First Quarter 2018

Fixed-Income Outlook: Chart Highlights

Walking the Risk Tightrope

Guggenheim Investments

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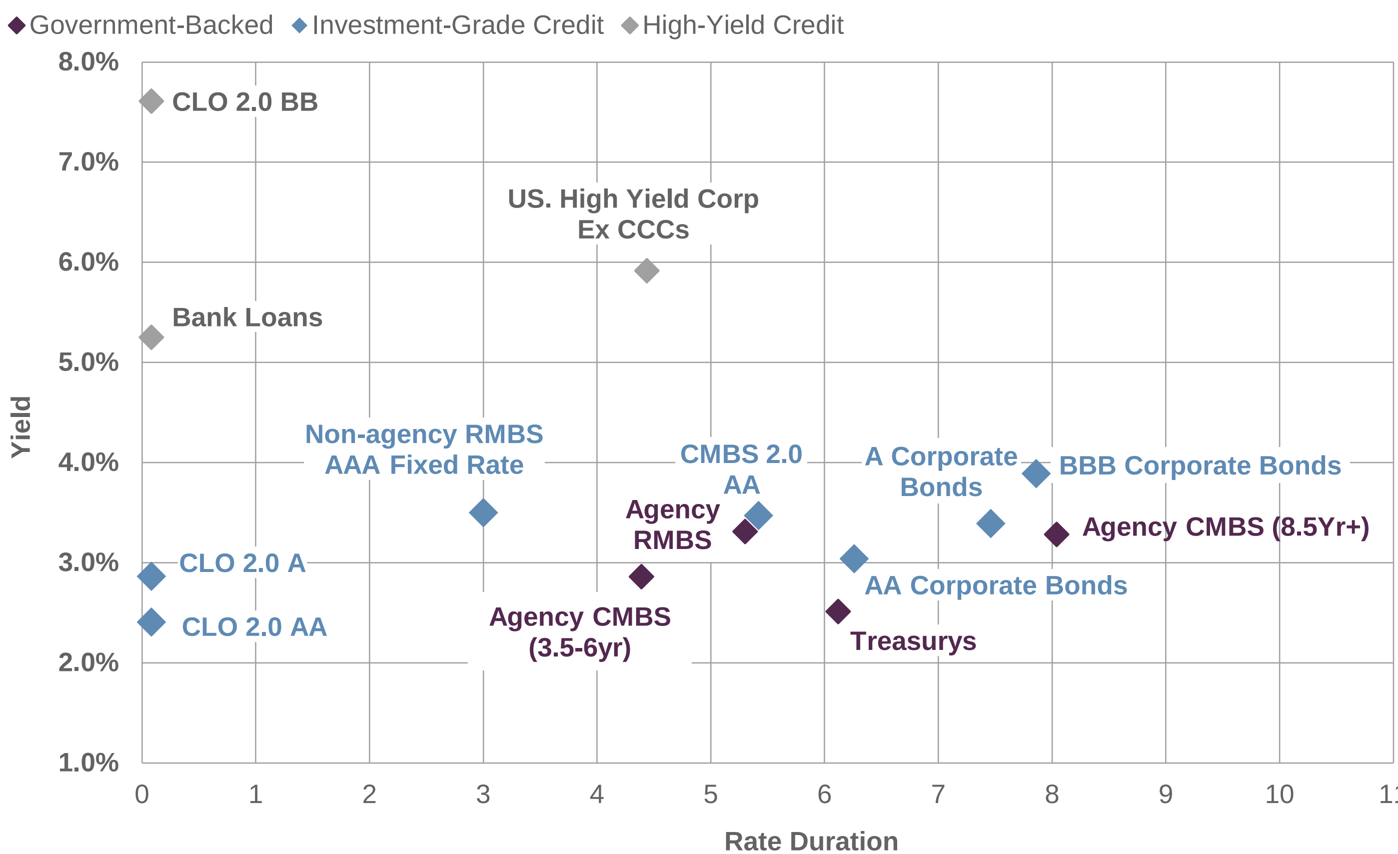
The Guggenheim Investments ("Guggenheim") quarterly Fixed-Income Outlook presents the relative-value conclusions of our 160+ member fixed-income investment team and illuminates the uniqueness of our investment process. This chart book presents selected highlights from the ***First Quarter 2018 Fixed-Income Outlook***.

