

Macroeconomic Update

Goldilocks Economy Now, But Recession Looms in 2023

We expect that a recession in 2023 will not be overly severe, particularly with improved global prospects.

Falling inflation has given a boost to consumers, whose rising real incomes have driven consumer sentiment off the lows seen last summer. As a result, fourth quarter economic activity held up better than many expected, with consumption growing at a 2.1 percent annualized pace over the quarter. Cooling inflation and resilient real gross domestic product (GDP) growth have driven a resurgence in market hopes for a “soft landing,” which in this case means a return to 2 percent inflation without a recession.

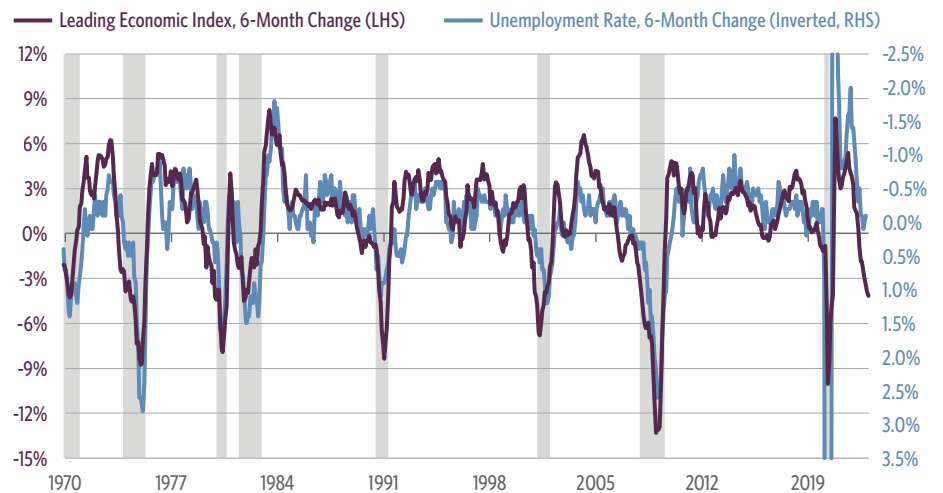
While a recession may be delayed, we are skeptical it can be averted. The boost to consumer sentiment from lower inflation should wane, as we are unlikely to see energy prices continue to fall at the same rate as they have over the last six months. Many of the tailwinds that helped bolster the economy in 2022 are now slowing, if not reversing, including service sector reopening, the spend-down of excess savings, and the wealth effect from gains in asset and home prices.

Even if the economy manages to power through these headwinds, the Fed has made it clear that it will push back against any growth acceleration in its quest for a weaker labor market. Recent inflation data, along with revisions to 2022 data, will reinforce Fed resolve to keep policy restrictive, as the inflation slowdown looks less convincing than it did just a few weeks ago. Trends for goods prices and shelter inflation continue to point to lower inflation, but the main concern now for the Fed is core services excluding shelter, a concern likely to be amplified by the strength of the latest jobs and wage numbers. A 2023 recession remains our base case, but we expect it will not be overly severe, particularly with improved global prospects from Europe’s abating energy crisis and China’s economic reopening.

By Brian Smedley, Maria Giraldo, and Matt Bush

Even if the economy manages to power through current headwinds, the Fed has made it clear that it will push back against any growth acceleration in its quest for a weaker labor market. A 2023 recession remains our base case.

Unemployment to Rise as Recession Unfolds Later This Year



Source: Guggenheim Investments, Bloomberg. Data as of 12.31.2022. Shaded areas represent recession periods.

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. In general, the value of fixed-income securities fall when interest rates rise. High-yield securities present more liquidity and credit risk than investment grade bonds and may be subject to greater volatility. Asset-backed securities, including mortgage-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 risk. Investments in floating rate senior secured syndicated bank loans and other floating rate securities involve special types of risks, including credit risk, interest rate risk, liquidity risk and prepayment risk.

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 56236