Second Quarter 2025

Fixed-Income Sector Views

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Portfolio Management Outlook

Positioned for Opportunity in a Shifting Market Environment

Yields and total return potential remain enticing, but credit selection is critical.

As we move through 2025, the fixed-income landscape presents compelling opportunities despite market uncertainty. Yields remain historically attractive, creating a favorable risk-return profile for long-term investors. Credit spreads have widened to historical averages, creating opportunities in higher quality assets in an environment of spread decompression. Strong technicals support the market as elevated yields constrain supply while simultaneously boosting investor demand. Fundamentals remain solid for higher quality credits despite broader economic concerns. Idiosyncratic credit themes are likely to continue to pop up, either from policy changes or market reaction, which should increase performance dispersion and favor active management.

Strategic Credit Positioning

In this environment of heightened volatility, we're emphasizing:

- Select investment-grade and BB corporates as spreads have widened, in addition to high grade structured products (ABS, CLOs, non-Agency RMBS) and Agency MBS (favoring higher coupon structures).
- Tactical yield curve positioning with a bias toward the belly of the curve (2–5 year segment), which historically outperforms during easing cycles.
- Maintaining strategic liquidity buffers to capitalize on market dislocations while providing downside protection.
- Opportunistic additions to inflation-protected securities (TIPS) during periods when inflation breakevens fall to particularly low levels.

Interest Rate Outlook

The Federal Reserve (Fed) faces a challenging balancing act in the months ahead. We anticipate continued policy and economic volatility, which should manifest in a lower policy rate over time, with four to six rate cuts over the next year as labor market conditions soften. This should support a steepening yield curve, with:

- Front-end rates likely to move and remain below 4 percent as the markets price in Fed easing.
- The 10-year Treasury yield expected to trade in its recent two-year range: 3.5–4.75 percent.
- Long-end yields potentially remaining elevated due to inflation concerns and Treasury issuance needs.

Summary

The extreme market volatility we've witnessed recently—with the S&P 500 trading in a 15 percent range and high yield spreads moving 120 basis points in a single week—underscores the importance of active management and maintaining flexibility. By positioning portfolios to potentially benefit from these dynamics while maintaining disciplined risk management, we believe investors can capture attractive risk-adjusted returns even amid market uncertainty.

By Anne Walsh, Steve Brown, Adam Bloch, and Evan Serdensky

Macroeconomic Update

Challenges for U.S. Growth in 2025

Economic slowdown in 2025 driven by policy uncertainty and inflation.

The April 2 "reciprocal" tariff announcement exceeded nearly all estimates, lifting the effective tariff rate on U.S. imported goods to the highest level in over 100 years. While a 90-day pause on these reciprocal tariffs for countries other than China is now in effect, the baseline 10 percent tariff rate remains in place. In addition, tariff rates on Chinese imports now exceed 100 percent, which could bring bilateral trade to a halt, and the tariffs announced prior to April 2 remain in place. Combined, this still represents a large shock to the U.S. economy.

Uncertainty about the administration's policies remains elevated, and many questions remain about how tariff levels will evolve from here. We have moved our outlook for U.S. and global economic growth materially lower. In the U.S., we expect growth will slow to barely positive levels this year. Consumer spending, which has already been decelerating, will likely retrench further as higher prices weigh on real incomes and consumers save more in response to elevated uncertainty. Higher goods prices are likely to hit low income consumers disproportionately, a segment of the population already under stress. Business investment will also suffer, with near-term supply chain disorder expected.

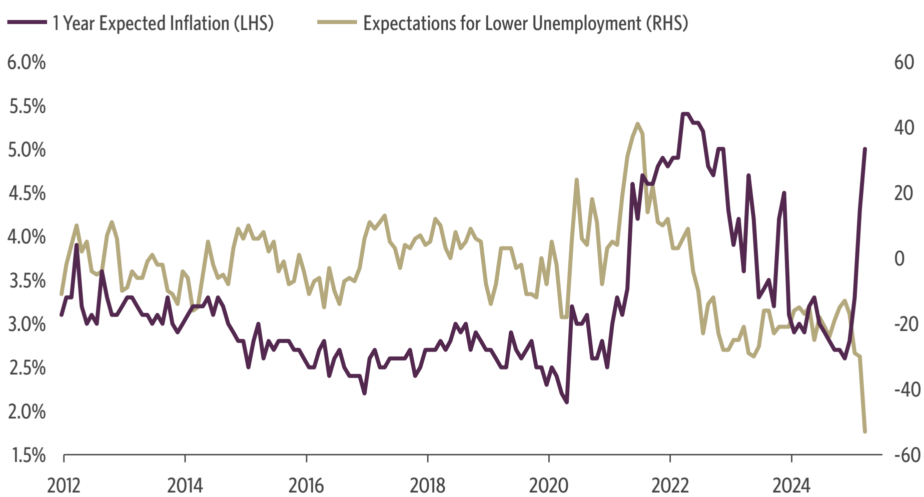
We believe the odds of recession have materially increased and are now quite elevated, but our assessment could change: The outlook could improve if negotiations further lower tariff levels, or if rapid progress is made on a tax cut bill that helps support economic growth. In the other direction, additional trade partner retaliation or an even sharper tightening in financial conditions could make a recession more likely.

At current tariff levels, we believe core inflation will rise close to 3.5 percent this year. But given the economic slowdown, we anticipate the inflationary pressure from this price shock will fade in 2026. The Fed is likely to face challenges to both sides of its mandate this year, but given the expectation of a sizable jump in inflation, the Fed will be cautious in responding to the expected economic slowdown, waiting to ease until labor market weakness shows up in the data. We expect that means a cautious approach to rate cuts initially, before the Federal Open Market Committee (FOMC) responds more forcefully in 2026 and ultimately takes the fed funds rate below 3 percent. A more rapid economic slowdown could accelerate the pace of cuts in 2025. A risk to our view is if measures of longer-term inflation expectations broadly rise, which could increase the weight the FOMC places on defending its inflation mandate. It is a difficult spot for both the Fed and investors, with a nimble approach needed as the policy backdrop rapidly shifts.