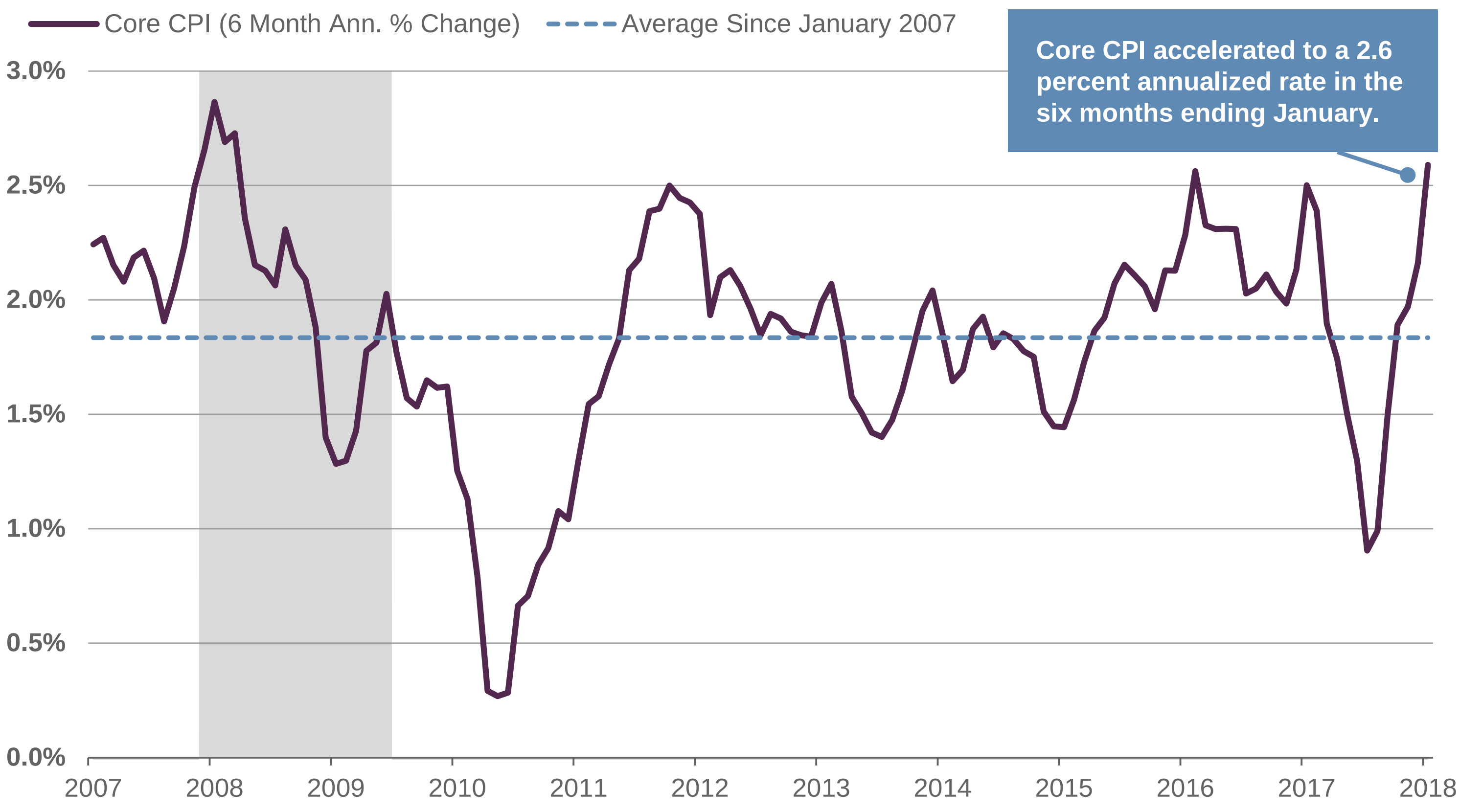
State of the Market: Fixed-Income Sector Yield and Duration



- Investors' compensation for taking on additional risk declines as the credit curve flattens. Our overarching strategy in such an environment is to go up in quality.
- With an increasingly flat credit curve, particularly within subsectors like CLOs, our preference is to be more senior in the capital structure.
- Investment-grade corporate bond yields offer limited pick-up over government-backed Agency RMBS and Agency CMBS. We have been allocating more to these government-backed sectors as a result.
- Yields in collateralized loan obligations (CLOs), non-agency RMBS and asset-backed securities (ABS) continue to look relatively attractive, particularly given their limited duration profiles.

Source: Credit Suisse, Bloomberg, Citi, Guggenheim Investments. Data as of 1.22.2017. Representative indexes: Bank Loans: Credit Suisse Leveraged Loan index; U.S. High-Yield Corporate Bonds Ex CCCs: Bloomberg Barclays High Yield index (ex-CCC subset); AA Corporate Bonds: Bloomberg Barclays Investment Grade Corporate Bond index (AA subset); Agency CMBS: Bloomberg Barclays U.S. Aggregate index (Agency CMBS subset), Agency RMBS: Bloomberg Barclays U.S. Aggregate index (Agency RMBS subset); CLO 2.0 A, 2.0 AA, and 2.0 BB: JPM CLOIE index, CMBS 2.0 AA: Bloomberg Barclays CMBS 2.0 index (AA subset), Treasurys: Barclays U.S. Aggregate index (Treasurys subset), Non-Agency RMBS: Based on Guggenheim's non-Agency RMBS trading desk's indicative levels, U.S. 20 Year+ BBB Corporate Bonds: Bloomberg Barclays U.S. 20+ Year BBB Corporate Bond index.

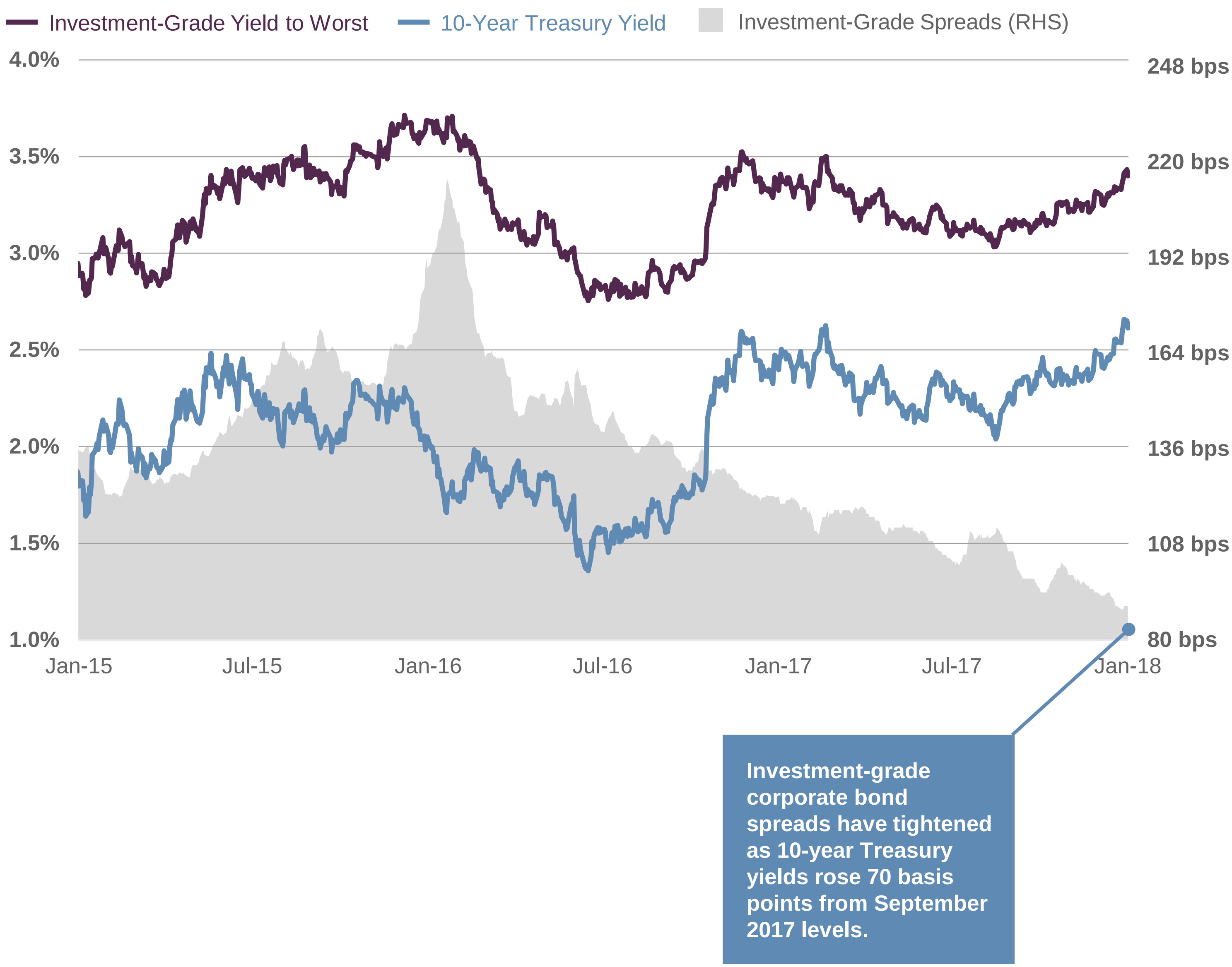
Core Inflation Has Recovered from the Abrupt Slowdown in Early 2017



