SENIOR INVESTMENT MANAGERS SEMINAR 2019

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ACLI Conference Macro Slides

Guggenheim Partners

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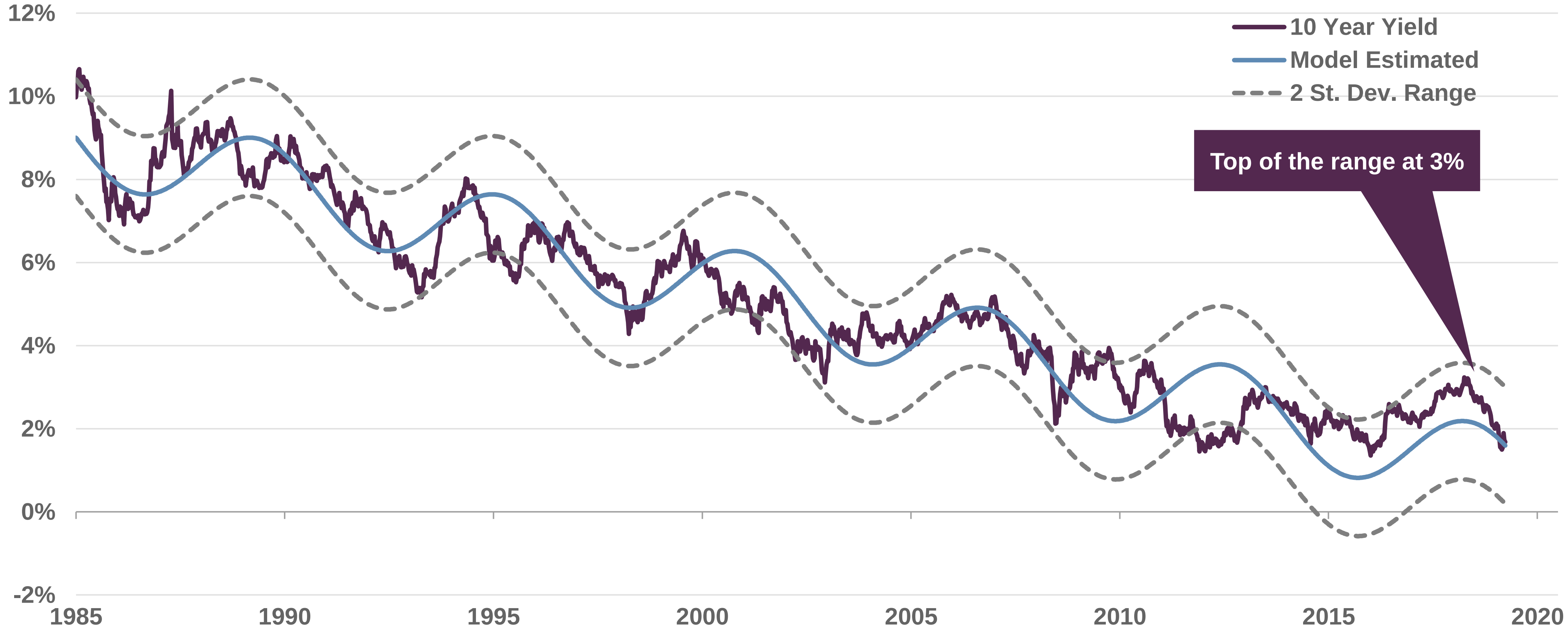
Rates Are Headed Lower

US 10 Year Treasury Yield

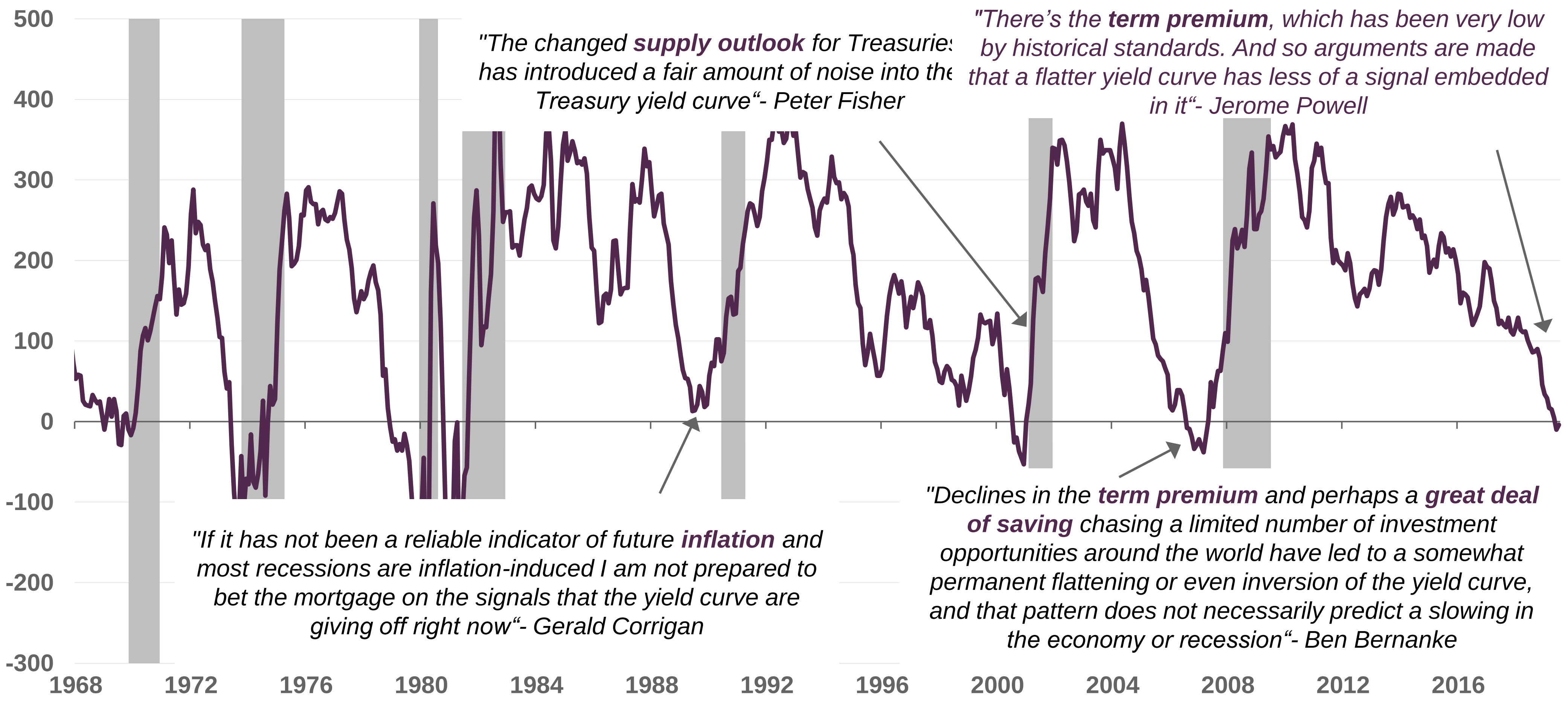


Source: Guggenheim Investments, Bloomberg, Haver Analytics. Data as of 09/30/2019.

