Third Quarter 2025

Research Spotlight on What’s Next

Quarterly Macro Themes

Macroeconomic Research and Market Strategy Group

Patricia Zobel
Senior Managing Director and Head of Macroeconomic Research and Market Strategy

Matt Bush, CFA, CBE
Managing Director and U.S. Economist

Maria Giraldo, CFA
Managing Director and Market Strategist

Paul Dozier
Director and Economist

Chris Squillante
Director and Investment Strategist

Nicola Zaniboni
Director and Quantitative Research Strategist

Jerry Cai
Vice President and Economist

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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.

The Economy Shifts to a Slower Growth Trajectory

U.S. economic growth decelerated in the first half of the year. Since then, the economy appears to have found some footing at a slower growth trajectory. Risks remain tilted toward a sharper slowdown.

In the wake of April's tariff announcements, U.S. consumers and businesses proceeded with caution. Households pared discretionary spending and businesses postponed investment and hiring decisions. In recent months, financial markets have recovered from tariff-related volatility, and tariff impacts are taking longer to feed through to prices, allowing for a stabilization in consumer spending. AI-related business investment has also provided important underlying support for growth. However, hiring continues to be weak, paving the way for the Federal Reserve (Fed) to resume rate cuts in September, with more on the way to try to head off risks of further labor market deterioration.

In 2026, we expect more support for growth, but with the economy operating at a lower run rate than in prior years. Fiscal stimulus from the One Big Beautiful Bill (OBBBA) should support demand and help offset the drag from ongoing tariff absorption. However, slow labor supply growth will keep job gains contained, moderating economic potential. With the economy operating at a lower potential and tariff pass-through continuing into 2026, getting inflation back to target may be delayed. Our base case is for the Fed to continue easing cautiously, returning policy to a neutral setting in late-2026, but we could see rates returning to neutral faster if labor market conditions deteriorate.

U.S. fixed income continues to provide investors with strong income and diversification potential. Yields in fixed income are still high and historically close to the earnings yield on U.S. equities, suggesting little premium to take on equity-like risk. With the Fed on an easing path and with stable growth, the underlying fundamentals in fixed income remain favorable. But in an environment of tight spreads, active management may be necessary to help protect against downside risk and achieve excess returns outside of competitive sectors.

Macro Themes

Tariff Passthrough Will Extend into 2026

Although tariff rates continue to ratchet higher, their impact on consumer prices has evolved more slowly than originally anticipated. We think the effects have been delayed rather than forestalled and anticipate a longer, slower period of tariff absorption, extending into 2026.

After a flurry of agreements with major U.S. trade partners throughout the summer, the United States' average effective tariff rate has risen more than expected, to about 18 percent, from around 15 percent earlier in the summer, and just 2.5 percent at the beginning of the year. However, tariff collections have been lower than the announced rates, as trade agreement deadlines were pushed back and companies engaged in efforts to mitigate tariff bills. U.S. companies have relied on existing inventories and have been strategic in re-orienting supply chains. In particular, there is evidence that exporters have diverted shipments normally sourced from China through countries with lower tariff rates and/or re-classified products into categories with lower rates.

However, the Trump administration is closing loopholes, which will make tariff avoidance more difficult in coming months. Penalties on goods transshipped through low tariff jurisdictions and narrower product level tariff exemptions will increasingly close the gap with announced tariff rates. The administration is also implementing sector and product-specific tariffs, including pharmaceutical products, metals and semiconductors.