- Core inflation remains below the Fed's 2 percent goal on a year-over-year basis. Recent data have been firmer, however, with core CPI inflation having accelerated to a 2.6 percent annualized rate in the six months ending in January.
- While GDP growth has been tepid during this expansion, there is a growing risk of running too hot, thanks in part to fiscal easing. The labor market is already in the early stages of overheating, with the unemployment rate holding at a cycle low of 4.1 percent in January.
- We see the unemployment rate ultimately falling to 3.5 percent, and expect that a tight labor market will nudge wage growth higher.
- Given these factors, we still expect four rate hikes in 2018 as opposed to the Fed's baseline of three.

Source: Haver Analytics, Bureau of Labor Statistics, Guggenheim Investments. Data as of 12.31.2017. Shaded area represents recession.

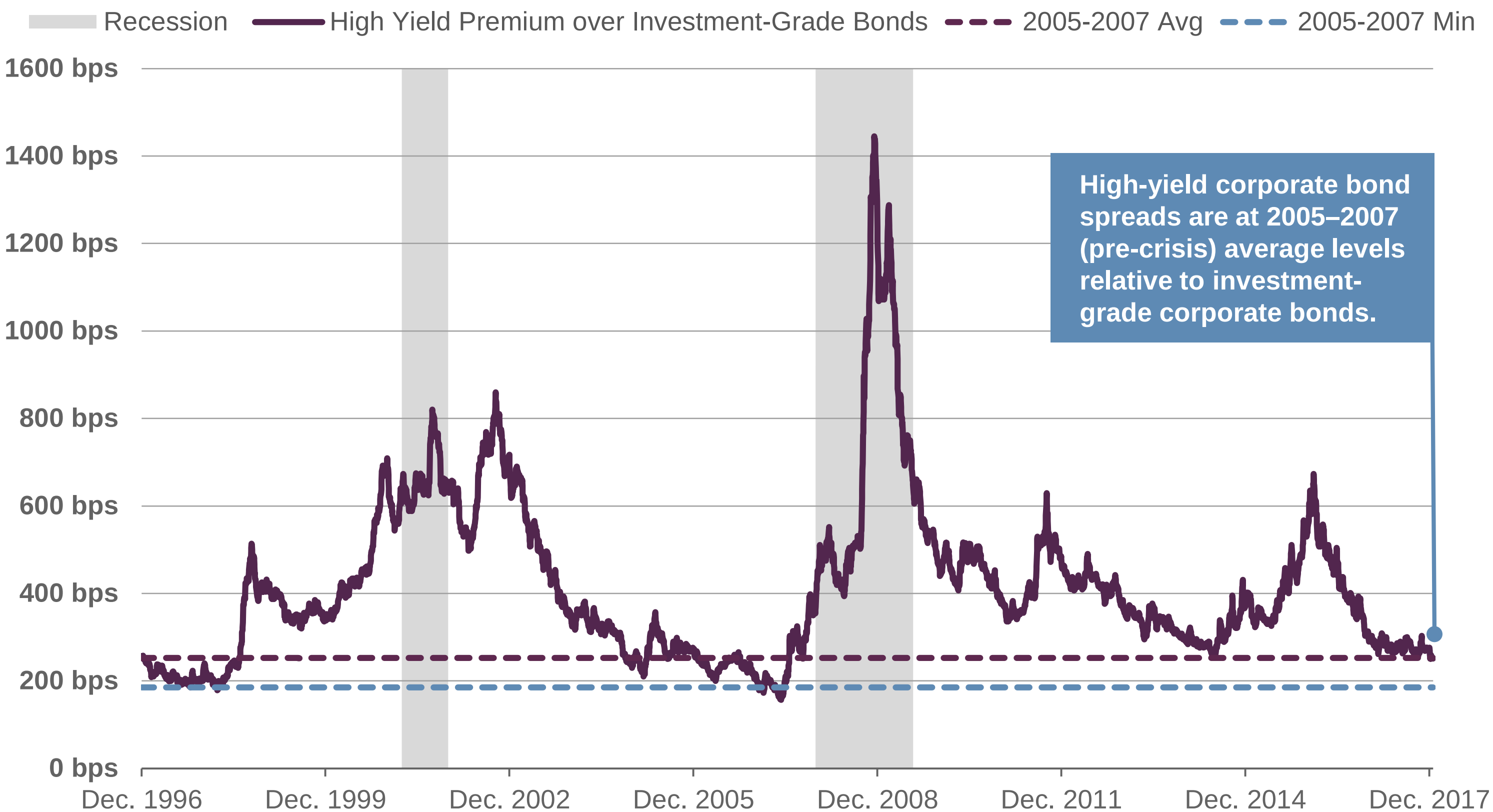
Investment-Grade Corporate Bond Spreads Cushioned the Treasury Selloff