Can We Trust the Recessionary Signal of an Inverted Yield Curve, or Is it Distorted by QE?

The Yield Curve as a Recession Signal: This Time Is Always Different

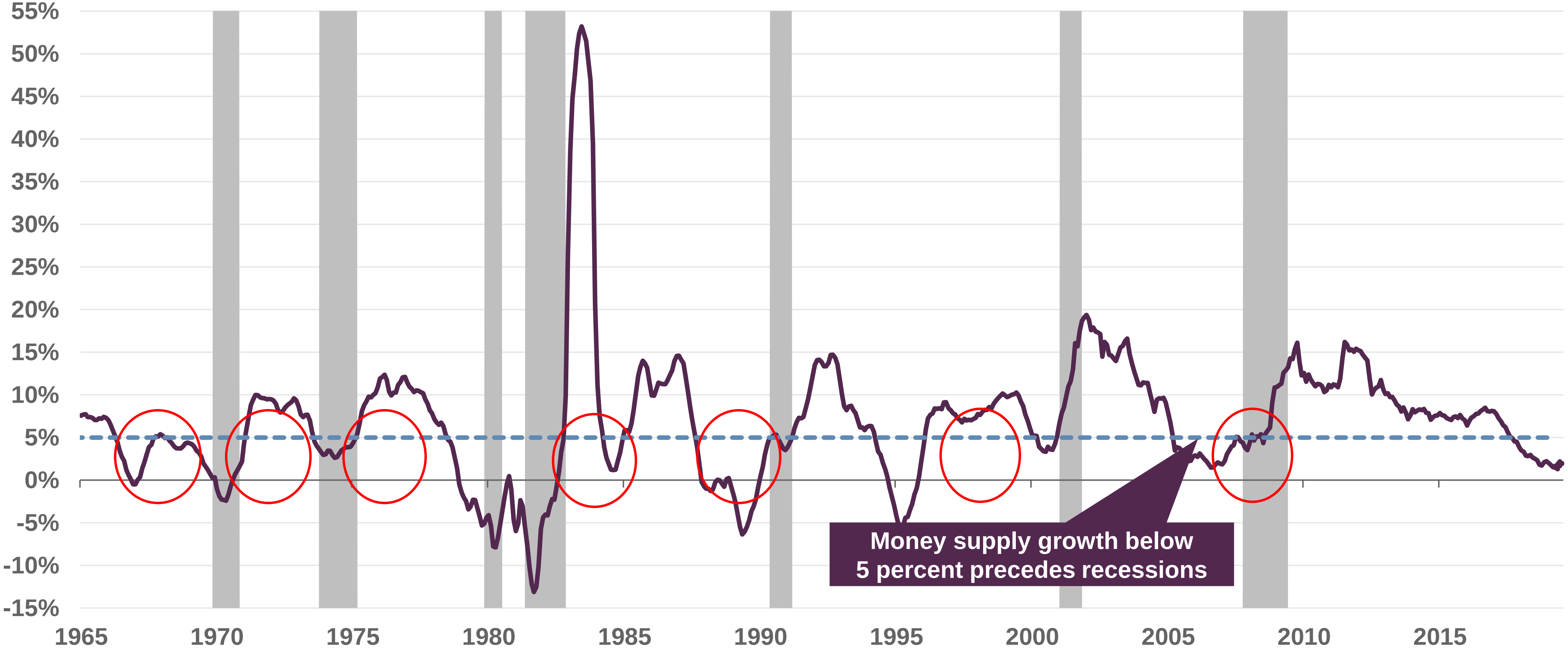
3m10y Treasury Yield Curve (bps)



Source: Guggenheim Investments, Haver Analytics, Federal Reserve, Bloomberg. Data as of 07/31/2019. Shaded areas represent periods of recession.