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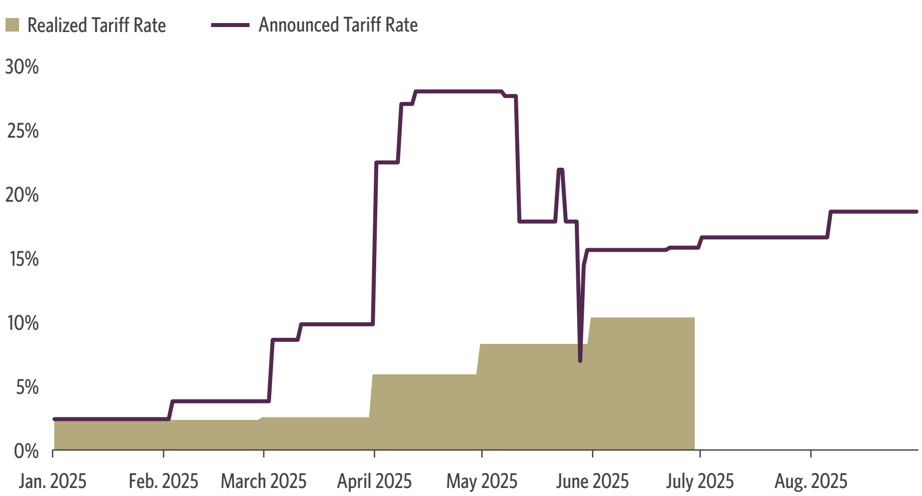
Tariff Collection Has Lagged Announced Tariff Rates

U.S. Average Effective Tariffs and Actual Tariffs Paid

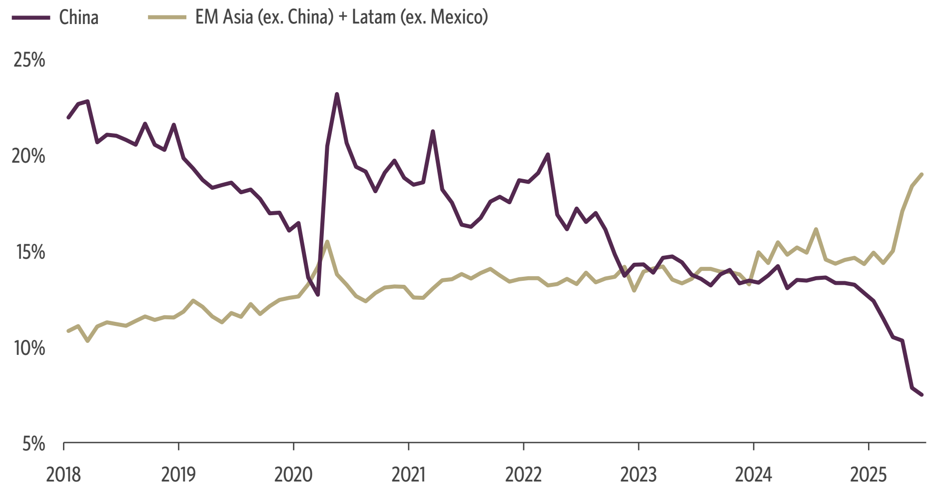


Source: Guggenheim Investments, U.S. Census Bureau, the White House, Yale Budget Lab. Data as of 8.31.2025.

U.S. companies have relied on existing inventories and have been strategic in re-orienting supply chains. In particular, there is evidence that exporters have diverted shipments normally sourced from China through countries with lower tariff rates and/or re-classified products into categories with lower rates.

Trade Has Shifted From China To Lower Tariff Countries

Composition of U.S. Imports by Origin (% Total Imports)



Source: Guggenheim Investments, U.S. Census Bureau. Data as of 6.30.2025.

The Supreme Court could temporarily interrupt tariff collections if it rules against the president's ability to impose tariffs under emergency authority. However, the administration could subsequently re-impose tariffs of similar magnitudes via alternate legal authorities, which would prove more durable against legal challenges.

Over time tariff payments are likely to rise closer to announced rates, and a portion of these costs will be passed along to consumers in the form of higher prices. Companies' strategies will vary, with those facing stiff competition or waning consumer demand wielding less pricing power. That said, most U.S. companies exposed to tariffed goods indicate that they've already increased some prices and/or intend to do so soon. Even as we see prolonged tariff price increases, we don't anticipate it resulting in persistent inflation. In Fed Chair Jerome Powell's words, a one-time price shock does not mean it happens all at once.

