

Second Quarter 2025

Research Spotlight on What's Next

Quarterly Macro Themes



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Contents

High Policy Volatility Clouds the Outlook 1

Macro Themes

Current Data Provide Little Insight on What's Ahead 1

As Tariffs Come into Full Force, Growth Will Slow 2

Fiscal Stimulus Will Provide Only a Modest Offset to Slowing Growth 3

Outlook Update

Economic Outlook: Slow but Positive Growth in 2025 5

Inflation Is Set to Rise and Then Fall 5

Monetary Policy: Fed Patience Amid Uncertainty 6

Investment Implications

Opportunities Arise as Markets Navigate Heightened Policy Uncertainty 7

About Quarterly Macro Themes

Quarterly Macro Themes, a quarterly publication from our Macroeconomic Research and Market Strategy Group, spotlights critical and timely areas of research and updates our baseline views on the economy. Themes are selected from the broad range of issues we are currently analyzing, and demonstrate the type of market and economic topics we address in developing our outlook on the U.S. and global business cycle, market forecasts, and policy views. Our Macroeconomic Research and Market Strategy Group's research is a key input in Guggenheim's investment process, which typically results in asset allocations that differ from broadly followed benchmarks.

High Policy Volatility Clouds the Outlook

The economic environment continues to be characterized by high policy volatility, clouding the outlook for the economy and forcing investors to navigate through the fog.

Over the first half of this year, historic swings in tariff policy elevated uncertainty, which has obscured the signals from both soft and hard economic data. The actual effects of tariff hikes still lie ahead. In the coming months, we expect slow growth and rising inflation as businesses pass through at least some of the tariff tax hike on to consumers. While the fiscal bill may provide incremental new stimulus, it is unlikely to offset the drag from tariffs.

The Federal Reserve (Fed) is patient for now, but we expect the easing cycle to commence later this year as unemployment rises, and we anticipate the pace of rate cuts will accelerate into 2026. High all-in yields and an easing Fed should provide an attractive backdrop for fixed income. Policy uncertainty is likely to keep volatility elevated, providing opportunities for active managers to achieve returns and help protect against risk.

Macro Themes

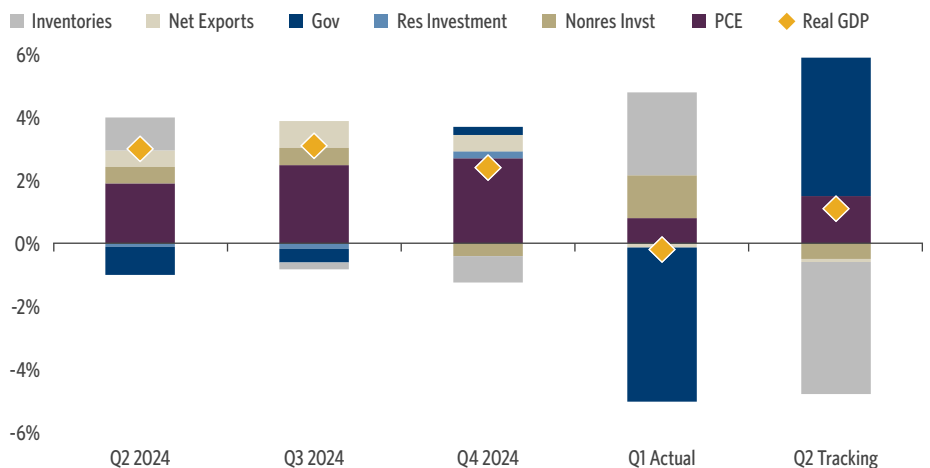
Current Data Provide Little Insight on What's Ahead

In the first quarter, policy uncertainty distorted both hard and soft U.S. economic data, making it difficult to discern underlying trends. Imports surged at a 43 percent annualized pace as businesses sought to get ahead of anticipated tariff increases,

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Trade Deficit Drag on GDP in Q1 Likely to Reverse in Coming Quarters

Contributions to Real GDP Growth



Source: Guggenheim Investments, Bloomberg, S&P Global. Actual data as of 3.31.2025, tracking as of 6.18.2025.

building up inventories to provide some buffer from higher costs. There was also evidence of front-loading of consumption and investment demand, with a surge in business investment in computers pushing up growth in the quarter. This anticipatory behavior pulled forward demand for import-intensive goods and may imply a soft patch ahead for spending.

