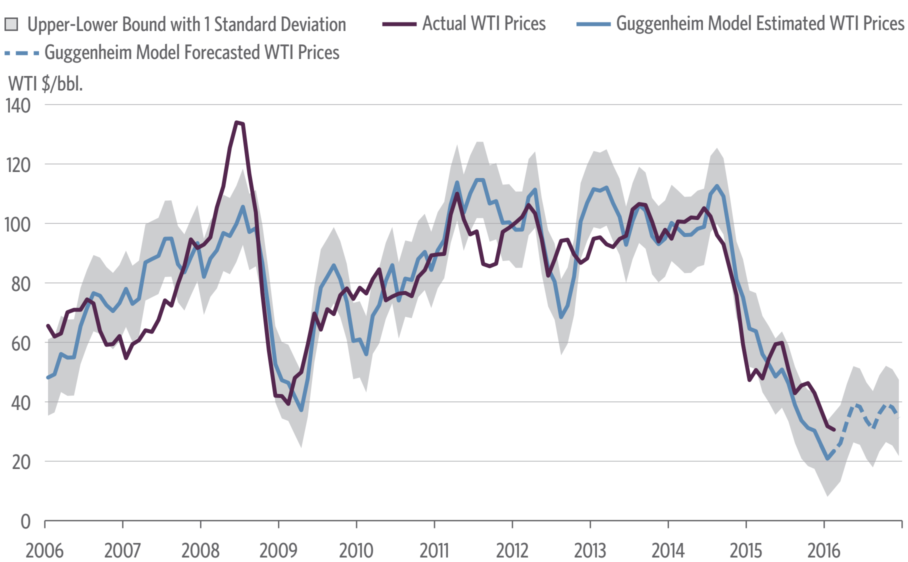
U.S. Demand Growth Remains Solid Despite Trade and Inventory Drags



Source: Guggenheim Investments, Haver, BEA. Data as of 12.31.2015. *In percentage points.

We see only modest risks of recession in 2016 despite some prognostications to the contrary. A stronger dollar has weighed on the U.S. economy, but domestic demand growth looks solid, with consumer spending leading the way.

Oil Prices Should Rebound Toward $40 Per Barrel



Source: Guggenheim Investments, Bloomberg, Haver, EIA. Data as of 2.29.2016.

A supply glut has caused a surge in global oil inventories, leading to a 70 percent decline in oil prices from July 2014 to December 2015. The Guggenheim model indicates that the oil market will move closer to balance in 2016, however, as demand rises and high cost producers curtail production.