First Quarter 2021

Fixed-Income Outlook: Chart Highlights

Staying on Offense

Guggenheim Investments

GUGGENHEIM

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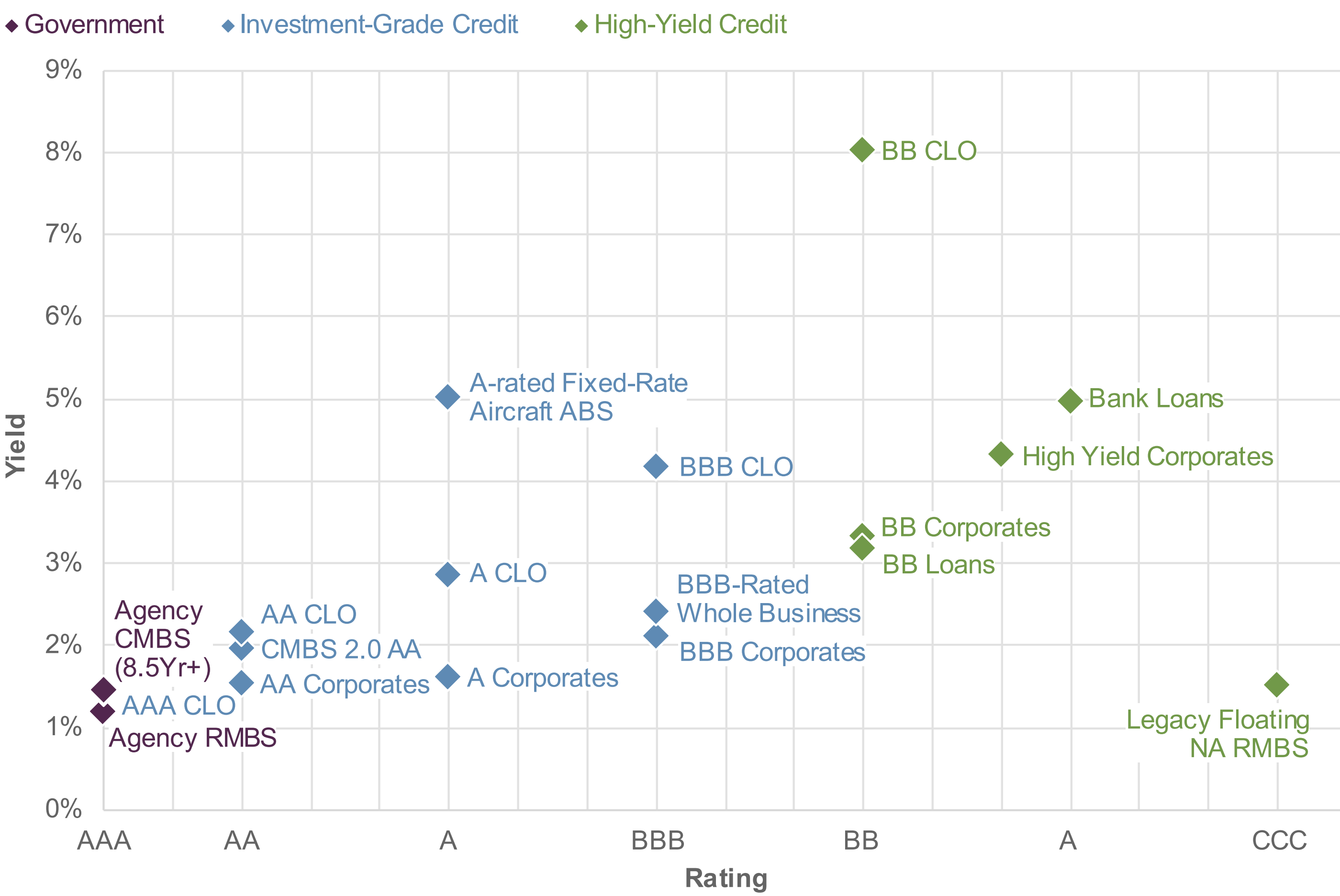
The Guggenheim Investments ("Guggenheim") quarterly Fixed-Income Outlook presents the relative-value conclusions of our 160+ member fixed-income investment team and illuminates the uniqueness of our investment process. This chart book presents selected highlights from the First Quarter 2021 Fixed-Income Outlook.