Soft data, such as business and consumer surveys, are also proving difficult to interpret. The rapid pace of policy changes means that survey responses may lag actual conditions or reflect outdated expectations. As a result, both quantitative and qualitative indicators become stale quickly, complicating economic forecasting and necessitating more than ever that investors “skate where the puck is going,” not just follow the data.

As Tariffs Come into Full Force, Growth Will Slow

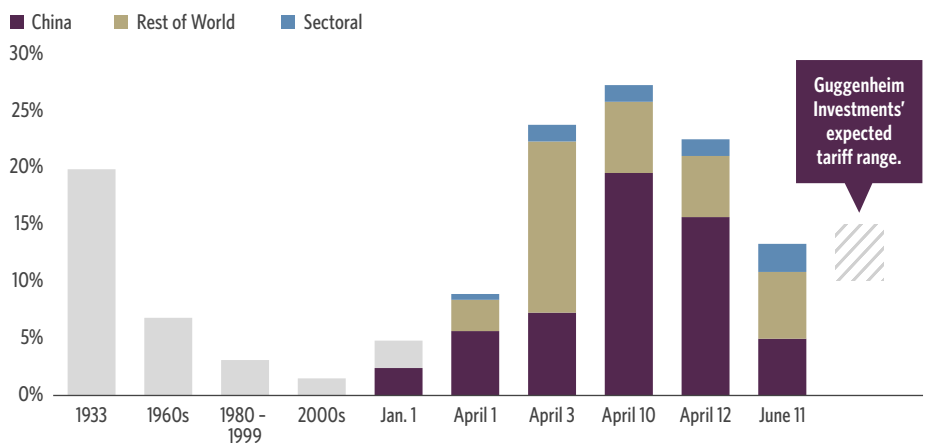
The effective tariff rate has come down from a peak of approximately 25 percent after Liberation Day to about 13 percent as of the end of May. While not as elevated as Liberation Day levels, this still leaves the overall tariff rate at the highest level in decades, representing a significant structural shift in U.S. trade policy and acting as a tax on the economy.

Meaningful uncertainty remains about where tariff policies might ultimately land. We anticipate the overall effective tariff rate to settle near current levels, likely between 10 and 15 percent, but there could be significant surprises still ahead. Negotiations with hundreds of countries are ongoing, court challenges to tariff authority are underway, and new sectoral tariffs on pharmaceuticals and semiconductors are reportedly in the pipeline.

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Tariff Rates Have Declined, but Remain at Multi-Decade Highs

Effect Tariff Rate (%)



Source: Guggenheim Investments, U.S. Census Bureau. Data as of 6.18.2025.

We expect tariffs to result in slower, but still positive, economic growth in 2025. Trade policy uncertainty is also going to persist as court battles are fought, deals are negotiated, and potentially new tariffs are announced. That uncertainty will continue to drag on the economy, prompting more cautious behavior from consumers and businesses. Still, we see the downside risks as being moderated by the administration's reaction function, as President Trump has revealed a reluctance to maintain policies that would inflict significant economic pain.

Fiscal Stimulus Will Provide Only a Modest Offset to Slowing Growth

The federal budget is coming into sharper focus as the One Big Beautiful Bill makes its way through Congress. We see the bill as providing a modest boost to 2026 growth, but also leaving wide uncertainty about our long run fiscal trajectory.