By Matt Bush and Maria Giraldo

Uncertainty about the administration's policies remains elevated, and many questions remain about how tariff levels will evolve from here. We have moved our outlook for U.S. and global economic growth materially lower. In the U.S., we expect growth will slow to barely positive levels this year.

Tariffs Are Raising Both Near-Term Inflation and Unemployment Expectations
University of Michigan Consumer Sentiment Survey



Source: Guggenheim Investments, Bloomberg, University of Michigan. Data as of 3.31.2025.

Rates

Treasury Yields Volatile Amid Policy Uncertainty

Tactical duration positioning is crucial as Treasury yields approach extremes.

Treasury yields have increased amid heightened trade, fiscal, and geopolitical policy uncertainty. This trend is likely to persist until policy clarity emerges, impacting Fed monetary policy. We anticipate that an eventual end to the Fed's quantitative tightening policy and a potentially more accommodating regulatory environment may help to support Treasury prices. Meanwhile, we will maintain a tactical approach to duration positioning, increasing duration as rates approach the upper end of the range and reducing duration as rates move to the lower end.

Sector Commentary

- Treasury yields decreased by 15–40 basis points across the curve in the first quarter as tariff concerns influenced long-term growth projections.
- Short-term yield declines were more pronounced, steepening the yield curve after the Fed signaled two potential rate cuts this year and next.
- At the March meeting, the Fed announced it would slow quantitative tightening starting in April, reducing the monthly Treasury cap from $25 billion to $5 billion. This adjustment aims to stabilize bank reserve levels during debt ceiling negotiations and enable the Fed to participate in Treasury auctions.
- Treasury market returns have been strong, with Treasurys up 2.92 percent year to date. Additionally, Treasury inflation protected securities gained 4.17 percent year to date as of March 31, driven by fluctuating tariff headlines.

Investment Themes

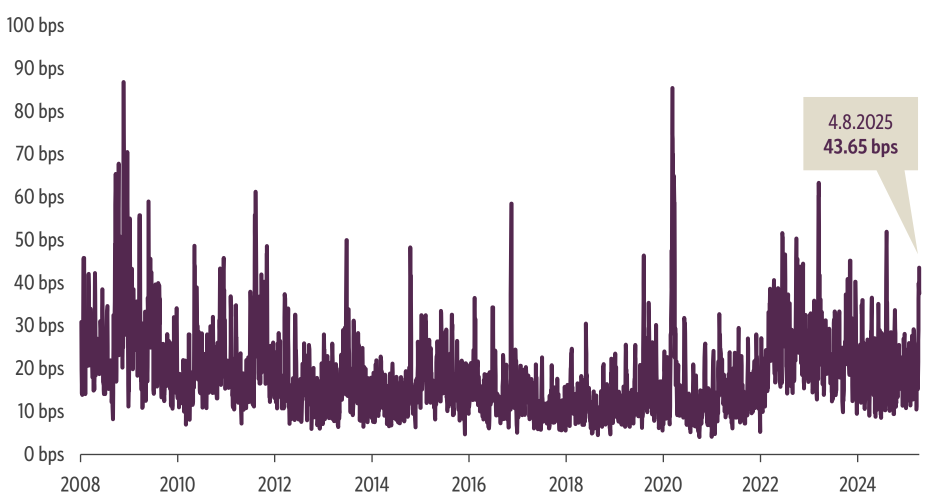
- As the global environment adapts to new fiscal and trade policy regimes, we anticipate that the Fed will maintain its current stance until later this year, with Treasury yields remaining within a trading range.
- The Fed's easing campaign later this year should contribute to a steeper yield curve as short-term interest rates decline.
- If Fed Governor Michelle Bowman is confirmed by the Senate as Vice Chair of Supervision, her appointment is likely to foster a more favorable regulatory environment. This could positively impact Treasury securities.
- Overall, these developments suggest a dynamic landscape for financial markets, with potential opportunities arising from shifts in monetary policy and regulatory frameworks.

By Kris Dorr and Tad Nygren

Treasury yields have increased amid heightened trade, fiscal, and geopolitical policy uncertainty. This trend is likely to persist until policy clarity emerges, impacting Fed monetary policy.

Policy Uncertainty Has Caused Treasury Yields to Spike

Daily Trading Range on the 10-Year Treasury Yield



Source: Guggenheim Investments, Bloomberg. Data as of 4.8.2025.

Credit and Technicals Are Stable, but Spreads Have Shifted Wider

We expect continued volatility and increased dispersion.

Investment-grade credit spreads widened and yield curves steepened due to increased volatility from tariff uncertainty, heavy supply prior to the tariff announcement, and increased recession concerns. While the fundamental and technical backdrops for corporate debt remain supportive in the short term, the weaker macro environment is raising growth concerns that may affect corporate earnings and credit quality. Uncertainty surrounding economic stability, trade wars, and monetary policy has triggered bouts of volatility, keeping investment grade spreads more elevated and rangebound with a marginal bias toward widening. This presents selection opportunity.

Sector Commentary

- Following record-breaking first quarter gross issuance of $539 billion, the second quarter is expected to see lighter gross and net issuance.
- The maturity wall from heavy COVID-era issuance should sunset in the second quarter, tempering net supply.
- Thirty-year corporate bond yields remain historically attractive, hovering in the 95th percentile over the last decade, while spreads are at the tighter end of the range, trending in the 20th percentile.
- Balance sheet fundamentals are stable, with over $300 billion of U.S. investment-grade bonds anticipating upgrades. First quarter growth estimates are trending lower, however.
- Uncertainty around U.S. rates and higher European yields pulled foreign demand away from U.S. corporates. This trend warrants monitoring as foreign ownership of U.S. corporates at 29 percent is the highest among cohorts.

