GUGGENHEIM

Rates

Positioning for Fed Easing

A dovish Fed and elevated real yields signal opportunity in inflation-protected Treasurys.

The Fed's rhetoric and forward guidance will continue to exert a significant influence on capital markets in the upcoming quarters. Our expectation is that the Fed will continue to become more dovish throughout the year and will eventually cut interest rates by more than the 75 basis points that were projected in its December Summary of Economic Projections (SEP), also known as the dot plot. Considering this view, we anticipate that the next large move in the Treasury yield curve will be a bull steepening, where front and intermediate yields decline more than longer yields.

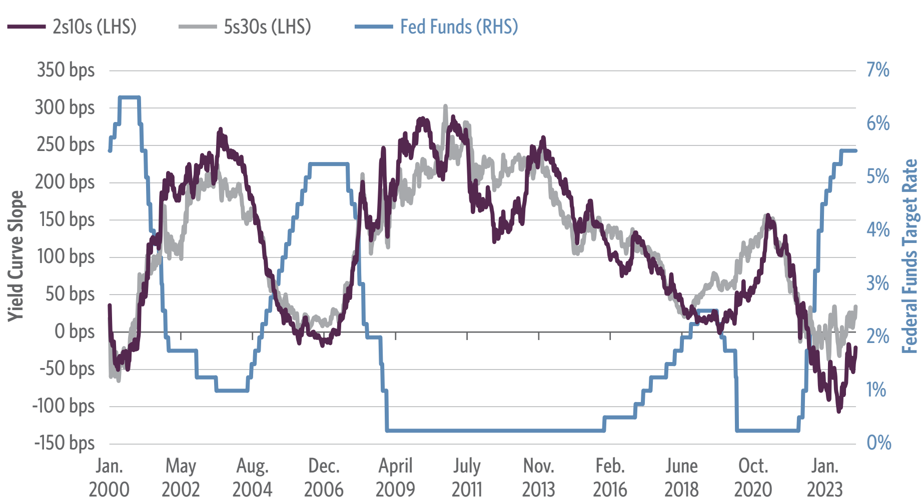
The rally in rates, which began in mid-October following a speech by Fed Governor Christopher Waller, continued with the dovish November rate pause. It was further fueled by the shift in the Fed's monetary policy messaging at the December FOMC meeting, reflected in Fed Chair Powell's dovish press conference and the revised SEP, which represented a turning point in the Fed's hiking cycle.

Looking ahead, we believe Treasury Inflation Protected Securities, or TIPS, could thrive in a macroeconomic environment in which real yields are significantly elevated. With the likelihood of policy easing later this year, we foresee a scenario where real yields could decline and breakeven rates remain well supported. Additionally, with the U.S. Treasury confirming another quarter of increased nominal Treasury issuance across the curve at its February refunding announcement, we believe Treasury yields could move higher as record supply is brought to market, but view this as an attractive opportunity to add duration. Finally, as yields decline and the yield curve steepens we expect to see increased call activity in Agency bonds.

By Kris Dorr and Tad Nygren

We anticipate that the next large move in the Treasury yield curve will be a bull steepening of the curve, where front and intermediate yields decline more than longer yields.

Treasury Yield Curve Is Likely to Steepen Once Easing Starts



Source: Guggenheim Investments, Bloomberg. Data as of 12.31.2023.

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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. 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.

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