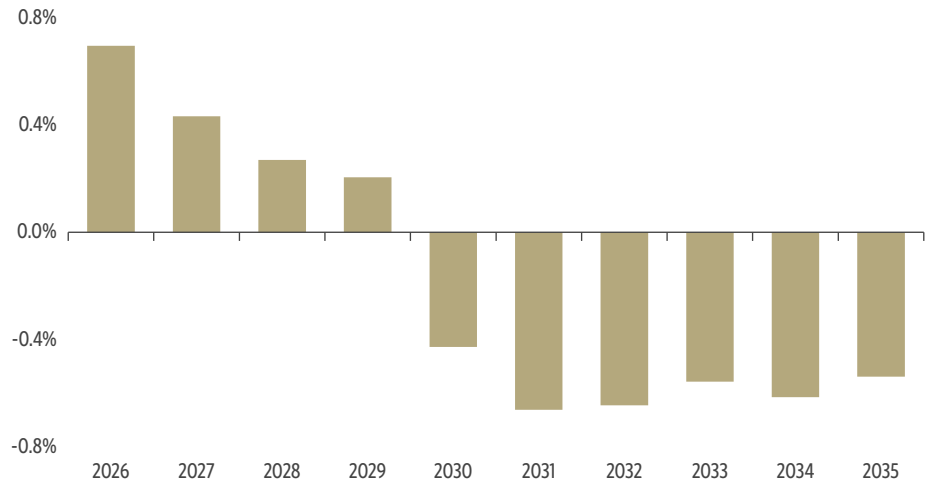
The current bill frontloads tax cuts, while backloading spending cuts. This sequencing should help deliver a positive fiscal impulse to gross domestic product (GDP) growth, but most of that won't be felt until 2026, and will likely be modest. This modest growth boost, despite deficit expansion, is due to the relatively low fiscal multiplier of tax cuts, while reductions in spending and transfer payments could have a higher multiplier. Congressional Republicans are faced with the difficult balancing act of trying to assuage deficit concerns from fiscal hawks and market pressures against the risks of aggressive spending cuts that could slow economic growth. Medicaid and other social programs are particularly contentious, as cuts would disproportionately affect the most vulnerable households, which have already been under stress in recent years.

Although the bill has taken shape with more cost cutting measures than had been anticipated earlier this year, concerns remain about fiscal sustainability. Even with a potential boost from tariff revenues, fiscal deficits would exceed 6 percent of GDP over 10-years, and debt to GDP could exceed 120 percent of GDP by 2035—substantially higher than the current 100 percent. In addition, expiration of some tax cuts after four years may prove politically difficult, and spending cuts that ramp over time could be watered down in the future. Tariff revenue has the potential to offset fiscal concerns, but given the uncertainty around ultimate tariff rates, this represents a less reliable source of revenue. If tax cuts were extended and tariff revenue fails to materialize, deficits could be much higher than projected.

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Front-Loaded Tax Cuts Could Provide Modest Fiscal Boost in 2026

House Reconciliation Package Contribution to Fiscal Deficit (% GDP) vs. Current Policy



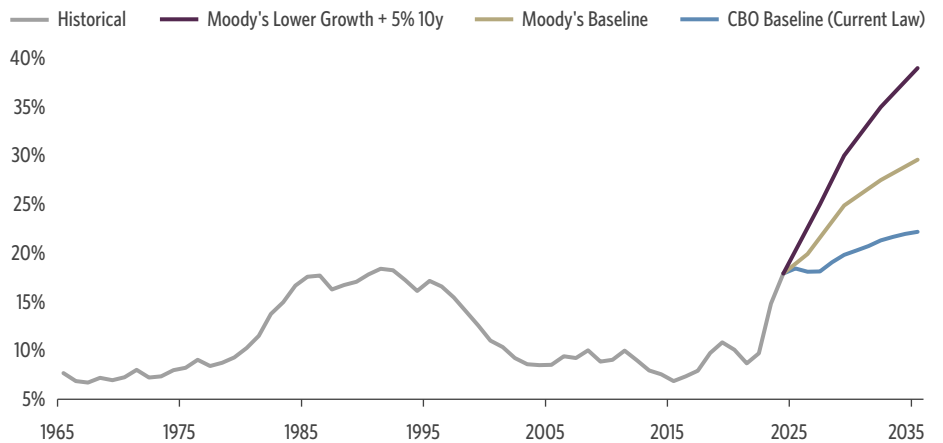
Source: Guggenheim Investments, Congressional Budget Office, Yale Budget Lab. Data as of 3.19.2025.

Some baseline deficits are likely already factored into yields, but there are risks to rising term premiums as investors absorb new issuance. Rising Treasury supply at a time when the investor base is shifting toward more price-sensitive buyers could put upward pressure on longer-term Treasury yields and steepen the yield curve as investors demand higher compensation. That said, a slowing economy—in part due to rising rates—should limit the upside for longer-term yields absent a material shock to confidence.