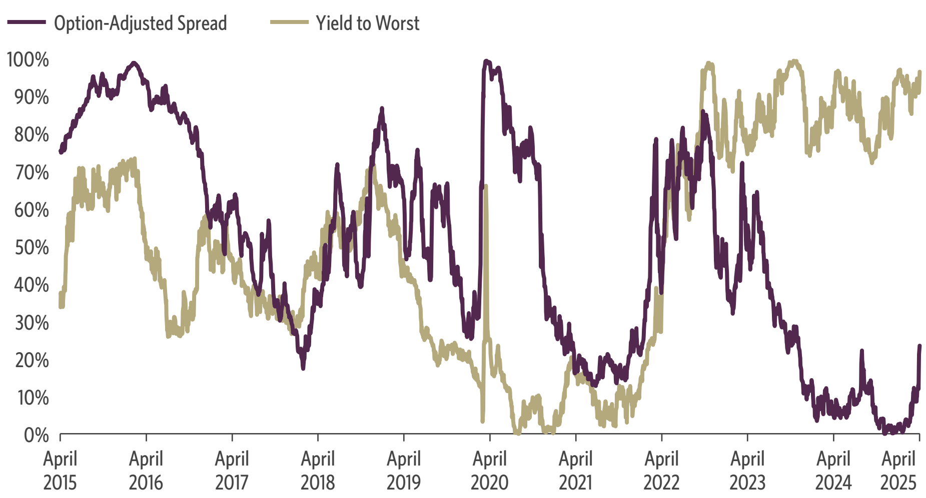
Investment Themes

- We continue to favor longer-duration corporate risk for liability management due to historically attractive all-in yields, with robust demand from insurance and pension funds.
- Insurance investors are aggressively extending duration and increasing net interest margins, capitalizing on steeper yield curves.
- Autos, utilities, and consumer cyclicals underperformed over the quarter. We anticipate continued weakness in these sectors, though utilities appear promising at wider levels, despite pressure from renewable energy policy headlines. The need for increased electricity generation and distribution remains the dominant trend.
- Global systemically important bank preferred securities are attractive from both yield and technical perspectives. Decreased bank regulation, particularly potential lower capital requirements, may reduce the need for Tier 1 capital, thus decreasing net issuance of this asset class going forward.

By Justin Takata

Investment-grade credit spreads widened and yields curves steepened due to increased volatility from tariff uncertainty, heavy supply, and increased recession concerns.

Uncertainty Has Caused IG Spreads to Widen Off of Extremely Tight Levels and Yields to Steepen



Source: Guggenheim Investments, Bloomberg. Data as of 4.7.2025.

High Yield Corporate Bonds

Volatility Pushes Spreads Wider but Fundamentals Remain Solid

Spreads should remain rangebound absent a major economic setback.

Market volatility spiked at the start of 2025 due to tariff uncertainty and weakening consumer sentiment, which led high yield corporate bond spreads to widen nearly 90 basis points from 259 basis points in early January to March. This widening continued into April, pushing spreads to their widest since June 2023. This reflects investor uncertainty rather than credit deterioration. With low default rates and stable corporate fundamentals, we believe spreads can remain contained unless a deeper economic shock occurs.

Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index widened from 292 basis points to 347 basis points in the first quarter of 2025. Spreads widened to their historical median levels in the first 10 days of April driven by worse-than-feared reciprocal tariffs.
- Despite spread widening, the high yield index posted a first quarter return of 1.0 percent, up from a return of only 0.2 percent last quarter. The decline in benchmark Treasury yields helped boost performance.
- Year to date, higher quality fixed income is outperforming, with BBs, Bs and CCCs posting returns of 1.4 percent, 0.8 percent, and -0.3 percent.
- As of quarter-end, high yield bonds yield 7.7 percent on average—nearly 100 basis points above the past decade's average—despite a shorter maturity profile.

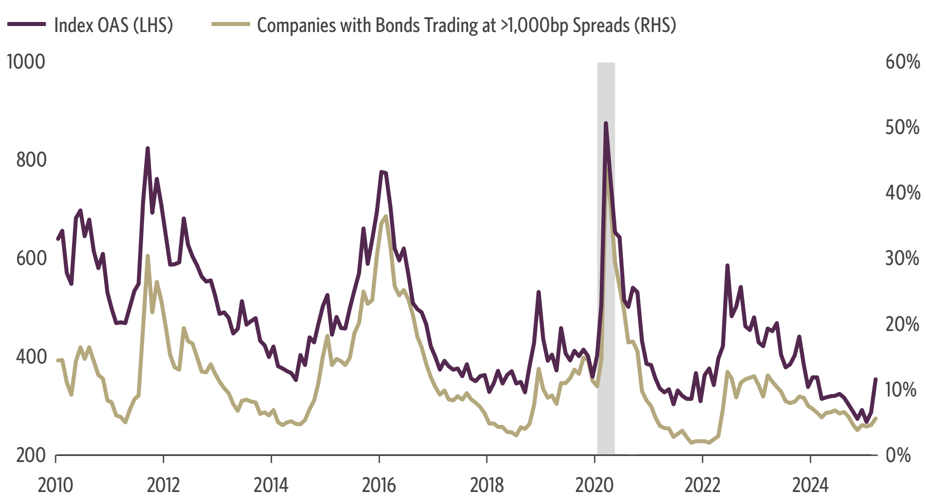
Investment Themes

- Investors continue to find high yield corporate bonds attractive despite high policy uncertainty, as evidenced by strong net fund inflows of $7 billion this year.
- Strong credit fundamentals suggest that weak periods should be seen as attractive entry points to add yield.
- The trailing 12-month par-weighted default rate ended the first quarter at just 1.5 percent, well below the historical average of 4 percent, and is expected to remain below average in 2025.
- Refinancing activity accounted for over 70 percent of primary issuance in 2025 year-to-date. M&A and general corporate activity was anticipated to make up a greater share of primary market activity this year but has been slower than expected amid the uncertain environment.
- We prefer higher quality high yield bonds (rated B or above) due to their stronger fundamentals and lower default risk.

By Thomas Hauser and Maria Giraldo

The trailing 12-month par-weighted default rate ended the first quarter at just 1.5 percent, well below the historical average of 4 percent, and is expected to remain below average in 2025. These expectations were reflected in the high yield index with less than 10 percent of issuers trading at distressed levels at the end of the quarter.

Share of Distressed Companies Remains Very Low



Source: Guggenheim Investments, Bloomberg, ICE index services. Data as of 3.31.2025. Gray area represents recession period.