The Labor Market In a 'Curious Kind of Balance'

The direction of the economy continues to hinge on the labor market, which has cooled notably in recent months. We expect the unemployment rate to continue moving gradually higher over coming months to around 4.5 percent. But we remain attentive to the potential for a sharper rise.

Labor demand has decelerated sharply in recent months. New job creation has stalled from a three-month moving average of around 290,000 in January 2023 to just 29,000 by August 2025. Job openings continue to decline, and corporate employment sentiment remains downbeat. However, while businesses have sharply curtailed hiring, there hasn't been any significant increase in layoffs. Rather, the recent uptick in unemployment largely reflects labor force entrants not finding jobs.

This slower job growth has been accompanied by unusually weak labor supply, which has reduced the impact of slower job gains on unemployment. Significantly slower immigration flows and a higher number of people moving into retirement age have sharply slowed labor force growth. Decelerating labor demand and supply led Powell to observe in his Jackson Hole Symposium speech that the labor market remained in a "curious kind of balance." Weaker labor supply and demand has pushed down "breakeven" job growth—the pace needed to contain the unemployment rate—and will result in lower potential economic growth.

Even as cooling labor supply should continue to moderate the increase in unemployment, risks are tilted toward a sharper move. The drivers of job growth also remain narrow, with healthcare and government accounting for most new jobs. And with the government's deferred resignation program ending in August, up to 150,000 federal government layoffs are likely to show up in official data in the coming months.

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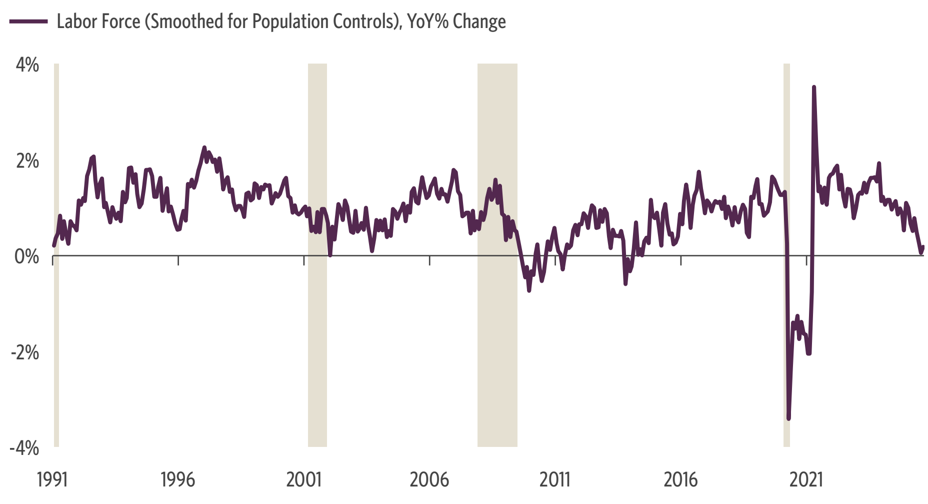
Weak Labor Supply Growth Mitigates Unemployment

Labor Force (smoothed), YoY% change



Source: Guggenheim Investments, Haver Analytics. Data as of 8.31.2025.

Outlook Update

The Economy Enters a Slow Growth Phase

We see growth settling around 1.7 percent in 2025 and holding at a similar pace in 2026. The economy has likely weathered the worst of tariff uncertainty, but the full impact of tariffs is yet to be absorbed. With the labor market showing clearer signs of slack, we continue to expect the Fed to ease the restrictiveness of monetary policy with one or two more cuts this year, and to return policy to neutral over the course of 2026.