The Slowdown in Money Supply Growth is Ominous

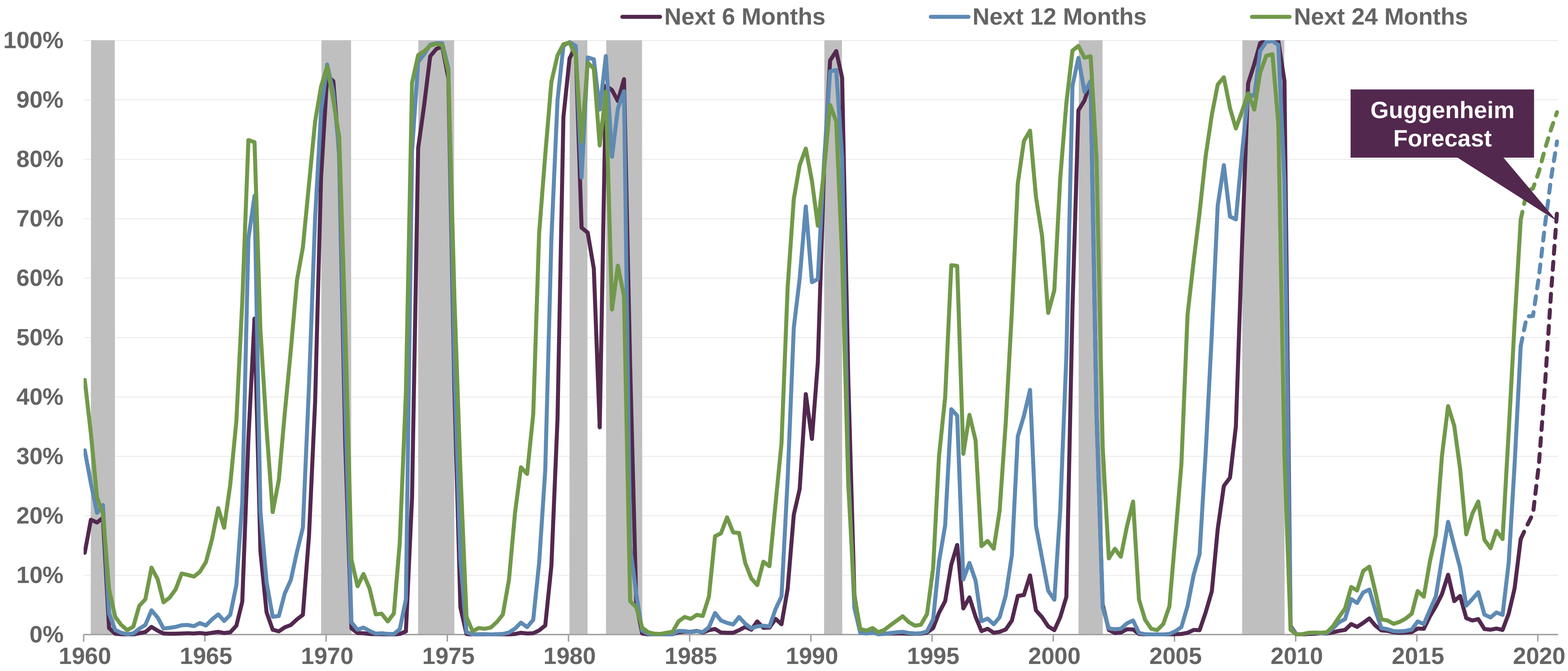
True Money Supply (Currency in Circulation + Savings and Demand Deposits), YoY % Change



Source: Guggenheim Investments, Bloomberg. Data as of 08/12/2019.

Our U.S. Recession Probability Model Indicates Recession Risks Are Rising

Model Based Recession Probability

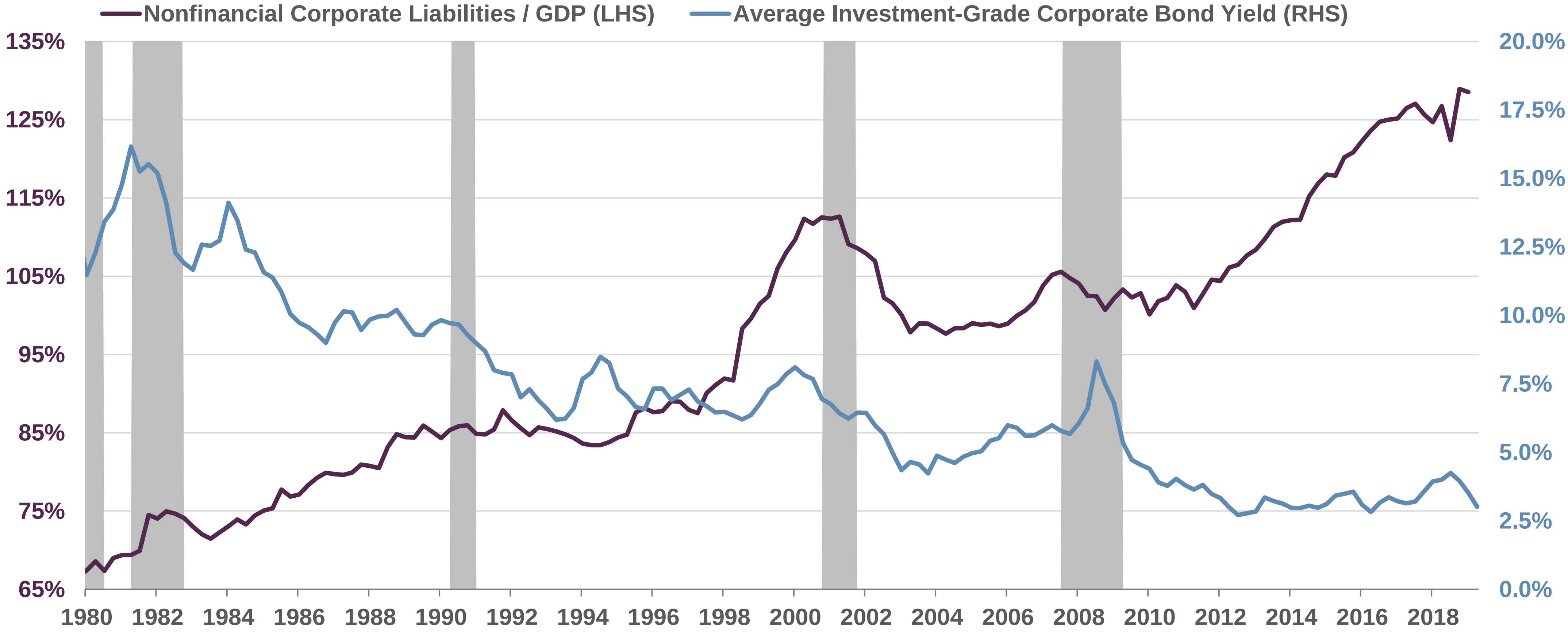


Source: Guggenheim Investments, Haver Analytics, Bloomberg. Data as of 06/30/2019. *Hypothetical Illustration. The Recession Probability Model is a new model with no prior history of forecasting recessions. Actual results may vary significantly from the results shown. Shaded areas represent periods of recession.