- Investment-grade corporate bond spreads have tightened since September despite a selloff in U.S. Treasurys that caused the yield on the 10-year Treasury note to rise 70 basis points.
- The passage of the new tax plan was a significant driver, helping spreads to widen to levels not seen in over a decade.
- Given higher yields and contained spreads, we expect foreign and domestic demand will grow stronger from already robust levels.
- The net effect of tax policy implementation on investment-grade credit at the industry level remains somewhat unclear, but is expected to be mostly positive.

Source: Bloomberg Barclays, Guggenheim. Data as of 1.23.2018.

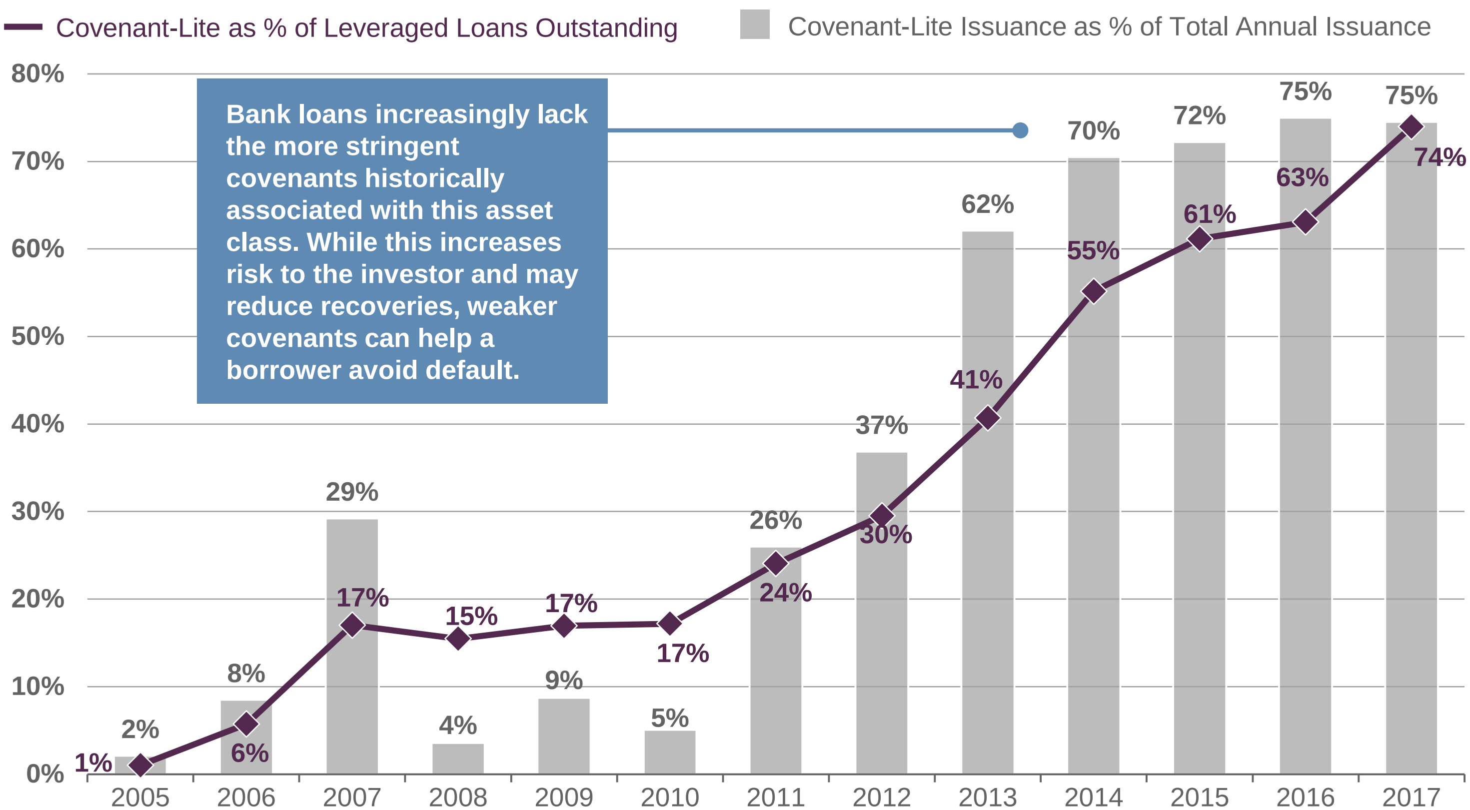
Lower Corporate Tax Rates Could Spur Further Spread Compression



- The reduction in the corporate tax rate from 35 percent to 21 percent will boost after-tax cash flow for most corporate borrowers and keep the default environment benign. This is especially true for smaller, domestically focused borrowers, a description that generally applies to high-yield bond issuers.
- Low default volumes would support further spread compression between high-yield and investment-grade corporate bonds, where the premium remains near the 2005–2007 average.
- The new cap on net interest deductibility at 30 percent of earnings before interest, taxes, depreciation, and amortization will likely hurt many CCC-rated companies that already pay interest expense above this threshold. Investors should safeguard portfolios against potentially higher CCC-spread volatility by the end of the year.

Source: Bloomberg, Guggenheim Investments. Data as of 1.22.2018. Shaded areas represent periods of recession.