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Federal Interest Payments Will Increase, Contributing to Fiscal Deficits

% of Revenue



Source: Guggenheim Investments, Moody's, Congressional Budget Office. Actual Data as of 2024.

Outlook Update

Economic Outlook: Slow but Positive Growth in 2025

Our real GDP forecast sees slightly below 1 percent growth in 2025, recovering in 2026. Households are set to face a real income hit from higher prices on imported goods affected by tariffs reducing their spending power. Consumers are also likely to become more cautious in the face of uncertainty, leading to increased precautionary saving. The labor market will be a key indicator to watch. We expect the unemployment rate to rise to around 4.5 percent by the end of the year, but a more significant increase could quickly reignite recession fears. So far, the labor market has only softened modestly, but with hiring rates subdued, it would only take a small rise in layoffs to see unemployment rise.

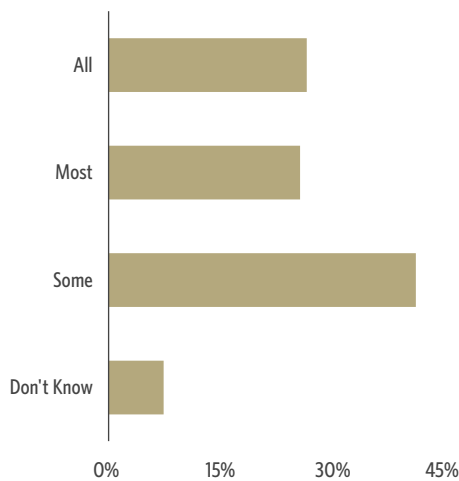
Along with slower consumer spending, business investment is likely to slow. Capital expenditure surveys remain downbeat, reflecting persistent uncertainty as firms wait for greater clarity on trade policy before committing to new projects. Investment demand related to artificial intelligence remains a bright spot, and looming tax cut provisions could provide a further boost to investment, particularly in 2026.

Inflation Is Set to Rise and Then Fall

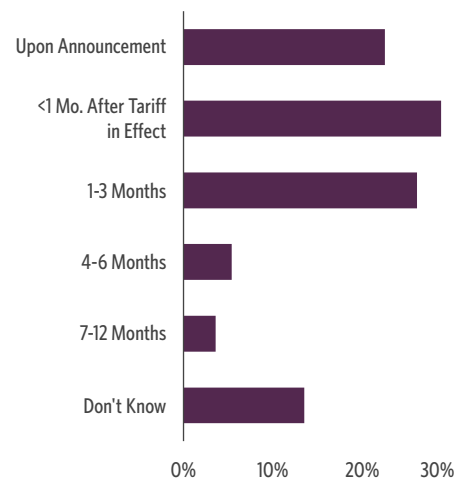
In terms of inflation, we find ourselves in the eye of the storm—the policy changes have hit, but the impact on prices is still on the horizon. We anticipate the year-over-year gain in core personal consumption expenditures (PCE) price inflation will rise above 3 percent by the fourth quarter. However, we continue to see this as a

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Share of Tariff Cost Expected to Pass to Consumers



Time Frame for Pass Through of Tariff Cost



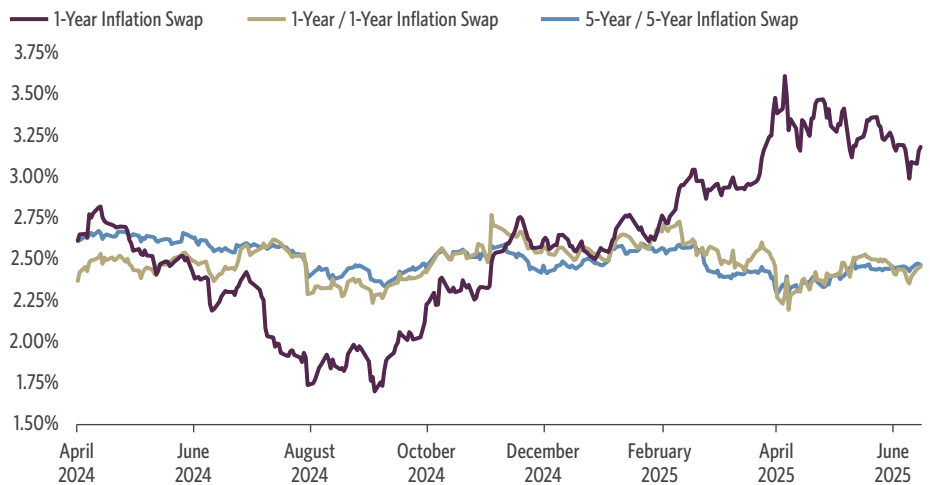
Source: Guggenheim Investments, Dallas Fed. Survey data from 4.15.2025-4.23.2025.