During the first half of 2025, elevated policy uncertainty and modestly restrictive monetary policy weighed on growth. The economy appears to have found its footing at a lower growth rate in recent months. Household consumption was flat on a six-month basis ending in June, with consumption of tariff-exposed categories, such as durable goods down along with travel and recreation. The housing market continued to suffer under elevated rates and high prices, and remains largely frozen. However, with relatively stable income growth and markets recovering, consumer activity has picked up somewhat. And business investment in AI infrastructure continues to be resilient, with purchases of computer equipment and software contributing 95 basis points to real gross domestic product (GDP) growth in the first half. Around this stabilizing trend, ongoing labor market softening remains a risk, as rising unemployment could threaten the income growth supporting consumer activity.

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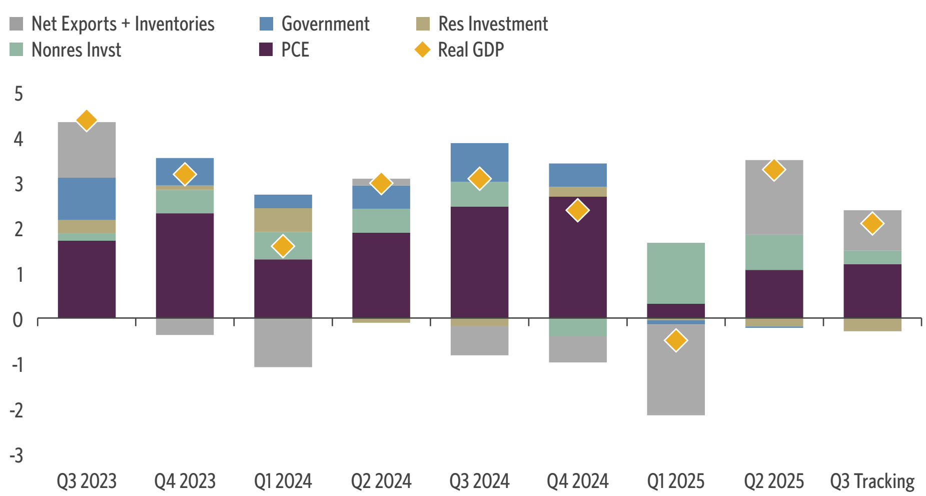
Private Demand in the U.S. Is Slowing On Policy Uncertainty

Contributions to Real GDP, QoQ% SAAR



Source: Guggenheim Investments, Haver Analytics, S&P Global. Actual data as of 6.30.2025, tracking as of 9.19.2025.

Big Beautiful Bill to Provide a Small Boost from Fiscal Policy

Fiscal policy should provide a modest boost to growth in 2026, offsetting some of the ongoing drag from tariffs. The OBBBA delivers a grab bag of tax incentives for corporations and individuals. We anticipate 100 percent bonus depreciation and immediate deductibility for research and development investment for corporates will provide modest support to investment, while personal income tax breaks will help consumption. That said, OBBBA-related expenditure cuts are set to become a headwind to growth after 2026. And the fiscal measures, even incorporating tariff revenues, are likely to keep deficits as wide as 6 percent of GDP over the next decade, presenting some risk to higher bond yields if investors lose confidence in the fiscal trajectory.

The Fed to Balance Slower Growth and Sticky Inflation

Risks to the Fed's mandate have tilted toward a softer labor market, prompting the Fed to resume rate cuts at its September meeting. We expect one to two more cuts this year, with the near-term pace contingent on the labor market data. The Fed could become more cautious about easing in the new year if inflation takes longer to return to target, as we expect. Ultimately however, tariff-driven inflation should fade—having been a series of one-time price adjustments—paving the way for two to three additional cuts over the course of 2026. The risks lean toward more rate cuts, as faster-than-expected labor market loosening could raise recession odds.

The Fed will transition to a new chair in May of next year, but we expect economic fundamentals will continue to be the most influential factor for the rate outlook. While a new chair will shift the tone of monetary policy discussions, the broader Federal Open Market Committee will continue to provide independent thinking on the economy and the appropriate path of monetary policy. We would expect more risk to the Fed's policymaking process if the institutional framework that insulates Fed presidents from political influence is undermined. Overall, we see the risk of that happening as low, but not zero.