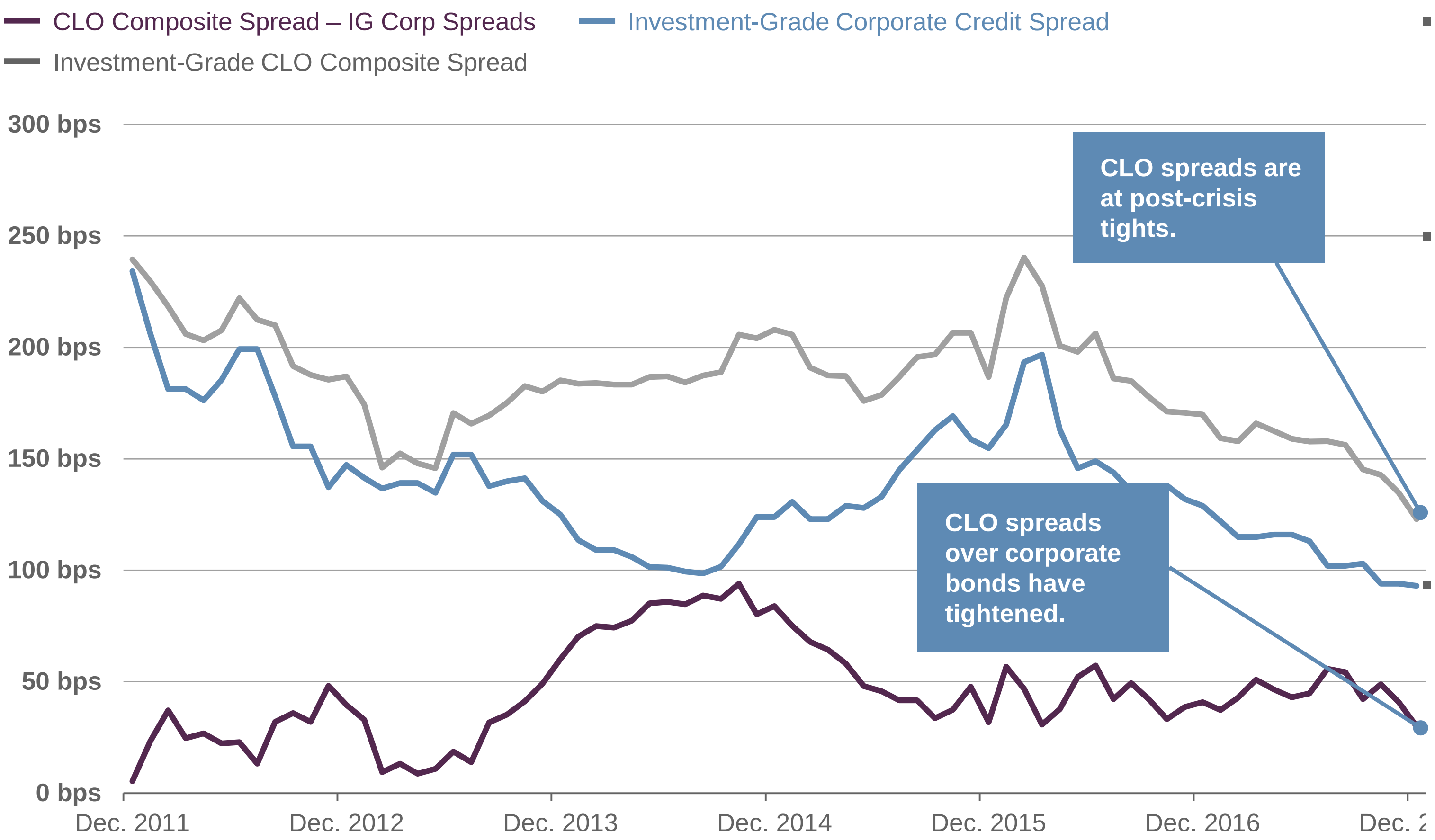
Covenant-Lite Trend in Bank Loans Continues to Strengthen



- We expect 2018 will see further loosening of credit standards as we have seen over the past several years. The covenant-lite issuance trend continues to strengthen, representing 74 percent of the par amount of loans outstanding.
- In addition to the removal of financial maintenance covenants, we saw a weakening of negative covenants in credit documents as borrowers and sponsors continue to push the envelope to preserve their options in a downturn.
- We categorize such activities as late-cycle behavior. The credit health of individual companies will likely remain strong for now, but loosening covenants remain a source of concern for our credit team as they will likely reduce recoveries when defaults rise.

Source: Bank of America Merrill Lynch, S&P LCD, Guggenheim Investments. Data as of 1.19.2018.