Bank Loans

Loans Gain Support from Firm Technical Backdrop

Bank loans outperformed other risky assets during the first quarter.

While bank loans have retreated from yearly highs, they continue to outperform other risky assets, like stocks, highlighting the importance of elevated yields and coupon carry in mitigating volatility. This resilience is supported by strong technical factors, including steady demand and limited new supply. That said, bank loans underperformed higher quality fixed income as falling yields favored longer-duration assets. Nonetheless, their relative strength against equities underscores their appeal in today's uncertain environment.

Sector Commentary

- Bank loans recorded a total return of -0.11 percent, with performance supported by high floating-rate coupons that contribute to income returns and offset price declines.
- The three-year discount margin on the S&P UBS Leveraged Loan Index widened by 23 basis points during the quarter, ending March 31 at 498 basis points. Bank loan yields stood at 8.56 percent by the end of the first quarter.
- Approximately 8 percent of loans traded above par at the end of March, a significant decline from 62 percent at the end of 2024. This decline results in fewer loan issuers seeking to re-price existing loans, thereby preserving current coupon levels.
- The combination of high yields and stable coupon levels continues to make bank loans an attractive option for investors in the current market environment.

Investment Themes

- We anticipate the technical backdrop will continue to support the bank loan market. Although the pace of fund inflows has slowed since the beginning of the first quarter, the supply of newly issued loans in the primary market has also decreased.
- Continued support is expected from the CLO market, which issued $46 billion during the first quarter, comparing favorably to growth in the loan market outstanding, which has only increased by $32.1 billion since the end of 2024.
- We remain cautious about tail risks in the loan market, as elevated rates may impact issuers' interest costs. Eventually, rate cuts will provide a tailwind to debt servicing. Until then, credit selection is crucial to navigate the current environment and capitalize on potential opportunities as market conditions evolve.

By Christopher Keywork and Christopher Squillante

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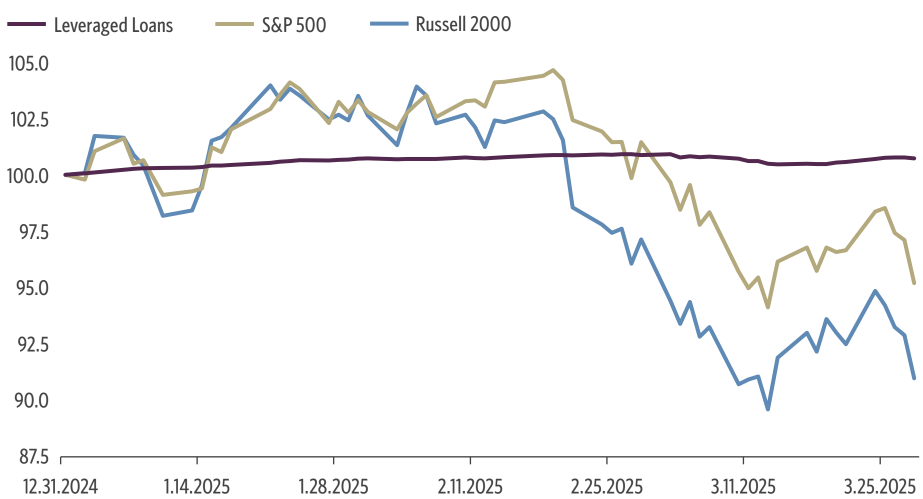
Leveraged Loans Outperformed Equities in Q1



Source: Guggenheim Investments, Bloomberg. Data as of 3.31.2025.

Private Debt

Capitalizing on Uncertainty

Diverse private debt sourcing networks offer compelling opportunities in the current environment.

So far in 2025, tariffs, trade tensions, government spending cuts, and policy uncertainty under the new administration have unsettled markets, resulting in lower-than-expected deal volumes. Predictions of increased M&A activity and strong deal markets at the year's start did not materialize in the first quarter. Most proceeds from direct lending activity year-to-date have been used for add-ons and refinancing activity.

Sector Commentary

- Amid subdued deal volumes, companies are capitalizing on lower financing costs by refinancing direct lending deals, with syndicated loans reaching $7.3 billion in the first quarter.
- Direct lending spreads showed signs of stabilizing in the first quarter—with some widening in certain market segments—after a gradual tightening throughout last year.
- In the first nine months of 2024, spreads narrowed at least 50 basis points in more than 600 senior secured and unitranche term loans. During the same period, more than 50 companies repriced unitranche debt by an average of 96 basis points to SOFR + 514; roughly 40 percent of these companies reduced pricing by at least 100 basis points.

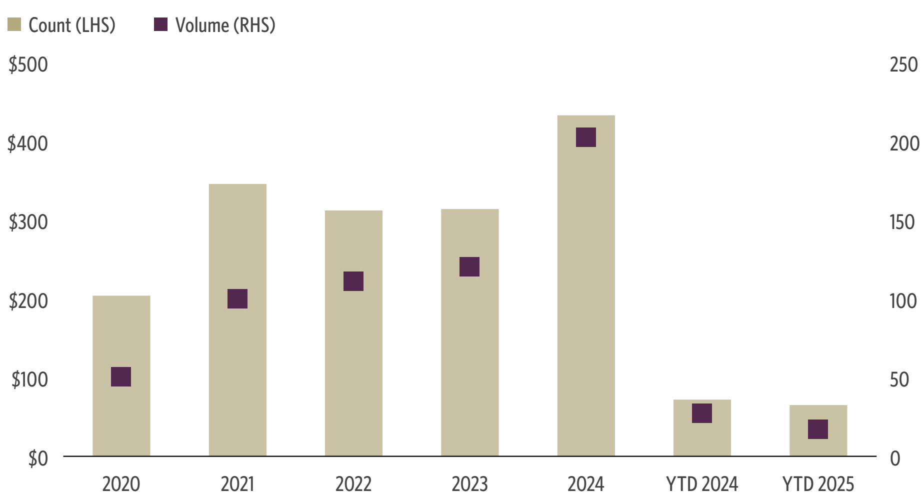
Investment Themes

- The current market environment benefits managers who can source deals from diverse networks beyond traditional, volume-driven channels.
- We are finding strong relative value opportunities in non-sponsored transactions, which are typically less crowded and often offer a spread premium, stronger documentation, and a more attractive risk-adjusted return profile compared to sponsored transactions.
- With limited supply of deals from the sponsored channel year-to-date, capabilities in the non-sponsored space reduce dependence on market volumes and enable select managers to source deals at a premium to the market and price transactions with attractive absolute risk-adjusted returns.