Sugar High: Mounting Risks in Corporate Debt

Total Corporate Liabilities Have Receded from an All-Time High…

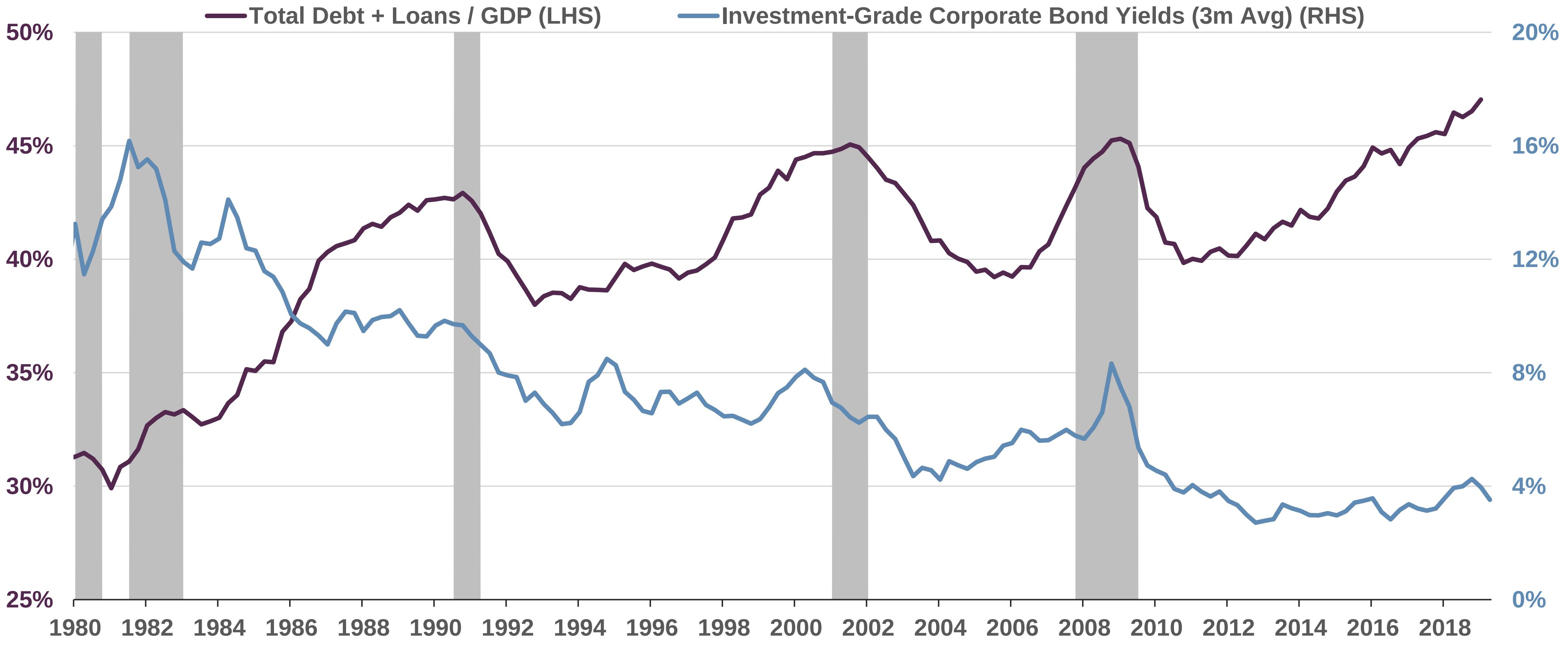
Ratio of U.S. Nonfinancial Corporate Liabilities to GDP and Average Investment-Grade Corporate Bond Yields



Source: Haver, Guggenheim Investments. Data as of 06/30/2019 for yields and 3/31/2019 for nonfinancial corporate liabilities. Corporate bond yields are based on Bloomberg Barclays Investment-Grade Corporate Bond Index, and are smoothed based on a 3-month average of monthly data before December 1989, and a 3-month average of daily data from December 1989 through current..

…But Corporate Debt to GDP Remains at Record Levels…

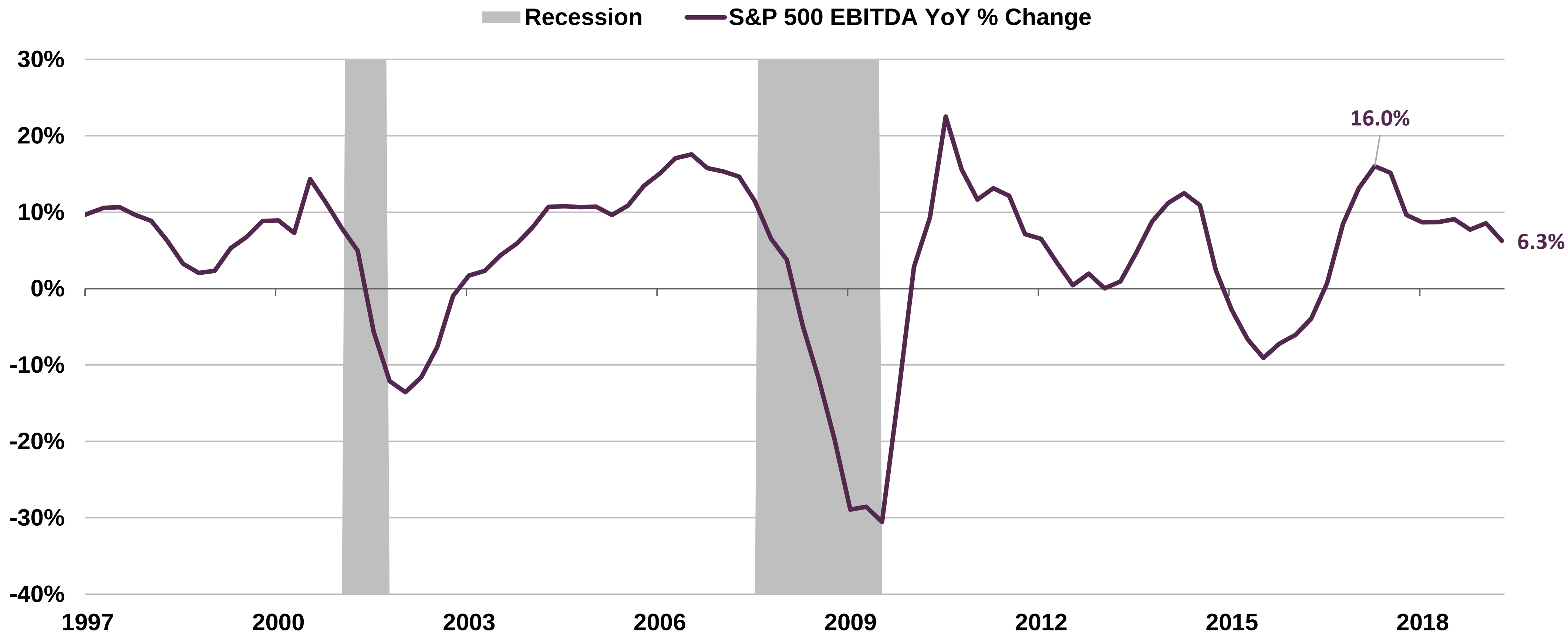
Ratio of U.S. Nonfinancial Corporate Debt to GDP and Average Investment-Grade Corporate Bond Yields



Source: Guggenheim Investments, Haver Analytics. Data as of 03/31/2019 for nonfinancial corporate debt and 06/30/2019 for yields. Corporate bond yields are based on Bloomberg Barclays Investment-Grade Corporate Bond Index, and are smoothed based on a 3-month average of monthly data before December 1989, and a 3-month average of daily data from December 1989 through current.