Portfolio Manager Outlook

While Yields Have Fallen Considerably, Value Remains

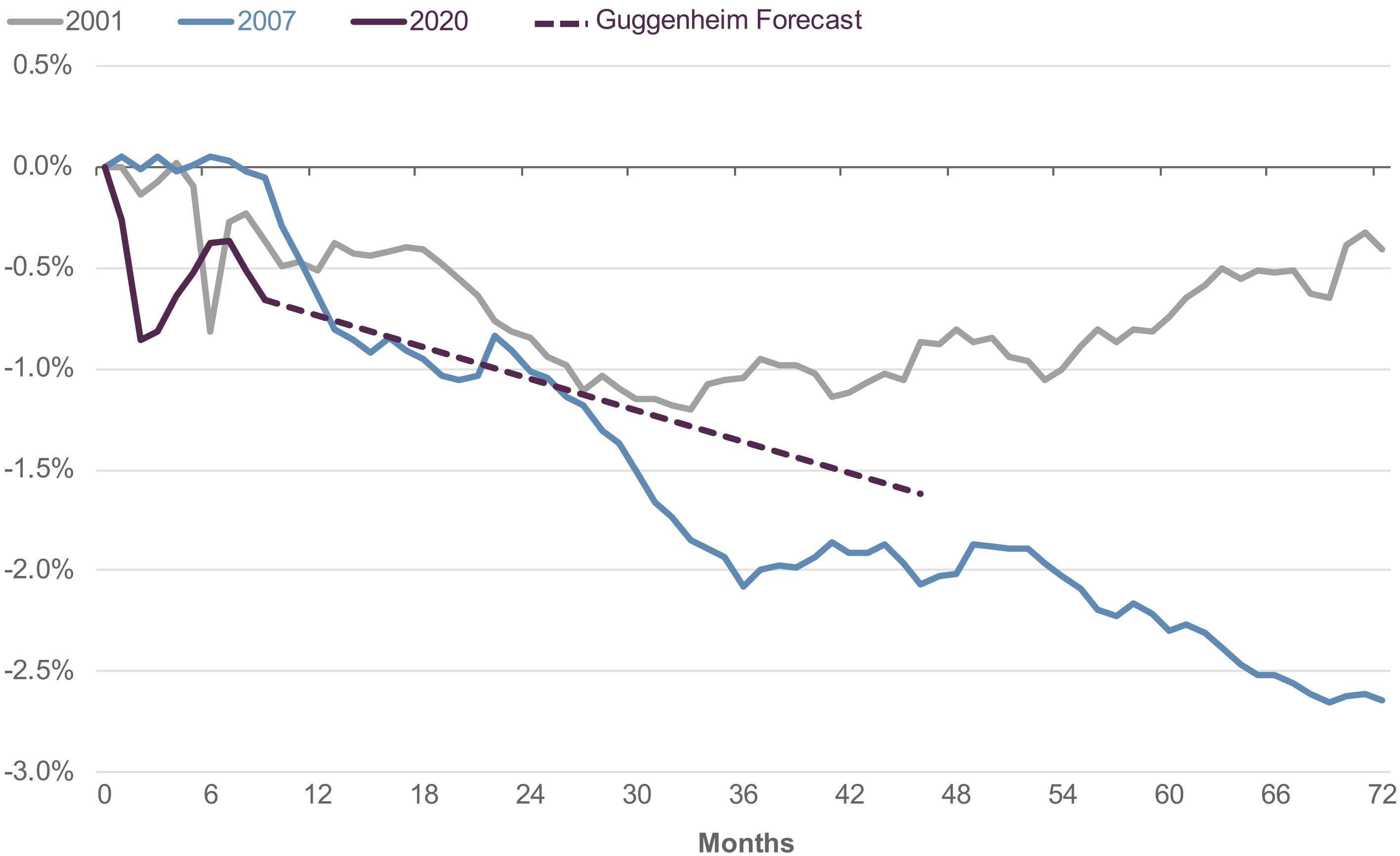


- Even as credit spreads have improved considerably off their widest levels, further value remains as the global search for yield has motivated investors to allocate to investment grade and high-yield corporate bonds. Within structured credit, we continue to favor senior tranches.
- We are also sanguine on below investment-grade opportunities in corporate bonds and loans due to improving economic data and accommodative monetary policy globally.
- Since prices bottomed in March, we have opportunistically added exposure to the asset class. High yield corporates, which experienced greater credit stress from COVID-driven shutdowns, should continue to benefit as the economy reopens.

Source: Guggenheim Investments, Credit Suisse, Bloomberg, Citi. Data as of 1.26.2021. Representative Indexes: Bank loans: Credit Suisse Leveraged Loan Index; High-Yield Corporate Bonds: Bloomberg Barclays U.S. High-Yield Corporate Index excluding energy; Investment-Grade Credit and A, BB Corporates: Bloomberg Barclays U.S. Corporate and A, BBB subsets; BB Corporates: Bloomberg Barclays U.S. High-Yield Index (BB subset); Agency RMBS: Bloomberg Barclays U.S. Aggregate Index (Agency RMBS subset); CLOs: J.P. Morgan CLOIE Index (A, AA, AAA, and BBB subsets), CMBS 2.0 AA: Bloomberg Barclays CMBS 2.0 Index (AA subset), Agency CMBS: U.S. Aggregate Index (Agency CMBS subset); Bloomberg Barclays Agg: Bloomberg Barclays U.S. Aggregate Index; Legacy Floating NA RMBS and fixed-rate aircraft are based on Guggenheim's trading desk's indicative levels..