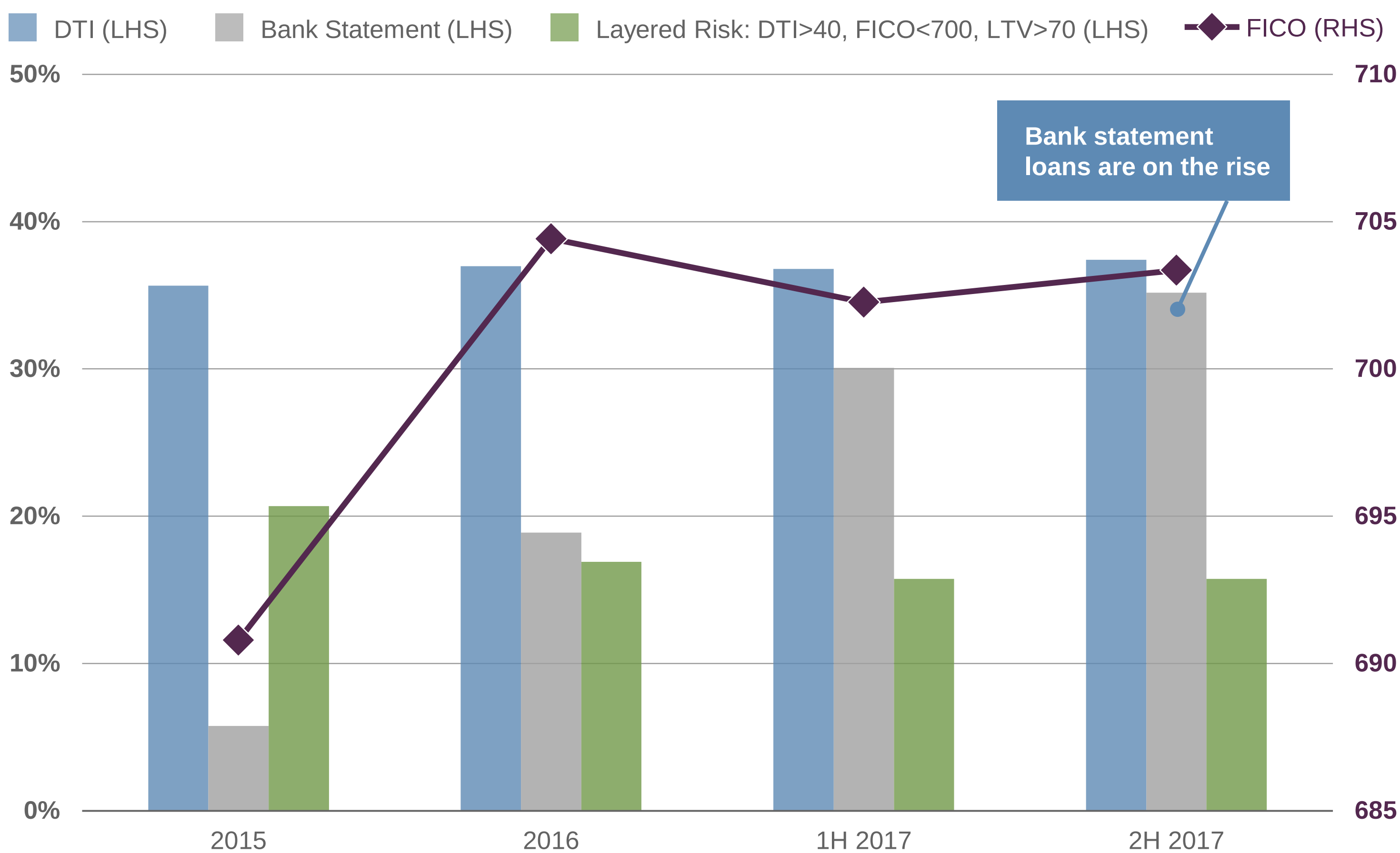
Investment-Grade CLO and Corporate Bond Spreads Are Converging



- Credit metrics underlying the CLO market remain strong, and increasing diversity in broadly syndicated loan CLOs reduces idiosyncratic credit risk.
- CLO spreads are at post-crisis tights, having fully recovered from the sharp widening in the first half of 2016. Spreads have tightened faster than in the investment-grade corporate bond market, reducing compensation for structured products relative to corporate debt.
- New-issue CLOs generally price wider than secondary CLOs, but we remain cautious of new-issue CLOs with long reinvestment periods given weak call protection, the ability of managers to shift portfolio maturity, and our expectation of a credit cycle turn.
- We are focused on refi and reset transactions with short (typically two year) reinvestment periods.

Source: J.P. Morgan, Barclays, Guggenheim Investments. Data as of 12.31.2017. Guggenheim estimates an investment-grade CLO Composite on a weighted-average basis based on the average share of AAA, AA, A, and BBB-rated tranches in a typical CLO capital structure.

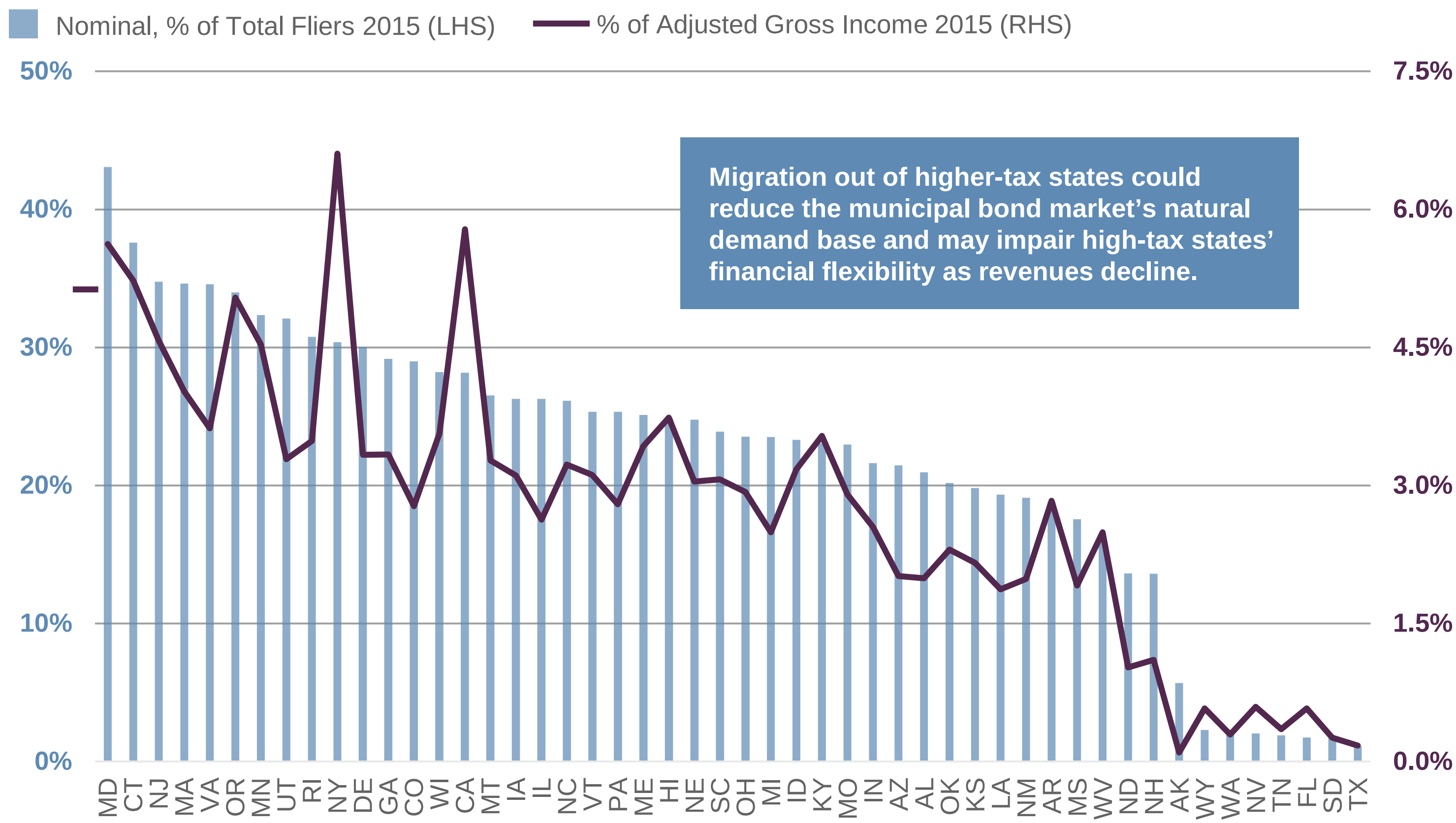
Bank Statement Loans Gain Share of Non-Qualified Mortgage Market