… As Corporate Earnings Growth Slows to a Crawl …

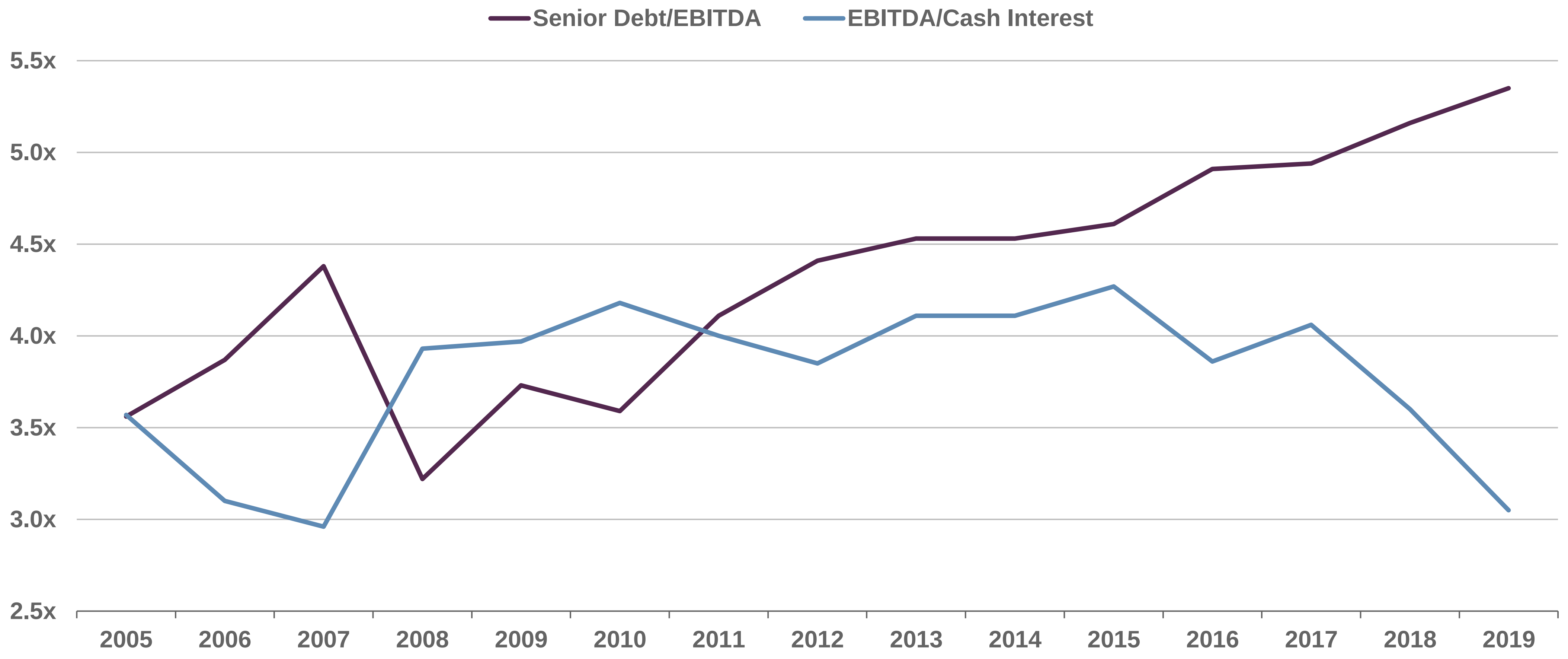
S&P 500 Earnings Before Interest, Taxes, Depreciation and Amortization, YoY % Change



Source: Guggenheim Investments, Bloomberg. Earnings data as of 06/25/2019. EBITDA = Earnings Before Interest, Tax, Depreciation & Amortization.

…And Leverage Multiples for New Loans Are at Record Highs…

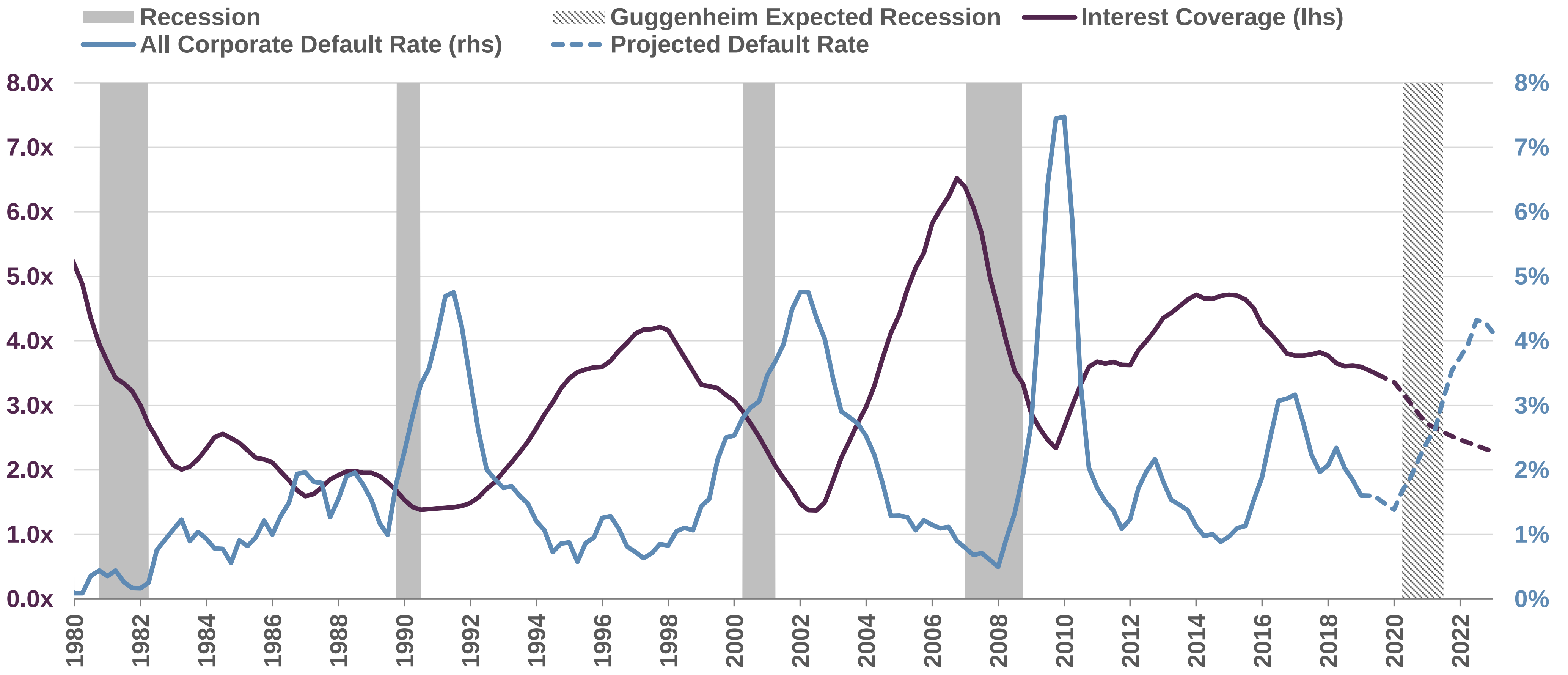
Credit Stats for New Issue Large Corporate U.S. Bank Loans