Fed Is Likely to Maintain Maximum Accommodation as Inflation Falls Short

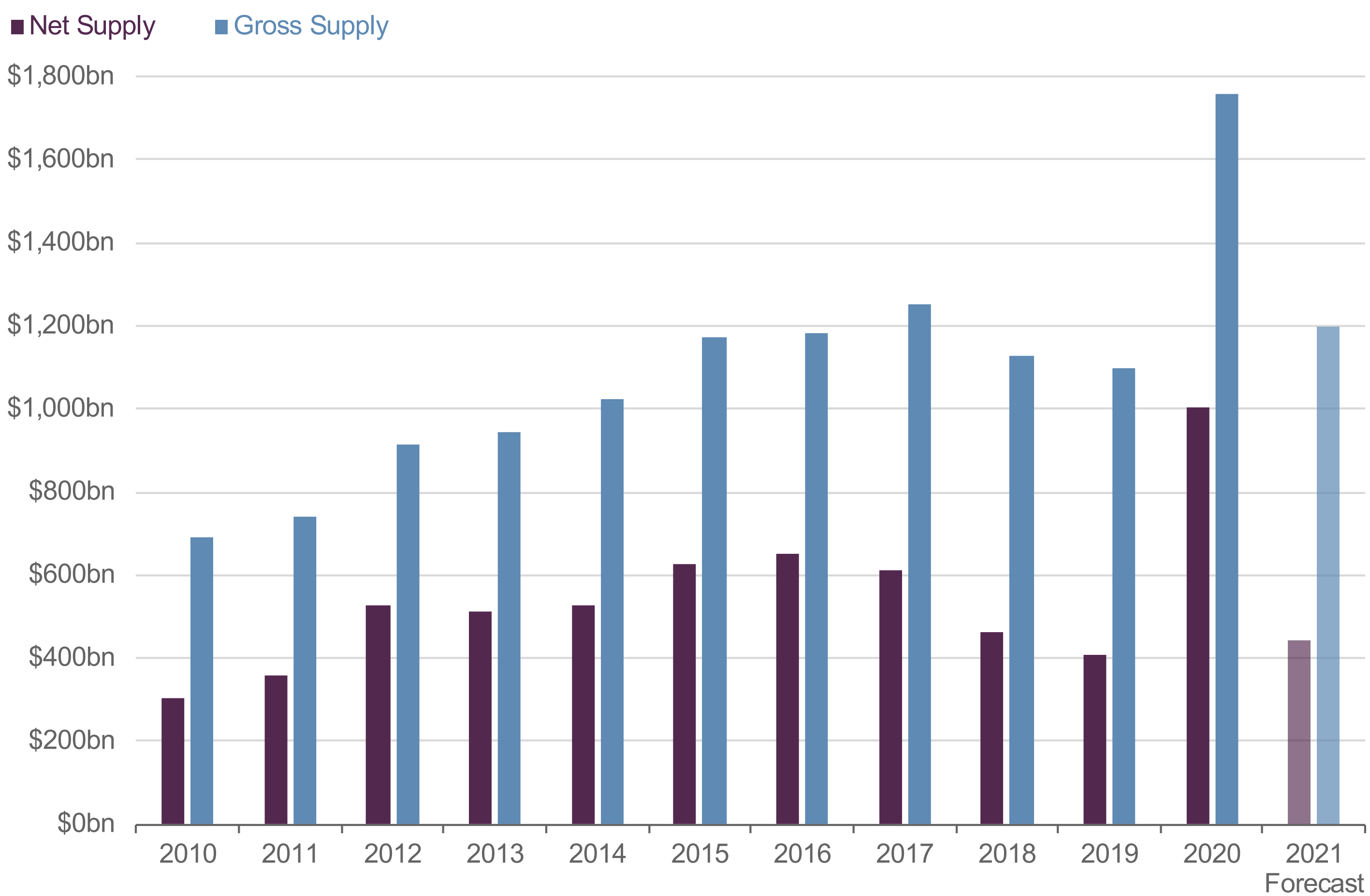
Cumulative Core PCE Inflation Shortfall From 2 Percent Target Since Business Cycle Peak



- As core inflation lags real GDP by about 18 months, more sequential downside is ahead over the next several quarters, and the experience of the last expansion suggests the Fed will struggle to reach 2 percent, let alone exceed it on a sustained basis, based on globalization, demographics, and technological trends.
- These conditions virtually ensure that the Fed will keep its policy rate at zero for at least the next several years while maintaining an aggressive pace of Treasury and Agency MBS purchases well into 2022.
- Our expectations for the path of Fed policy in coming years translate into a fair value estimate for 10-year Treasury yields of 0.85 percent, indicating that yields have risen too far too fast, aided by bearish seasonals.

Source: Guggenheim Investments, Haver Analytics. Data as of 11.30.2020. Note: Dotted purple line shows Guggenheim forecast for cumulative core PCE shortfall at the end of 2023 rather than the precise forecast path.

Investment-Grade Supply Is Expected to Decrease in 2021



- Gross investment-grade primary issuance reached almost $1.8 trillion, and net issuance neared $1.0 trillion through the first three quarters of 2020. However, the fourth quarter saw virtually flat net issuance.
- We believe 2021 primary issuance will see a reversion to the mean closer to $1.2 trillion on a gross basis, providing further technical support to credit spreads.
- Foreign demand has continued to pick up at the margin as well, which contributed to nearly $55 billion of inflows to investment-grade corporate bond mutual funds in the fourth quarter.

Source: Guggenheim Investments, J.P. Morgan. Data as of 1.31.2021.