Investment implications

Fixed Income, Despite Tight Spreads, Provides Diversification to Equity Risk

The backdrop remains supportive for fixed income and higher quality credit, with still-elevated yields and solid fundamentals. The resumption of Fed rate cuts should be supportive for intermediate yields. And while there may be some upward pressure on longer-tenor yields from fiscal policy, this is likely to be moderated by slowing growth, with 10-year Treasury yields expected to remain within their 3.75–4.75 percent range.

U.S. fixed income continues to provide important diversification to equity risk. Equity valuations are at historically high levels resulting in earnings yields similar to fixed income. This creates some risk of correction if growth slows or earnings fail to live up to elevated expectations. Currently high policy rates allow considerable room for easing in a downturn, supporting fixed income's diversifying potential.

As growth slows and policy uncertainty creates a wider range of economic outcomes, active selection and risk management will continue to be critical. Corporate fundamentals remain strong, but credit spreads have tightened. For managers with careful credit selection and an ability to invest outside of benchmark sectors, there is opportunity. We expect divergence among industries as some are more vulnerable to tariffs, weaker international demand, and a more stretched U.S. consumer. We see unique opportunities in alternatives, including commodities and infrastructure, which we believe are likely to benefit from the global race for AI and energy dominance.

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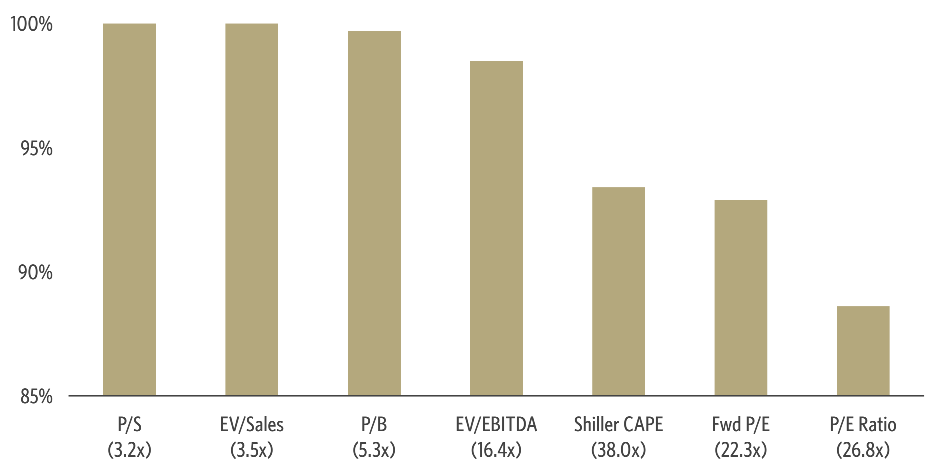
Multiple Stock Valuations Are At or Near Historical Highs

Percentile Ranks of Various Valuation Metrics from 1991 to Present



Source: Guggenheim Investments, Bloomberg, Shillerdata.com. Data as of 8.31.2025.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Important Notices and Disclosures

Investing involves risk, including the possible loss of principal. Stock markets can be volatile. Investments in securities of small and medium capitalization companies may involve greater risk of loss and more abrupt fluctuations in market price than investments in larger companies. 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. There is no guarantee that an active manager's views will produce the desired results or expected returns, which may lead to underperformance. Actively managed investments generally charge higher fees than passive strategies, which could affect performance. In addition, active and frequent trading that can accompany active management, also called "high turnover," may lead to higher brokerage costs and have a negative impact on performance. Further, active and frequent trading may lead to adverse tax consequences.