Source: Guggenheim Investments. Data as of 1.10.2018.

- Loans that do not qualify for qualified mortgage (QM) status tend to be investor properties, credit-blemished borrowers, first-time borrowers with higher debt-to-income (DTI) ratios, and bank statement loans, or loans to borrowers who use bank statements to demonstrate their monthly income.
- Bank statement loans are growing as a share of non-QM issues outstanding, putting pressure on originator diligence. FICO scores have not deteriorated as a result of this trend.
- Originator diligence should come under pressure if volumes of non-QM loans grow significantly.
- The non-QM market is small—$4 billion outstanding—with issuance concentrated in the last 12 months, but this market is likely to grow with increased lender comfort around credit performance and securitization execution.

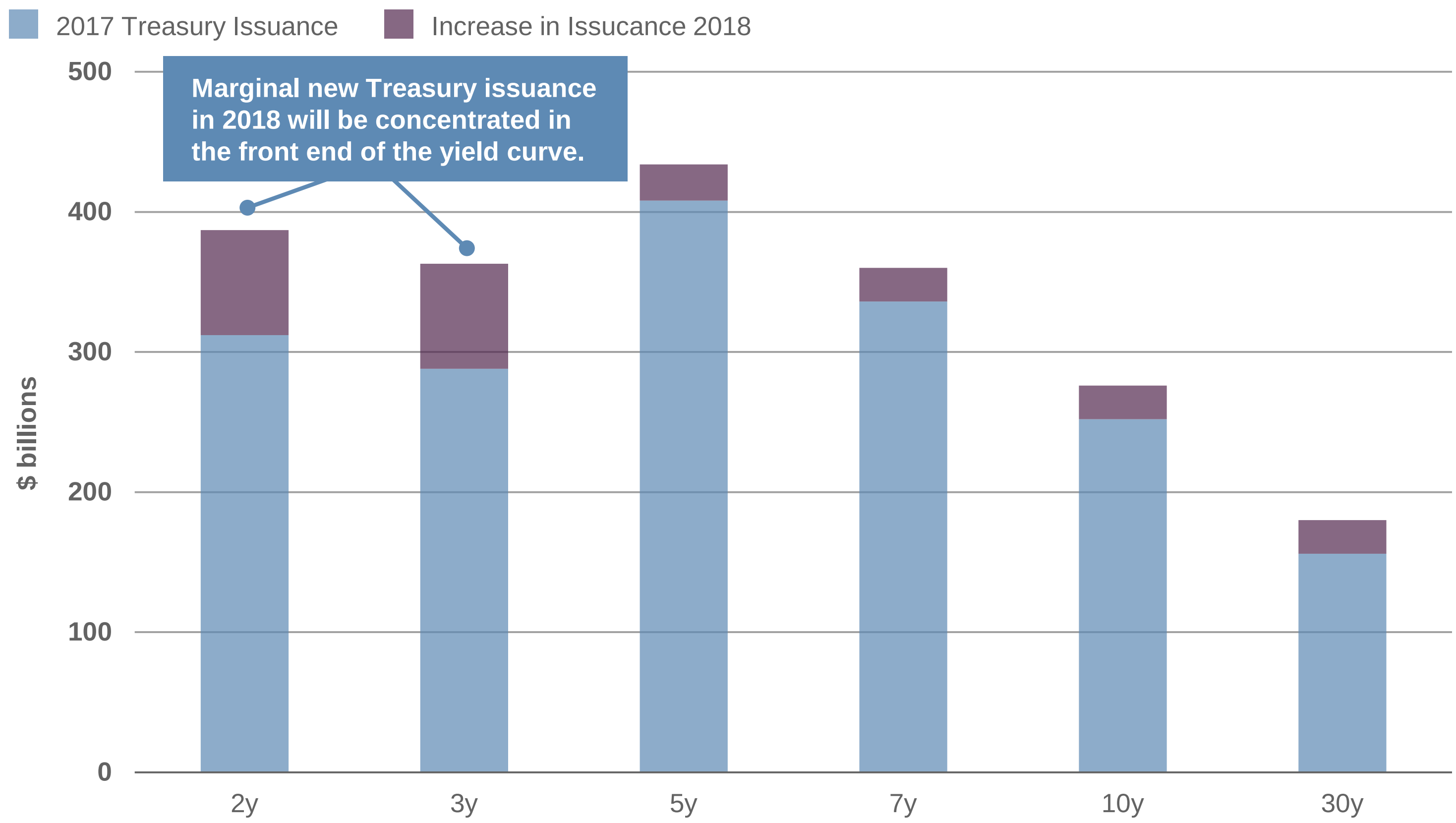
SALT Deductibility Limits Will Reshape the Municipal Bond Market



- The $10,000 cap on state and local tax (SALT) deductions will likely incentivize more migration from high-tax states, such as Connecticut and New Jersey, to low-tax states, such as Florida and Texas.
- Such migration would reduce the municipal market's natural demand base and, from a credit quality perspective, will also impair the financial flexibility of high-tax municipalities.
- The new tax bill's elimination of advance refunding bonds should affect the municipal market, and budget pressures from tax cuts may negatively affect increases in federal Medicaid funding, upon which many states increasingly rely.