By Joe McCurdy, Joe Bowen, Mark Pridmore, and Zac Huwald

So far in 2025, tariffs, trade tensions, government spending cuts, and policy uncertainty under the new administration have unsettled markets, resulting in lower-than-expected deal volumes.

Private Debt Sponsor-Backed Deal Volumes Trail 2024 Pace



Source: Guggenheim Investments, Pitchbook. Data as of 3.31.2025.

Opportunities in ABS and CLOs

Finding opportunities amid uncertainty.

Asset-backed securities (ABS) sector spreads widened modestly amid heightened macroeconomic volatility, but the sector continues to offer excess yield relative to expected credit risk. Year to date, commercial ABS supply is tracking the record supply experienced in 2024. While collateralized loan obligation (CLO) new issuance was strong in the first quarter and we saw elevated refinance/reset activity, volatility has extended marketing timelines for new issue deals and created secondary market opportunities.

Sector Commentary

- The spread differential between commercial ABS and investment-grade corporate bonds compressed, currently near historical averages and in our view offering fair value. Whole business securitization (WBS) sales figures reflect inflationary pressures on lower-income consumers and challenging fundamentals for limited-service restaurant concepts. Private liquidity from sponsors, amid increased restaurant bankruptcies and C-Suite transitions, has hampered ABS issuance.
- As market volatility increased, CLO spreads widened in March and early April, with senior tranches 20–25 basis points wider and mezzanine tranches 40–125 basis points wider compared to the beginning of the year. Consequently, secondary market prices adjusted, with most tranches currently trading below par. Loan prices have decreased, offering CLO managers opportunities to build par in their portfolios.

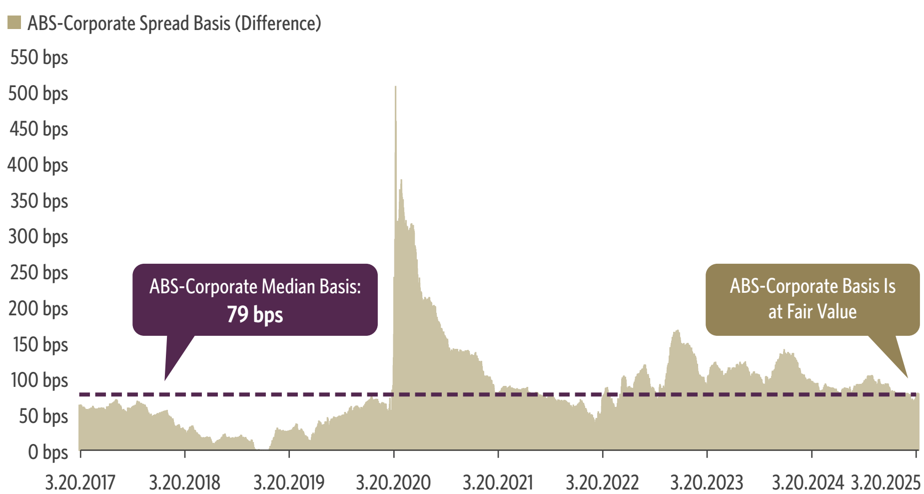
Investment Themes

- In commercial ABS, we prefer senior exposures in longer-duration opportunities backed by higher quality collateral, such as franchise royalties, fiber networks, and shipping containers. Economic policy uncertainties may further strain individual borrowers, which have shown resilience thus far. Despite this, subsectors like home improvement loans provide exposure to higher credit quality borrowers with structural downside protection through amortization and credit enhancement.
- Both senior and mezzanine CLO tranches offer attractive relative value compared to similarly rated corporate debt. As uncertainty has risen, we expect new issuance volumes to moderate and refinance/reset activity to slow. CLO equity from top-tier managers appears attractive in an uncertain macro environment. Experienced managers can build new portfolios or actively trade existing portfolios amidst market volatility and acquire quality assets at discounted prices while seeking to avoid losses.

By Karthik Narayanan, Michael Liu, and Scott Kanouse

Commercial ABS subsectors like home improvement loans provide exposure to higher credit quality borrowers with structural downside protection through amortization and credit enhancement.

Commercial ABS Spreads Look Fair with Attractive Opportunities in Select Subsectors



Source: Guggenheim Investments, Bloomberg. Data as of 3.31.2025.

Stable Credit Fundamentals and Income Potential

Non-Agency RMBS well-positioned amid favorable credit and income conditions.

Senior securities in the non-Agency RMBS sector offer excess investment income potential compared to investment-grade alternatives. Favorable conditions for mortgage credit performance include tight lending standards, significant home equity gains, and a stable labor market. Furthermore, high mortgage rates and low housing turnover are anticipated to suppress prepayment activity, which should benefit higher coupon, income-producing securities, offering investors an attractive opportunity in the current market environment.

Sector Commentary

- New issuance was $39 billion in the first quarter, a 40 percent increase from the same period last year. Despite slight widening at quarter-end, credit spreads were near 2024 year-end levels.
- The January 2025 Case-Shiller Index showed a 4.1 percent year-over-year home price increase, marking the third consecutive month of growth.
- Mortgage credit performance is expected to benefit from favorable housing supply-demand dynamics, stable homeowner credit, and a record high amount of home equity.
- Mortgage loan pools backing closed-end, second lien (CES) transactions have a 90-day-plus delinquency rate below 0.5 percent, slightly lower than government-sponsored enterprise loans. This comparable performance reflects similar borrower profiles, as these loans were originated primarily by lenders with large conforming, first-lien mortgage servicing portfolios.