One **basis point** is equal to 0.01 percent. The **P/S ratio** (price to sales ratio) is a financial metric that compares a company's market value to its total annual sales, indicating how much investors are willing to pay for each dollar of a company's revenue. A lower ratio can suggest a stock is undervalued, while a higher ratio may signal overvaluation. The **EV/sales ratio**, or enterprise value to sales ratio, is a financial metric that compares a company's total value to its total revenue or sales. The ratio indicates how much investors are willing to pay for each dollar of the company's sales, with lower ratios generally suggesting an undervalued company and higher ratios indicating an overvalued one. The **P/B ratio**, or Price-to-Book ratio, is a financial metric that compares a company's market price per share to its book value per share, indicating whether a stock is overvalued or undervalued relative to its assets. A low P/B ratio may suggest undervaluation, while a high P/B ratio can indicate overvaluation. The **EV/EBITDA ratio** (Enterprise Value to Earnings Before Interest, Taxes, Depreciation, and Amortization) is a financial valuation metric that compares a company's total value to its operating earnings to assess if it is overvalued or undervalued. A lower ratio generally suggests a better value, while a higher ratio might indicate the company is expensive relative to its earnings. The **Shiller CAPE** (Cyclically Adjusted Price-to-Earnings (CAPE) Ratio) is a stock market valuation tool developed by economist Robert Shiller. It divides the current stock price by the average of the last 10 years of inflation-adjusted earnings to smooth out economic cycle fluctuations. A high CAPE ratio suggests an overvalued market, while a low ratio indicates undervaluation and potentially better future returns. The **price-to-earnings (P/E) ratio** is the proportion of a company's share price to its earnings per share (EPS). A lower P/E might signal undervaluation, while a higher P/E can suggest strong growth expectations or potential overvaluation. The **forward price-to-earnings (forward P/E) ratio** is a valuation metric that divides a company's current stock price by its estimated future earnings per share (EPS) for the next 12 months. It's a forward-looking indicator that helps investors assess a stock's value based on projected earnings rather than historical data. A lower forward P/E can suggest a stock is undervalued, while a higher ratio may indicate high growth potential but could also signal overvaluation.

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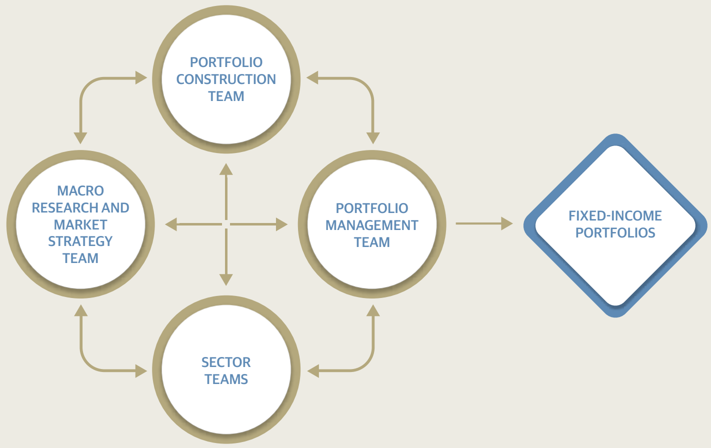
Guggenheim's Investment Process

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.



Guggenheim Investments

Guggenheim Investments is a global asset management and investment advisory firm with more than \$357 billion[1] in total assets across fixed income, equity and alternative strategies. We focus on the return and risk needs of insurance companies, corporate and public pension funds, sovereign wealth funds, endowments and foundations, consultants, wealth managers, and high-net-worth investors. Our 220+ investment professionals perform rigorous research to understand market trends and identify undervalued opportunities in areas that are often complex and underfollowed. This approach to investment management has enabled us to deliver innovative strategies providing diversification opportunities and attractive long-term results.

For more information, visit GuggenheimInvestments.com.

1. Total Assets are as of 6.30.2025 and includes \$253.9bn in GI Assets Under Management (AUM), plus \$103.9bn in non-advisory GI Assets Under Supervision (AUS) for a total of \$357+bn. AUM includes leverage of \$14.8bn. 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 Private Investments, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, and GS GAMMA Advisors, LLC.

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