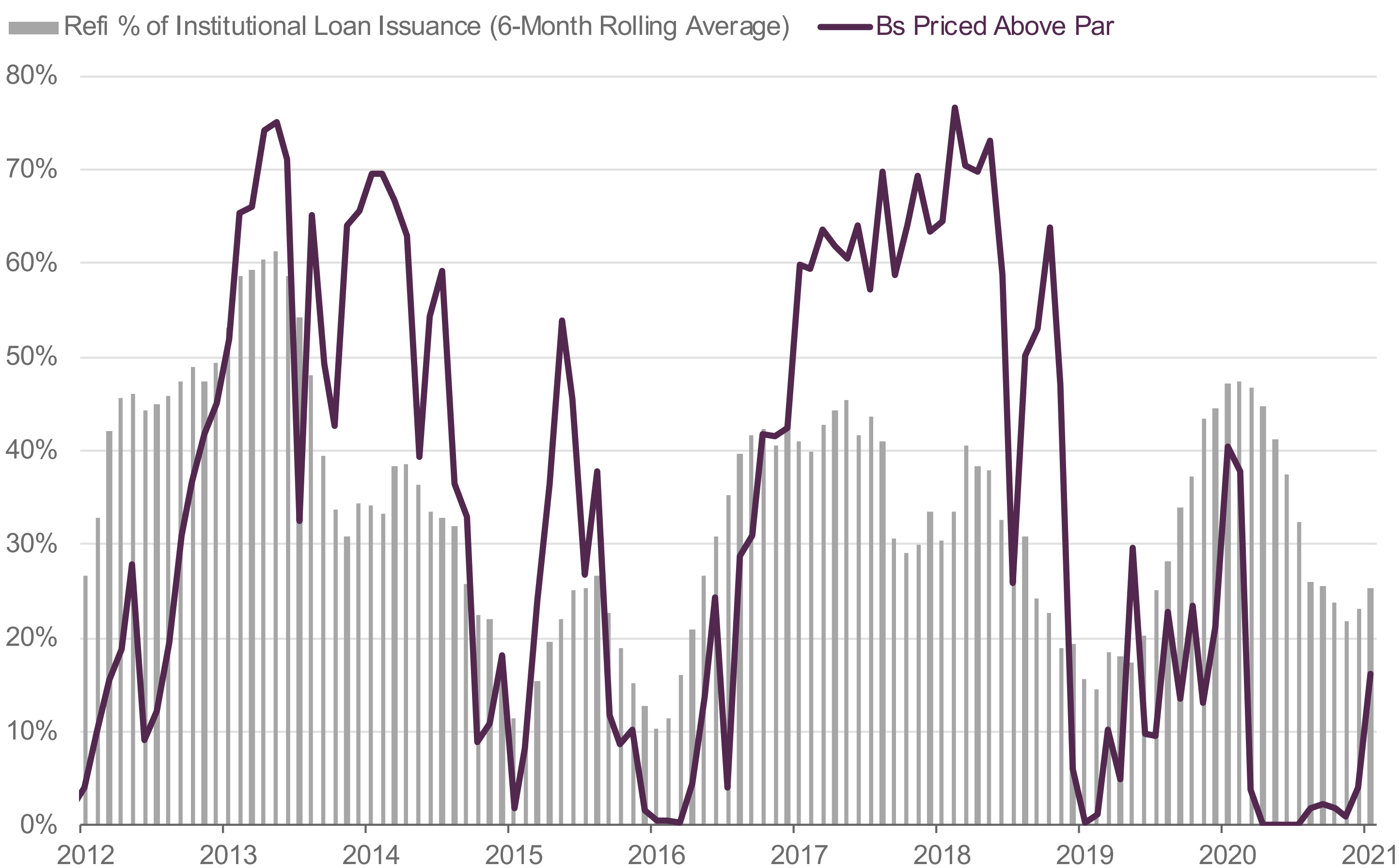
Investment-Grade Corporate Bonds

Investment-Grade Corporate Bond Spreads Are Likely to Tighten Further

- As investment-grade corporate spreads currently sit at near decade tights, and with much good news priced in, we expect credit spreads to trade in a narrow range.
- Barring a monetary policy misstep or a dramatic increase in interest rate volatility, the near-term path for spreads appears tighter.
- We believe the negative headwinds for both equities and credit, in the form of election unrest and aggressive COVID-19 lockdown policies, have subsided.
- That said, we expect to see bouts of volatility around COVID-19 mutation fears and vaccine efficacy and distribution. We anticipate risk selloffs to be shallow and present buying opportunities, with compression among the lower-rated cyclical credits relative to higher-rated, larger capital structure credits.

Source: Guggenheim Investments, Bloomberg. Data as of 1.26.2020. Shaded areas represent recession.