Source: Guggenheim Investments, S&P LCD. Data as of 06/30/2019.

…And Corporate Interest Coverage Deteriorates as the Cycle Ages…

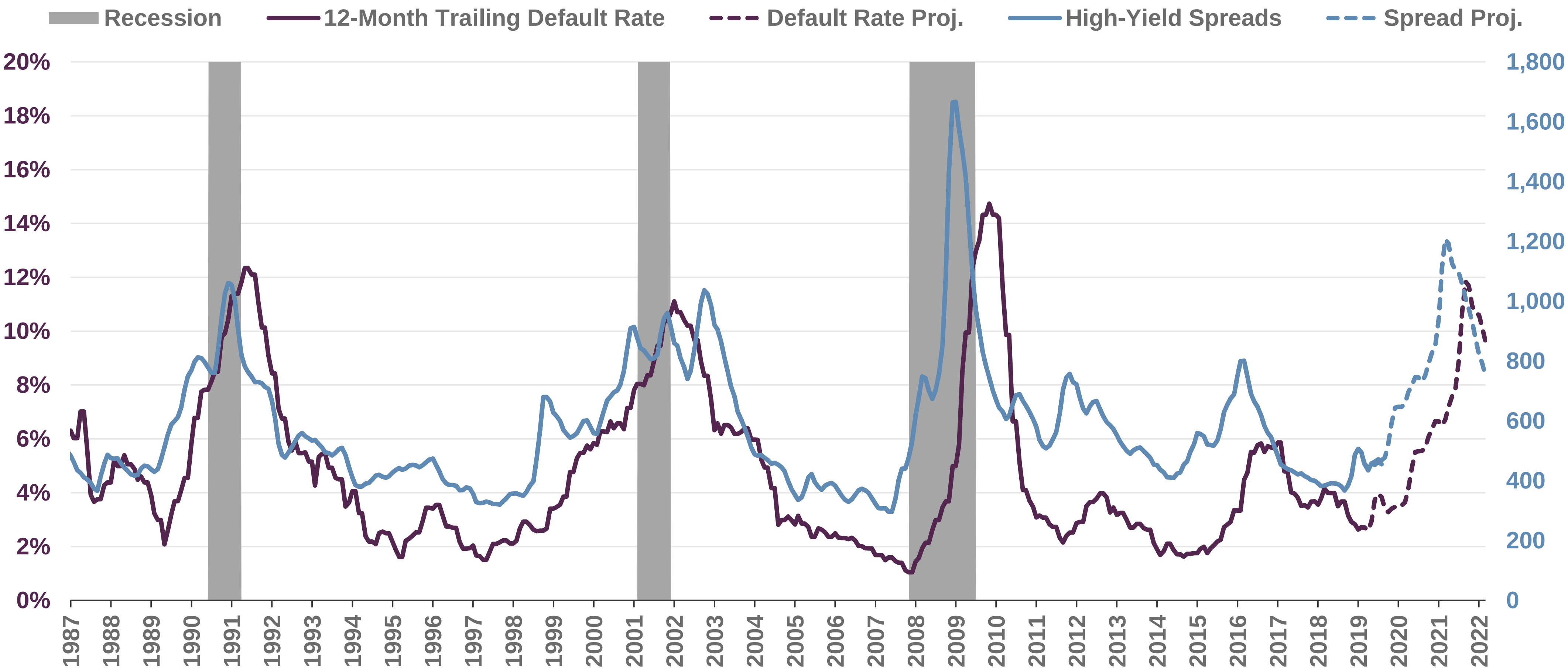
U.S. Nonfinancial Corporate Interest Coverage, Actual, and Guggenheim Forward Estimates



Source: Moody's, Haver, Guggenheim Investments. Data as of 03/31/2019. Q2 2019 – Q4 2022 estimates for interest coverage (net interest expense and misc. payments / profit before tax without adjustments for inventory valuation and capital consumption) are based on Guggenheim estimates of cash flow and interest expense over the next 5 years.