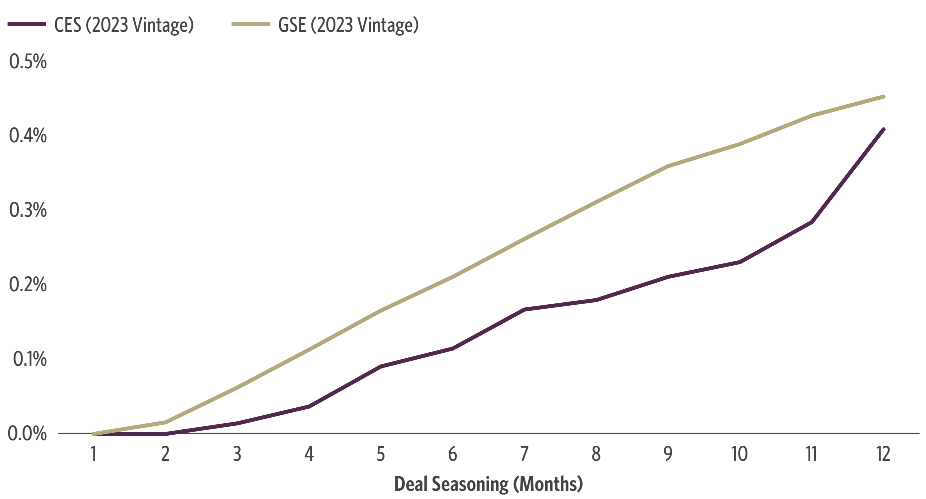
Investment Themes

- Amid uncertain macroeconomic conditions, senior non-Agency RMBS provide both income and stable credit profiles. With low prepayment expectations, high coupon securities offering wider spreads and higher yields are poised to benefit.
- We prefer transactions that provide solid carry income with structures designed to limit extension risk and withstand a wide range of credit stresses.
- Opportunities include investment-grade securities from non-qualified mortgage (non-QM) transactions and senior securities from CES and home equity line of credit (HELOC) transactions, which present attractive valuations relative to their credit risks.

By Karthik Narayanan and Roy Park

Mortgage loan pools backing closed-end, second lien (CES) transactions have a 90-day-plus delinquency rate below 0.5 percent, slightly lower than government-sponsored enterprise loans. This comparable performance reflects similar borrower profiles.

Loans 90+ Days Delinquent Represent Less than 0.5% of CES Transactions



Source: Guggenheim Investments, Nomura, CoreLogic, Freddie Mac, Intex. Data as of 2.28.2025.

Commercial Mortgage-Backed Securities

CMBS Issuance Surges to Post-GFC Highs in the First Quarter

Elevated first quarter supply adds to technical risks in the sector.

CMBS new issuance volumes reached a post-global financial crisis (GFC) high in the first quarter. This supply was well-absorbed through March. Spreads widened slightly alongside other investment-grade credit sectors, but this modest correction did not slow issuance given the broadly supportive macroeconomic backdrop. Demand for commercial real estate lending capital from data center operators is expected to rise significantly, further increasing the likelihood of heavier CMBS supply. Maintaining credit discipline is essential as market technicals continue to pressure credit standards in the sector.

Sector Commentary

- CMBS issuance more than doubled to $42 billion in Q1, up from $19 billion last year.
- Over $26 billion in year-to-date issuance came from single asset/single borrower (SASB) transactions. Investors favor SASB deals for their unique risk exposure over traditional conduit CMBS.
- Office-backed SASB deal issuance exceeded all diversified conduit deals this quarter, showing strong investor preference for the SASB format.
- Substantial growth in data center SASB issuance is possible in upcoming quarters. First quarter data center issuance was limited due to headline risks like DeepSeek, causing a temporary pause. Consequently, office SASB issuance more than doubled data center CMBS issuance during this period.
- As AI infrastructure construction progresses, CMBS investors may have opportunities to invest in data center bonds.

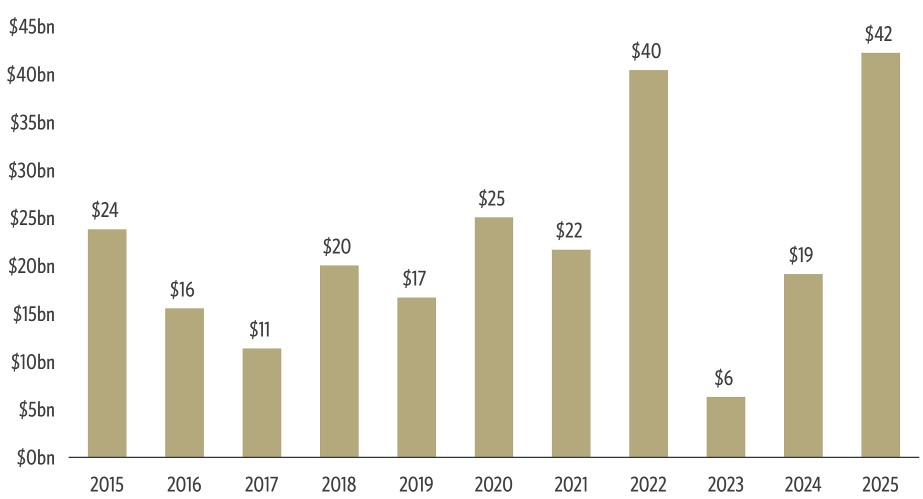
Investment Themes

- We maintain our preference for senior securities with higher credit enhancement, capable sponsorship, and limited exposure to legacy real estate issues, particularly in the office sector.
- Select SASB and CRE CLO transactions present opportunities for attractive risk-adjusted returns, as spreads remain relatively wide compared to more liquid corporate bonds.
- Conversely, we find that most mezzanine and junior bonds across CMBS subsectors do not adequately compensate investors at current levels.

By Tom Nash and Hongli Yang

CMBS new issuance volumes reached a post-global financial crisis (GFC) high in the first quarter. This supply was well-absorbed through March.

CMBS Issuance Has Hit Post-GFC High



Source: Guggenheim Investments, Bloomberg. Data as of 3.31.2025.

Municipal Bonds

Emerging Investment Opportunities in Munis

Crossover opportunities in municipal bonds amid valuation shifts.