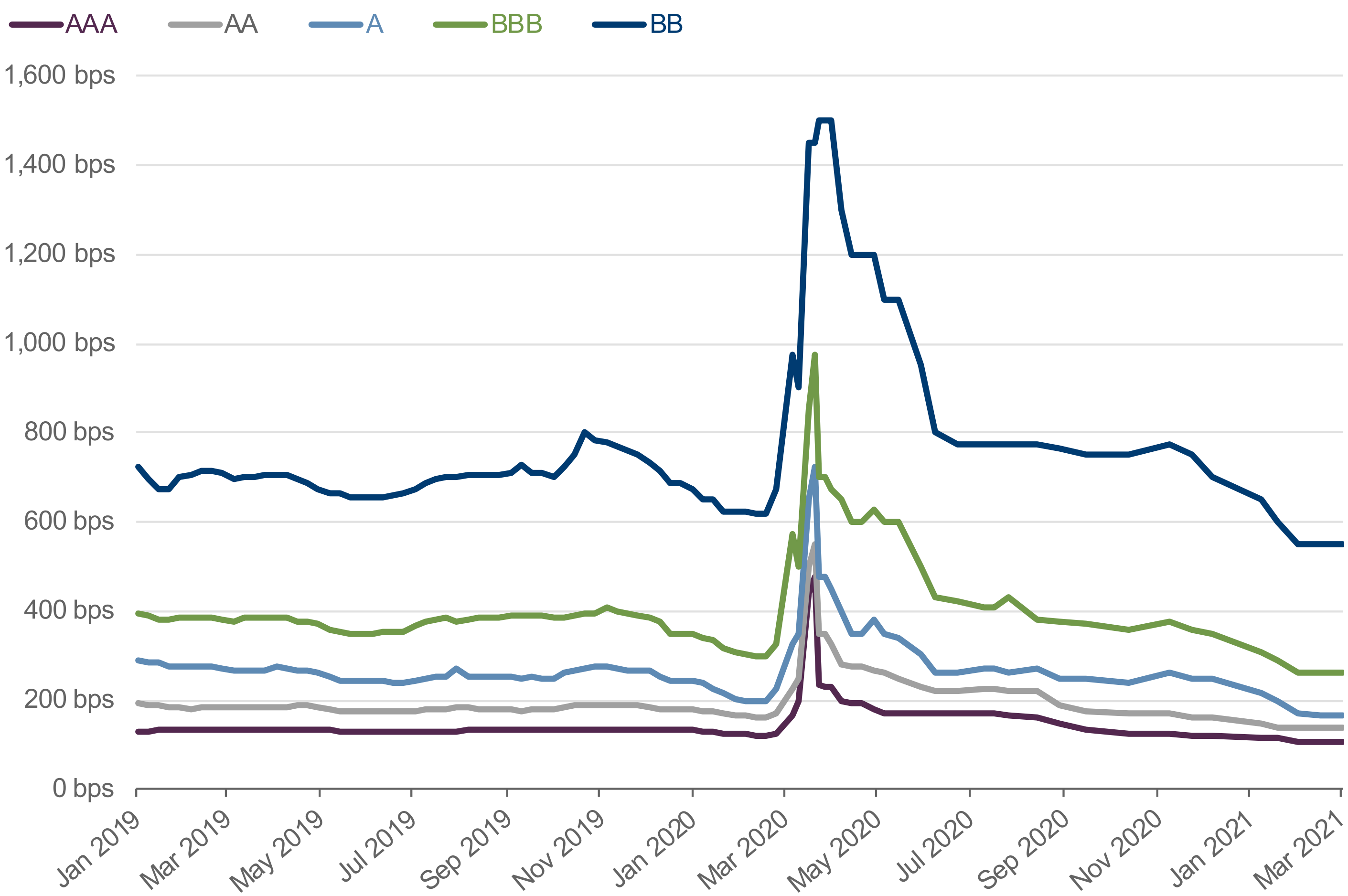
Market Is Heating Up as Investors Bid Loans to Par or Above



- Loan investors will need to watch out for refinancing risk in favored industries such as healthcare, technology, and food and drug, where most loans are trading at or above par.
- There is a strong correlation between refinancing activity and the share of loans trading above par.
- By comparing secondary loan spreads and pricing in the new issue loan market over the last four months, we found around $90 billion of single B loans that are “in the money” to be refinanced later this year, with 101 basis points in potential spread savings to the borrower.

Source: Guggenheim Investments, S&P LCD, Credit Suisse. Data as of 1.27.2021.

