Macroeconomic Update

Challenges for U.S. Growth in 2025

This report is excerpted from the Second Quarter 2025 Fixed-Income Sector Views.

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.

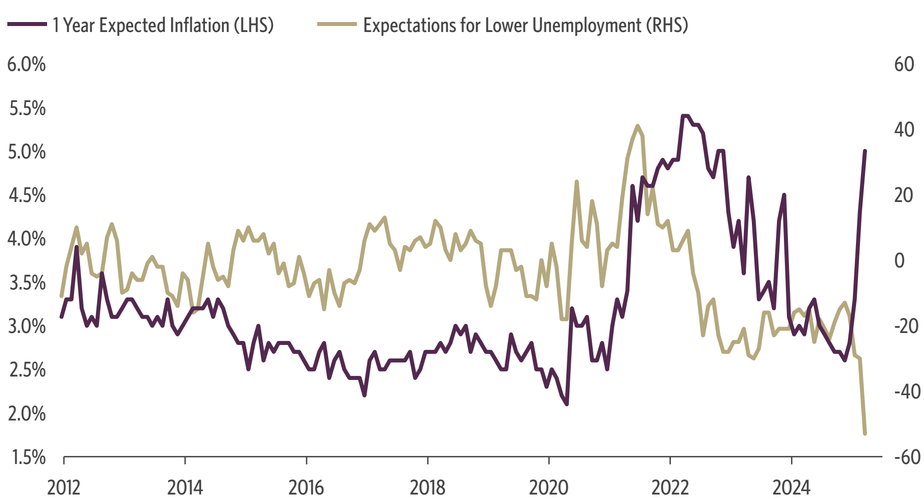
We believe the odds of recession have materially increased and are now quite elevated, but our assessment could change: The outlook could improve if negotiations further lower tariff levels, or if rapid progress is made on a tax cut bill that helps support economic growth. In the other direction, additional 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.

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, 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.

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 Corporate Funding, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Private Investments, LLC.

Not FDIC insured. Not bank guaranteed. May lose value.

© 2025, 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. Member FINRA/SIPC GPIM TL-MACROUPDATE-x0426 #64644