one-time price boost and not an enduring source of inflation. Underlying fundamentals point to further disinflation, with housing and wage inflation continuing to cool. There is some risk of a broadening out of price pressures to services or rising inflation expectations. So far, most longer-term inflation expectations are anchored, and over time we expect the rising unemployment and the hit to consumer buying power from higher tariff costs to contain inflation pressures.

Our forecast sees the year-over-year gain in core personal consumption expenditures (PCE) price inflation rising above 3 percent by the fourth quarter. However, we continue to see this is as a one-time price boost and not an enduring source of inflation. Underlying fundamentals point to further disinflation, with housing and wage inflation continuing to cool.

Near-Term Inflation Expectations Are Elevated, Longer-Term Anchored

Inflation Swaps at 1-Year Tenor and Forward Tenors



Source: Guggenheim Investments, Bloomberg. Data as of 6.18.2025.

Monetary Policy: Fed Patience Amid Uncertainty

Relatively stable unemployment so far and the reduction in acute downside risks following the tariff walk back has allowed the Fed to be patient. The Fed's cautious approach reflects its desire to wait to see how the policy environment evolves, and then how policy changes impact the economy. We expect the Fed to begin easing later this year as softening in the labor market becomes more apparent, and the FOMC gains comfort that tariff driven price increases will not be an ongoing driver of inflation. We expect cuts to accelerate 2026 as the effects of tariff-driven price increases fade further, with overall easing taking policy to 3.25 percent. Importantly, the balance of risks on Fed policy continues to be asymmetric: more economic weakness would be met by faster and deeper Fed cuts, while stickier inflation would only lead to a longer period of holding policy steady.

Investment Implications

Opportunities Arise as Markets Navigate Heightened Policy Uncertainty

The U.S. economy is navigating a period of high policy uncertainty, with volatile economic data further clouding the outlook. Higher quality fixed income returns remain stable and we believe provide an attractive source of steady yield to help buffer downside risks amid continued policy uncertainty. While corporate fundamentals are strong, we anticipate a growing divergence among industries as some are more affected by tariffs and other policy shifts. In this environment of growing dispersion, active credit and sector selection could be an important driver of opportunities and returns. For interest rates, we expect the 10-year Treasury yield will maintain its trading range of 3.75–4.75 percent, with upward pressure from fiscal policy offset by slowing growth and a trend toward easier monetary policy.

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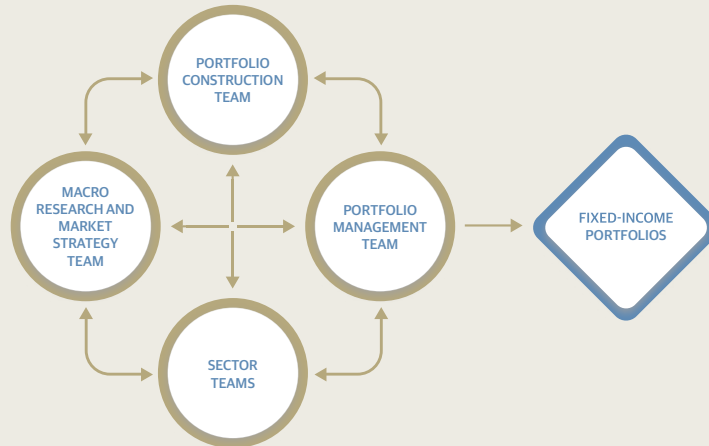
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Guggenheim's Investment Process

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Guggenheim Partners

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1. Total assets are as of 3.31.2025 and includes \$246 bn in GI Assets Under Management (AUM), plus \$102.3 bn in non-advisory GI Assets Under Supervision (AUS) for a total of more than \$349 bn. AUM includes leverage of \$15.2 bn. 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 Private Investments, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, and GS GAMMA Advisors, LLC.