Investment-Grade CLO Spreads Have Tightened From Recent Peaks

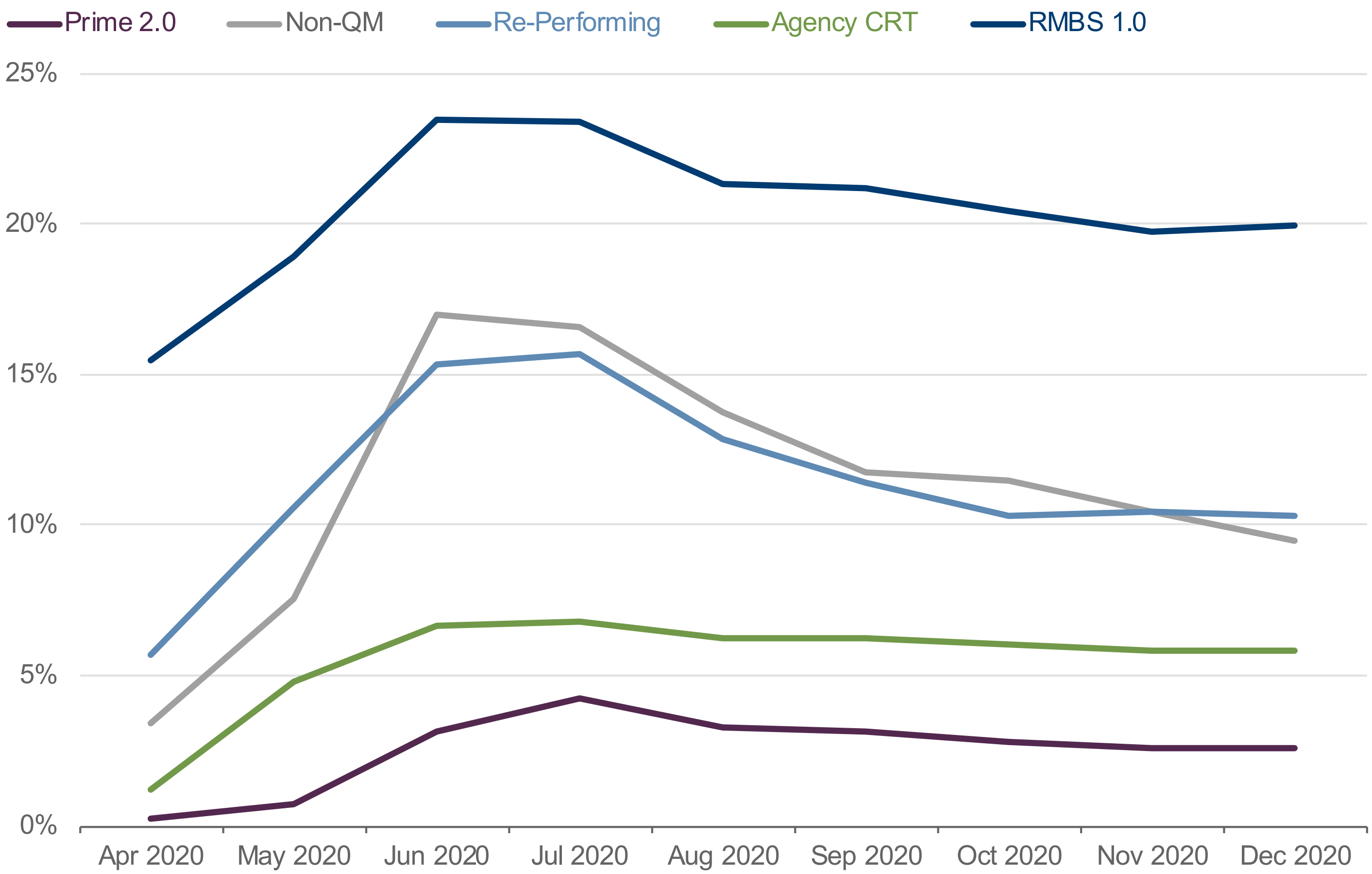


- Senior and subordinated CLO tranches both participated in the rally and are currently trading at the tightest spreads in the last two years.
- Similarly, leveraged loans, the collateral for CLOs, rallied back to pre-COVID levels and largely avoided the wave of COVID-related defaults many had feared.
- As a result, rating agencies, which had downgraded a significant number of CLO tranches by mid-2020, have reversed course and now are reviewing many CLO tranches for upgrades.
- With this constructive backdrop, CLO new issuance surged in the fourth quarter of 2020 and should continue to exhibit considerable strength in 2021.

Source: Guggenheim Investments, J.P. Morgan. Data as of 3.5.2021.

Non-Agency Residential Mortgage-Backed Securities