…Making A Default Wave Likely

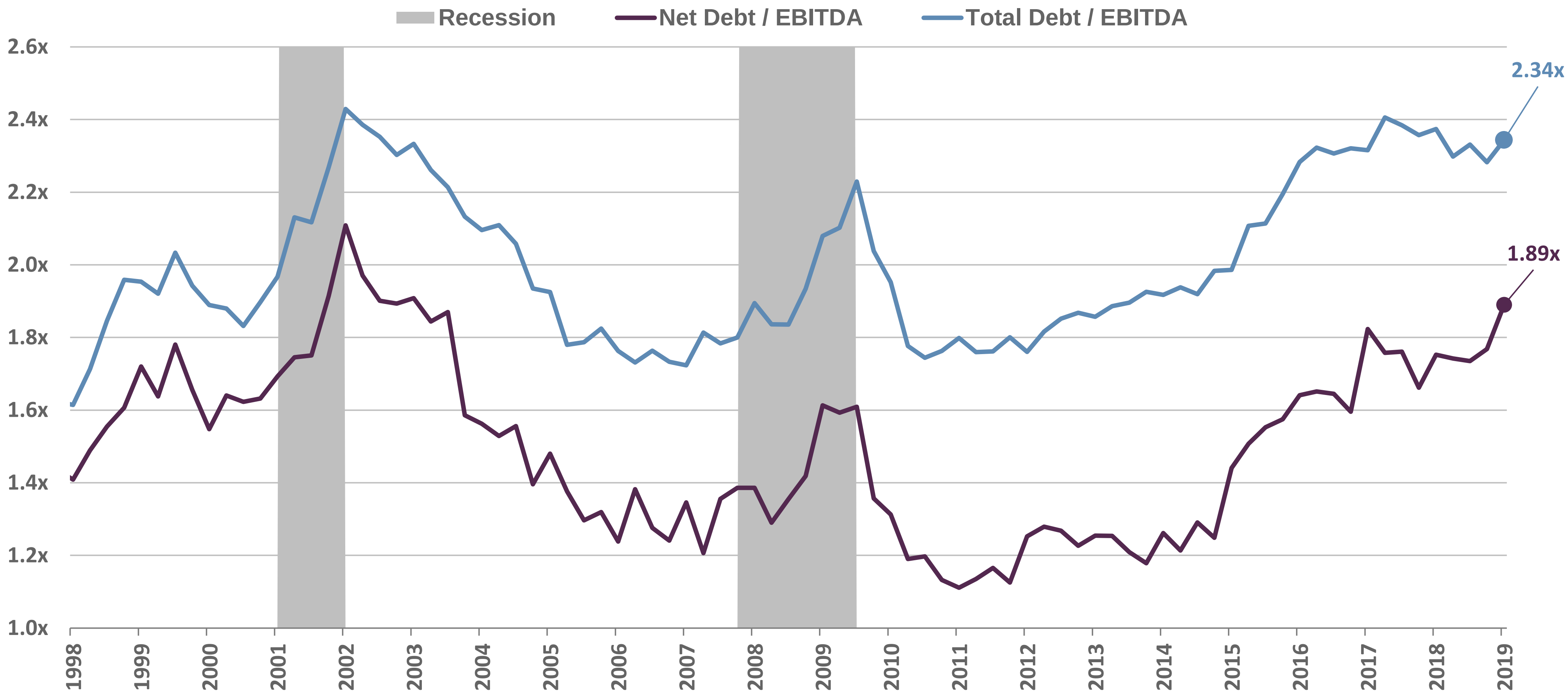
Actual and Estimated High Yield Default Rate and High Yield Spreads



Source: Guggenheim Investments, Moody's, Bloomberg, Credit Suisse. Spreads as of 08/28/2019 and defaults as of 03/28/2019. Spread projections are based on the average change in high-yield corporate bond spreads 12 months ahead of the last three recessions.

Rise In Corporate Leverage Increases Downgrade Risk

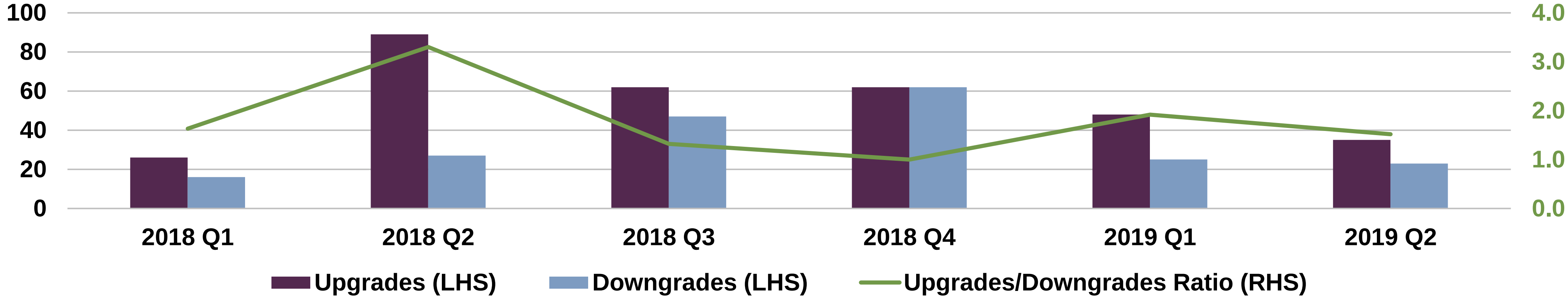
Morgan Stanley Investment-Grade Corporate Tracked Universe



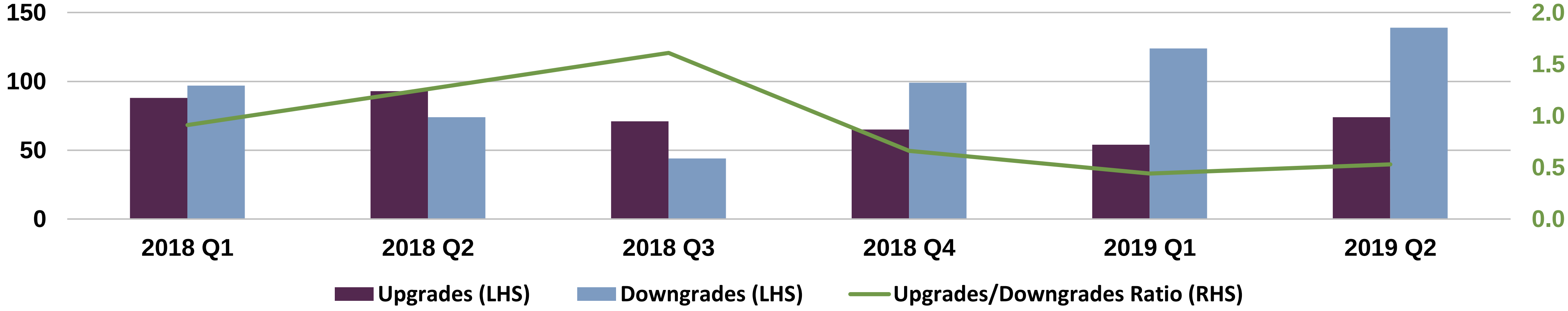
Source: Guggenheim Investments, Morgan Stanley Research. Data as of 03/31/2019.