Taxable municipals have performed well alongside other fixed-income sectors, while tax exempts have lagged due to technical and regulatory challenges, which should be clarified in the forthcoming spending bill negotiation, with healthcare and education most exposed. We anticipate further weakening of tax-exempt valuations into June. These valuations are becoming attractive for crossover investors.

Sector Commentary

- Tax exempts returned -0.2 percent in the first quarter, influenced by tight starting valuations, weak technicals, and policy uncertainty, which caused tax exempt/Treasury yield ratios to widen. Current 5/10/30-year ratios are 81/81/95 percent as of April 16, near their 12-month range highs.
- The new issue calendar is robust as issuers expedite deals ahead of possible changes to municipal bonds' tax exempt status. With principal and interest payments—typically semi-annual—expected to remain low until June, the market should have positive net supply for most of the second quarter.
- Taxable muni spreads began widening in February alongside investment-grade corporates, increasing by 10 basis points in the first quarter, resulting in a 3 percent total return through March 31. Tepid year-to-date issuance of just $6 billion has kept spreads tighter than investment-grade securities with comparable credit quality and tenor.

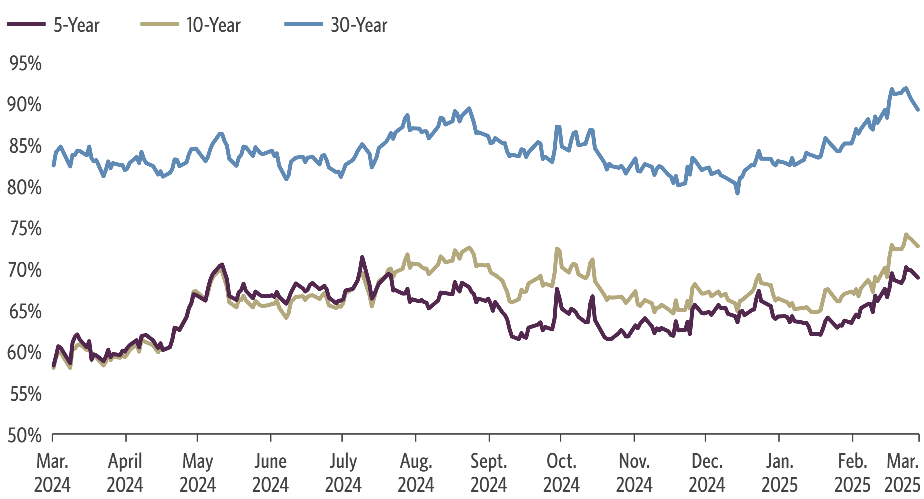
Investment Themes

- At current ratios and spreads, tax exempts are becoming appealing for institutional investors. Those in the 21 percent tax bracket can achieve higher after-tax income on tax exempts than on taxable products of similar credit quality and maturity. Retail investors can access liquid structures—5 percent coupon with long call protection—to mitigate market volatility.
- Higher education and healthcare sectors face pressure from regulatory changes, which will have sector-wide impacts, leading to broad repricings. Yet, given the fragmented nature of municipal bonds and diverse security pledges, we anticipate these sectors will offer opportunities to allocate to mispriced munis. Indeed, credit trajectories are dynamic, and we believe some issuers will have more levers to pull than others.

By Allen Li and Michael Park

Tight starting valuations, weak technicals, and policy uncertainty, caused tax exempt/Treasury yield ratios to widen. Current 5/10/30-year ratios are 76/80/95 percent, near their 12-month range highs.

Starting Prices, Technicals, and Uncertainty Caused Muni/Treasury Ratios to Widen



Source: Guggenheim Investments, Municipal Market Monitor. Data as of 3.31.2025.

Agency Mortgage-Backed Securities

Strategic Coupon Adjustments Amid Economic Shifts

A favorable outlook amid economic shifts and strategic coupon adjustments.

The Agency MBS outlook is sensitive to macroeconomic factors: If economic data worsens due to federal austerity measures, Agency MBS is expected to outperform Treasury benchmarks. A 5.5 percent coupon MBS provides a favorable balance of stable spreads and appealing current yields.

Sector Commentary

- Premium coupon Agency MBS (6 percent and above) led first quarter performance in the coupon stack, driven by a steeper Treasury curve, reduced prepayment speeds, and strong demand for collateralized mortgage obligations (CMOs). This outperformance may stall, however, as prepayments rise, with mortgage rates 50 basis points below their first quarter peak. We recommend par coupon MBS (5.5 percent) for their attractive yield and spread, with reduced short-term prepayment risk.
- CMOs saw more than $100 billion in production in the first quarter. Recent CMO deals have focused on floating-rate tranches structured from premium coupon MBS, enhancing performance despite declining mortgage rates.
- We do not expect a slowdown in CMO floater issuance until the lower yield on fixed-rate MBS—such as front sequential CMOs or passthroughs—normalizes to CMO floater yields.

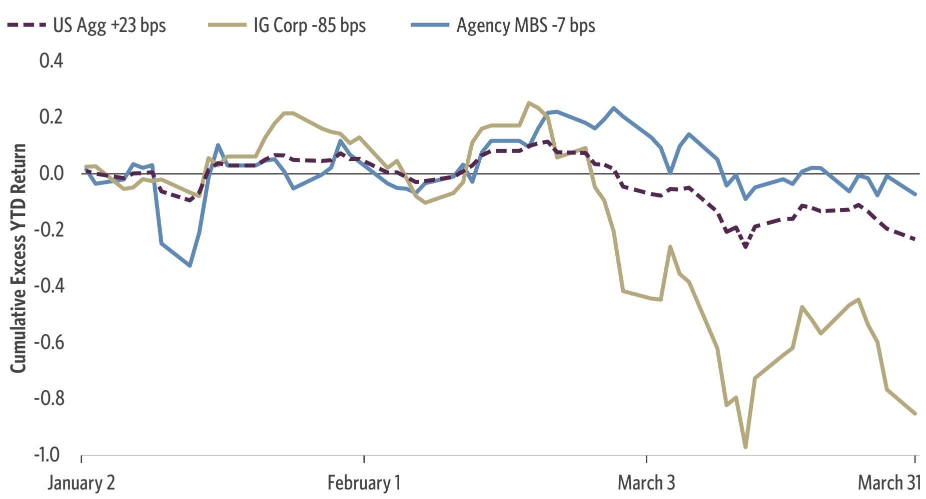
Investment Themes

- Up-in-coupon migration is ongoing among domestic banks and overseas accounts, as they shift from deep discount bonds (2–2.5 percent) to production coupons (5.5 percent), realizing losses but increasing current income.
- This trend offers an opportunity to add positively convex, index coupons as a duration hedge against potential underperformance of par coupon MBS during an extended risk-off rate rally.
- Comments from Treasury Secretary Scott Bessent and Federal Housing Finance Authority (FHFA) Director William Pulte indicate a serious effort to move government-sponsored enterprises out of conservatorship. Critical details remain speculative, however, and require further clarification.
- Current pricing suggests the market expects that GSE-issued MBS will retain government backing.