Mortgage Delinquencies Are Slowly Declining



- High unemployment strained homeowners' finances and resulted in elevated delinquencies, which are now on a slow path to recovery.
- Structural changes in loan servicing after the 2008 financial crisis, which strongly favor workouts over foreclosures, and the absence of weakly documented or highly leveraged "affordability mortgages," have kept collateral losses far below those experienced in 2008–2009 and prevented credit deterioration from transmitting adverse feedback to the housing market.
- Looking forward, pre-financial crisis originated RMBS 1.0 is emerging as a rare institutional-scale, investable market that has experienced two credit cycles in its history.

Source: Guggenheim Investments, J.P. Morgan. Data as of 12.31.2020.

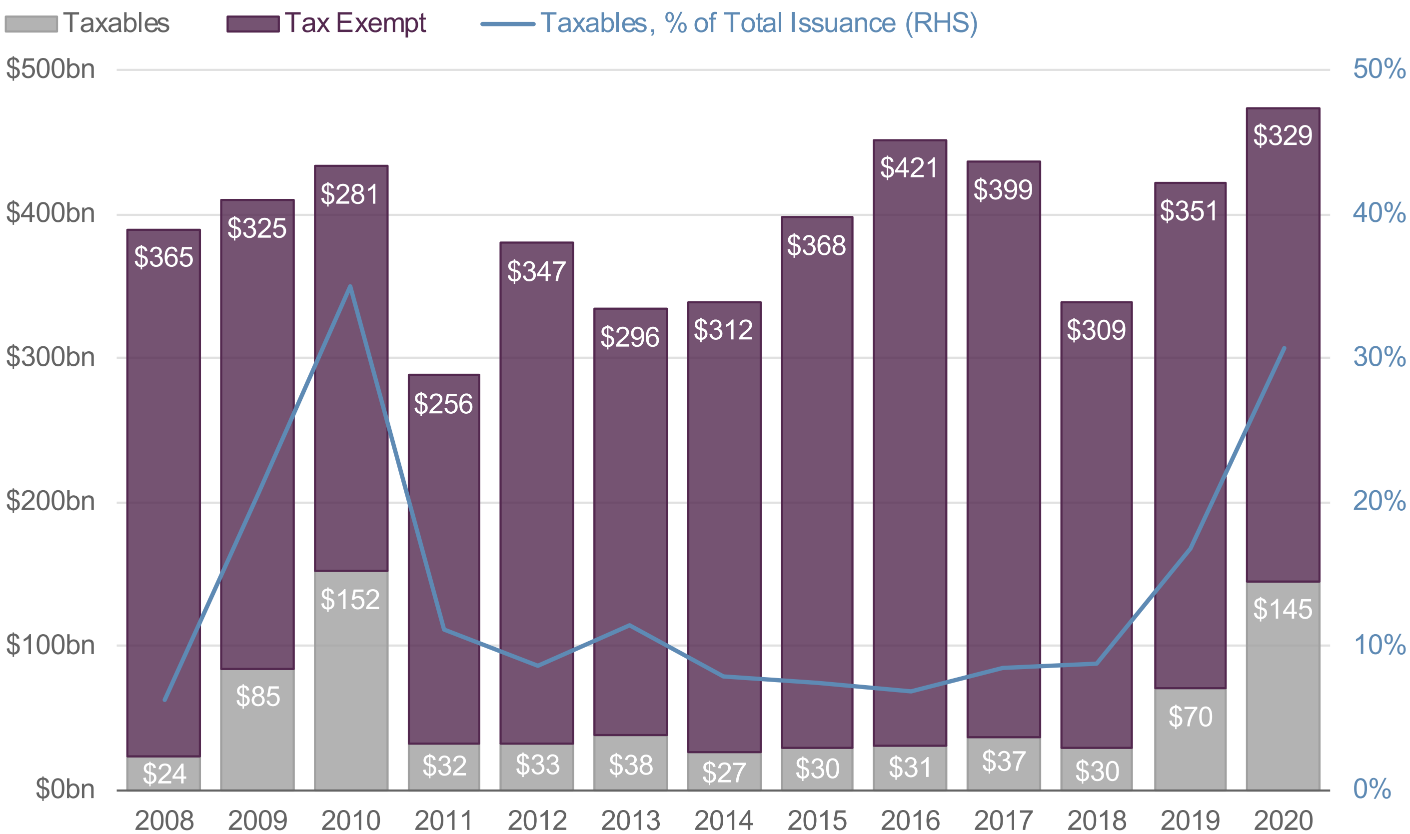
Issuance Should Bounce Back in 2021 as Investor Confidence Recovers