Source: Internal Revenue Service, Guggenheim Investments. Data as of 1.25.2018.

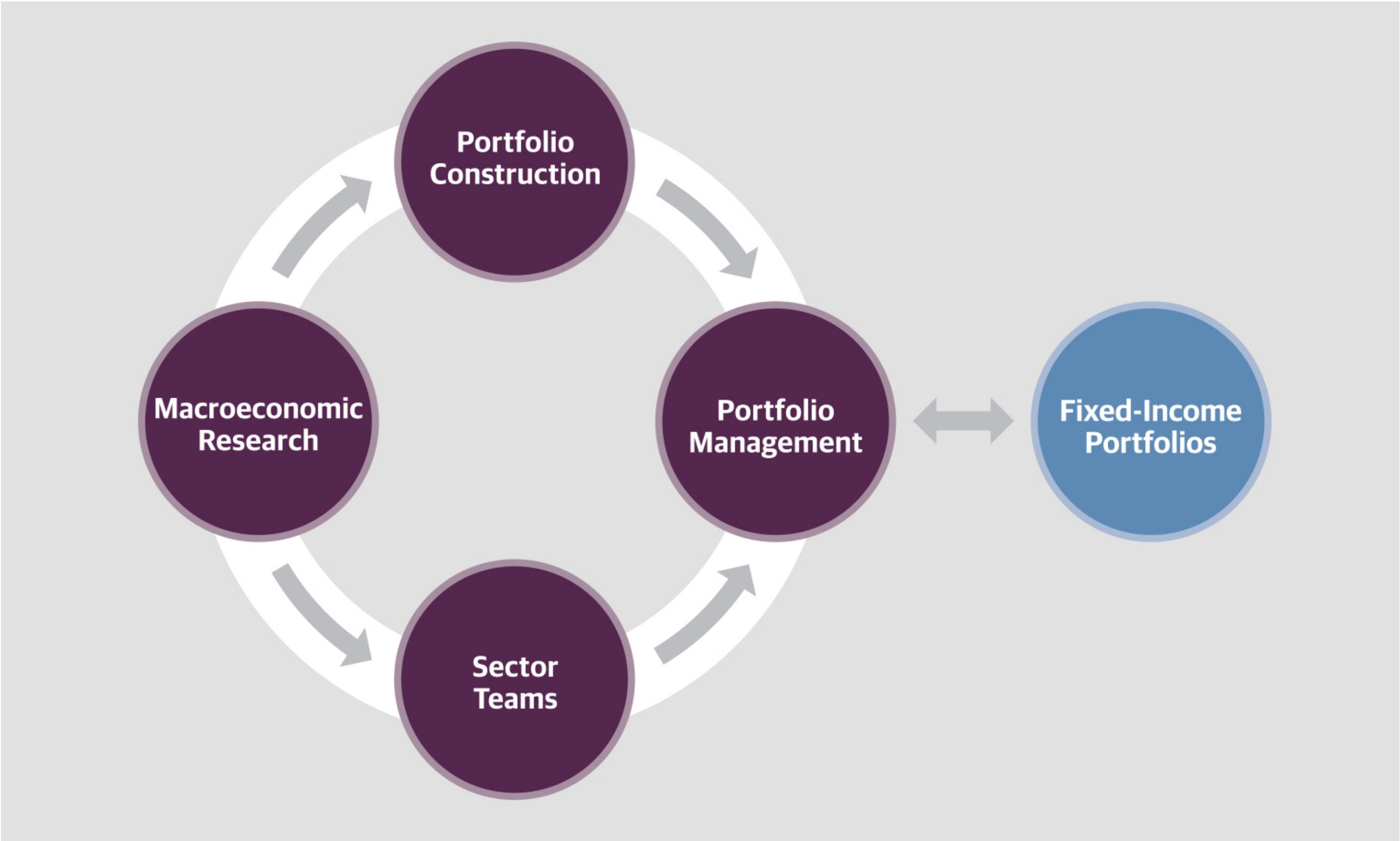
2018 Treasury Issuance Will Be Concentrated in the Front End



- The U.S. Treasury Department's recent refunding announcement reflects an increase in the government's borrowing needs.
- The outcome will be increased issuance for every maturity, with extra emphasis on the two- and three-year tenors, as well as bills.
- The looming Treasury supply and tenor mix, combined with our expectation of four Fed rates hikes in 2018, will likely result in disproportionate pressure on front-end yields that should support further bear flattening of the yield curve.

Source: Bank of America Merrill Lynch, J.P. Morgan, Guggenheim Investments. Data as of 2.1.2018.

Guggenheim's Investment Process



Guggenheim's fixed-income portfolios are managed by a systematic, disciplined investment process designed to mitigate behavioral biases and lead to better decision-making. Our investment process is structured to allow our best research and ideas across specialized teams to be brought together and expressed in actively managed portfolios. We disaggregated fixed-income investment management into four primary and independent functions—Macroeconomic Research, Sector Teams, Portfolio Construction, and Portfolio Management—that work together to deliver a predictable, scalable, and repeatable process. Our pursuit of compelling risk-adjusted return opportunities typically result in asset allocations that differ significantly from broadly followed benchmarks.

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