By Louis Pacilio

Premium coupon Agency MBS (6 percent and above) led first quarter performance in the coupon stack, driven by a steeper Treasury curve, reduced prepayment speeds, and strong demand for CMOs.

Agency MBS Outperformed Investment Grade and Treasurys in Q1



Source: Guggenheim Investments, Bloomberg. Data as of 3.31.2025.

Commercial Real Estate

Retail Real Estate Finally Recovers from COVID

Vacancy rates remain low in the face of declining new store supply.

Retail real estate faced challenges during the COVID pandemic, with store closures and tenant defaults impacting operating performance even as consumers returned to shop. Before 2023, retail investment sales lagged as owners focused on stabilizing performance metrics. Currently, we identify opportunities to invest in retail real estate with high debt-coverage ratios and robust rent growth.

Sector Commentary

- Real Capital Analytics reports that retail led all commercial real estate sectors in price appreciation over the past year, achieving 5 percent year-over-year growth.
- Retail vacancy rates remain at historic lows, slightly above 4 percent, with values for existing centers bolstered by a consistent decline in new construction supply.
- Recent tenant bankruptcies have been viewed positively by investors, who see opportunities to re-lease spaces at higher current market rents. Owners are receiving multiple competing tenant offers to lease vacant spaces in well-located centers.
- These trends indicate a robust retail real estate market, with strong demand and limited supply driving price appreciation and low vacancy rates. Investors are capitalizing on opportunities to enhance returns by re-leasing spaces at favorable rates, further supporting the sector's growth and stability.

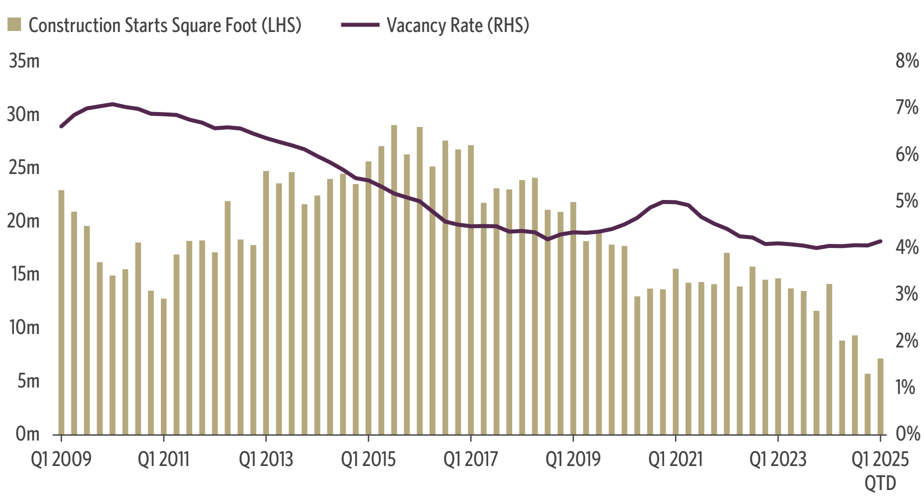
Investment Themes

- Investors continue to favor grocery-anchored neighborhood centers, which have experienced the highest rent growth and some of the lowest vacancy rates in the sector.
- Service-oriented tenants, such as fitness centers, urgent care facilities, and restaurants, are driving increased demand for neighborhood centers, contributing to rent growth.
- A potential reduction in consumer spending could exert pressure on retailers, impacting their performance.
- Tariffs, coupled with higher construction and labor costs, continue to suppress the construction of new centers, supporting retail real estate values.
- These factors highlight the resilience of grocery-anchored centers and the importance of service-oriented tenants in maintaining demand and supporting retail real estate values amid economic uncertainties.

By Jennifer A. Marler and Karen Karwoski

Retail vacancy rates remain at historic lows, slightly above 4 percent, with values for existing centers bolstered by a consistent decline in new construction supply.

Retail Vacancy Rates Have Fallen, Bolstered by Declining Construction



Source: Guggenheim Investments, Real Capital Analytics. Data as of 3.31.2025.

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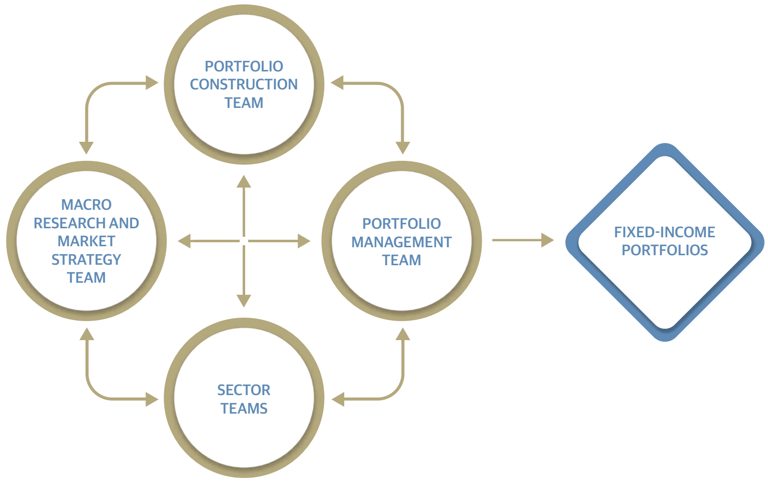

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