- In 2020, new issuance within CMBS fell by 45 percent—conduit down 37 percent, SASB down 48 percent, and CRE-CLO down 56 percent—due to lower loan volumes from issuers as pandemic uncertainty persisted.
- Furthermore, investor demand for lower concentrations of retail and hospitality loans within securitizations constrained issuers even further as risks associated with those property types remain elevated.
- However, we expect higher issuance in 2021 over 2020 as optimism from issuers and investors grows due to stable market conditions, the rollout of COVID-19 vaccines, and a settled election offering clarity around policy related to commercial real estate.

Source: Guggenheim Investments, J.P. Morgan. Data as of 12.31.2020

Investor Demand Absorbs Surging Taxable Muni Bond Issuance

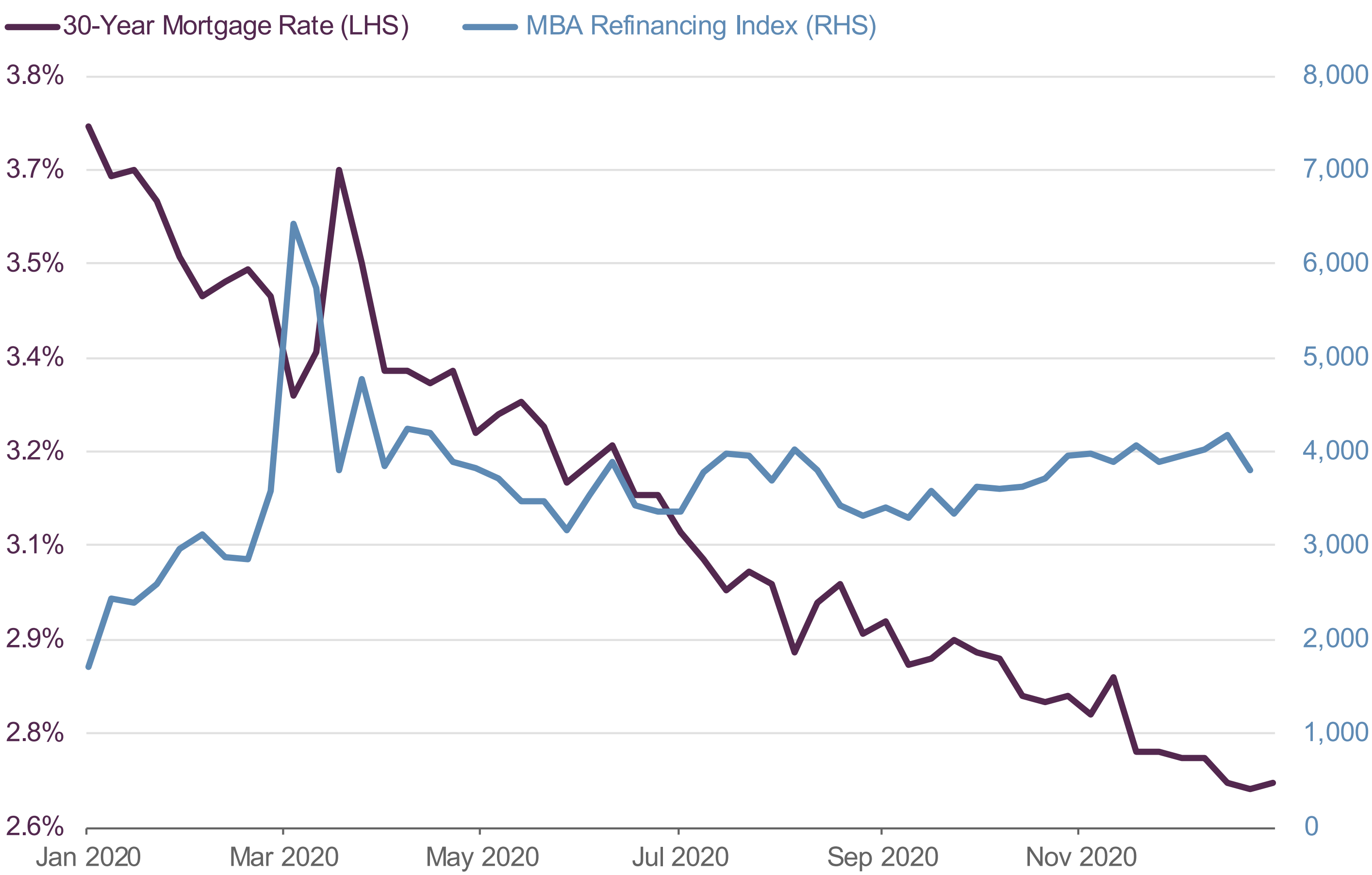
Annual New Issuance



- Taxable bonds accounted for 31 percent of total issuance, compared to an average of 11 percent for the prior three years.
- The surge in taxable supply was met by appetite from crossover buyers such as banks and insurance companies looking for attractive risk-adjusted relative value versus similarly rated corporate bonds.
- With expectations for a prolonged low-rate environment, municipal market dealers widely forecast another record-setting supply year for 2021.

Source: Guggenheim Investments, Bond Buyer. Data as of 12.31.2020.

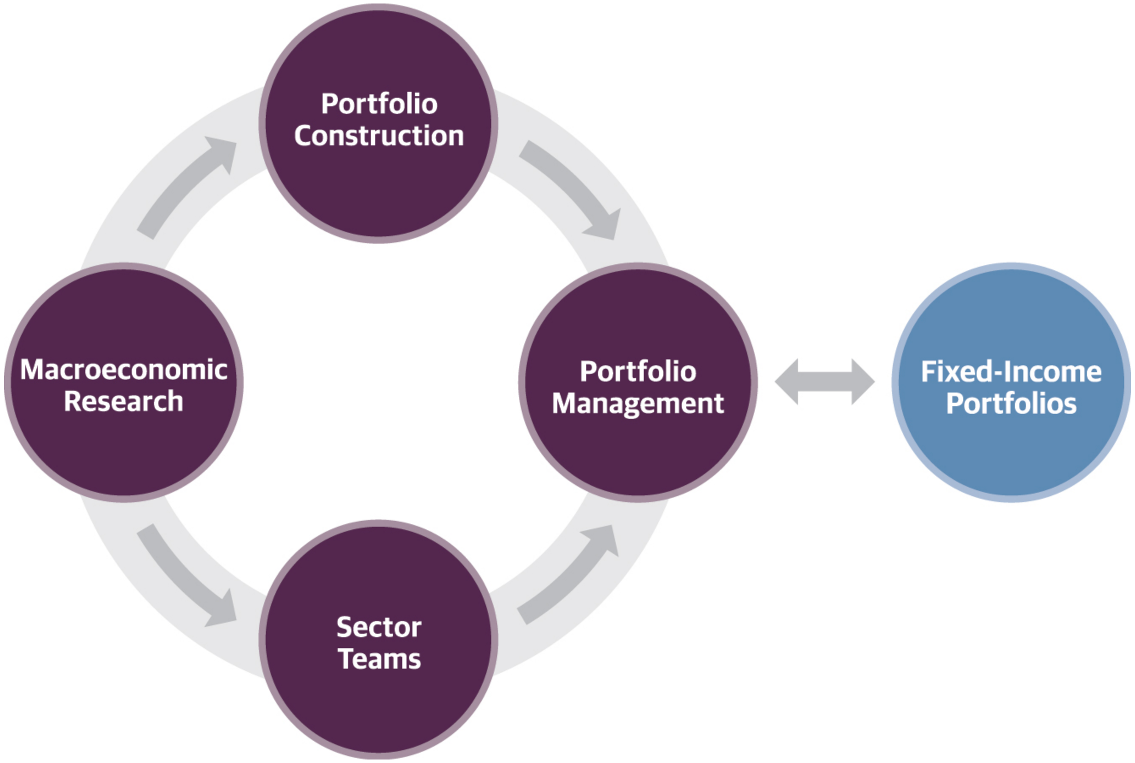
Historically Low Mortgage Rates Boost Agency MBS Relative Performance



- Since the start of QE4, mortgage spread performance has been bifurcated between production coupons buoyed by over $1 trillion in Fed purchases and "non-Fed" coupons exposed to primary rates at all-time lows.
- Fed purchases remove the most negatively convex bonds and boost the carry profile of "to-be-announced" (TBA) securities, which has resulted in the outperformance of lower coupons versus the mortgage index.
- Given the small percentage of the index that lower coupons comprise and the Fed's stated intention to continue with $40 billion of monthly net purchases, this is a trend we expect to continue.

Source: Guggenheim Investments, Bloomberg. Data as of 12.31.2020.

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 results in asset allocations that differ significantly from broadly followed benchmarks.

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