IG Upgrades Are Outpacing Downgrades, HY Downgrades Accelerating

Moody's Upgrades and Downgrades for IG Credits, Count



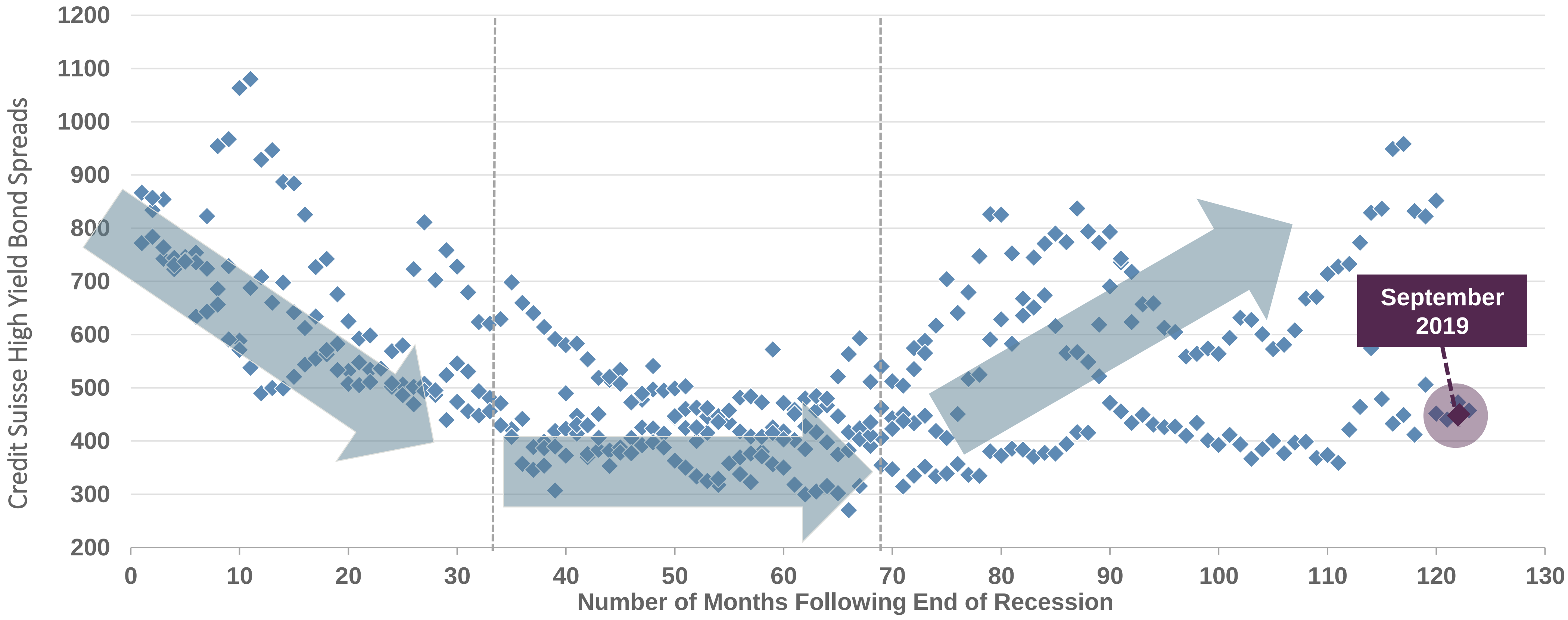
Moody's Upgrades and Downgrades for HY Credits, Count



Source: Guggenheim Investments, Bloomberg, Moody's. Data as of 06/30/2019.

History Suggests High-Yield Spreads Will Not Tighten Further

Credit Suisse High Yield-Index Bond Spreads vs. Months Following End of Recession

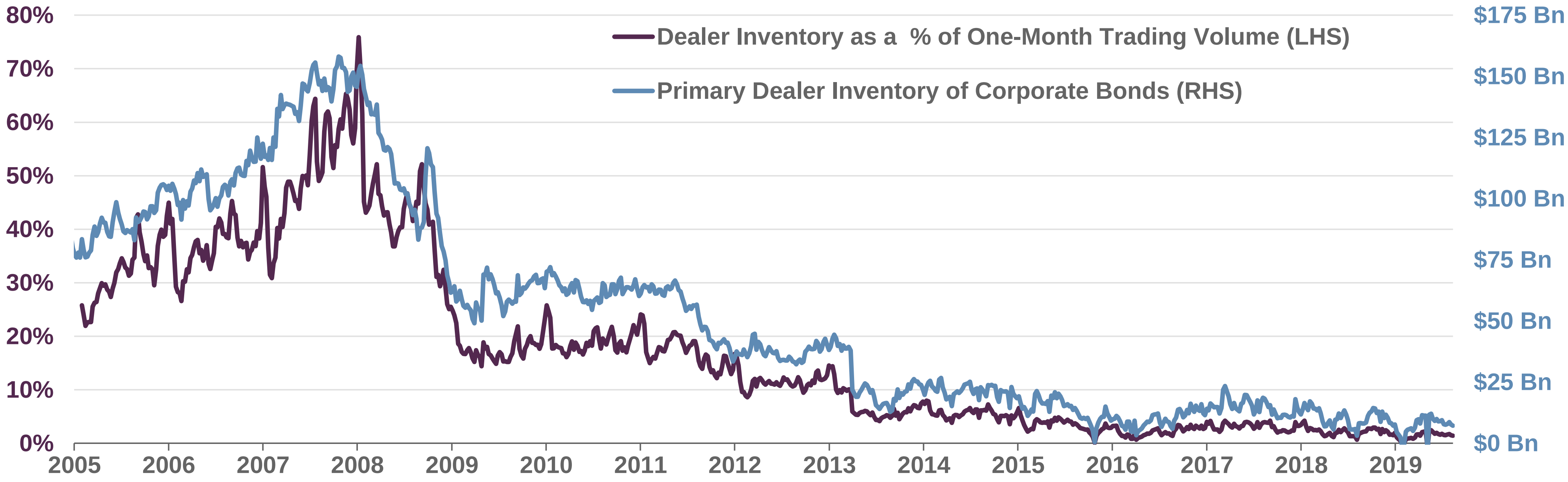


Source: Credit Suisse, Guggenheim Investments. Data as of 09/30/2019. Cycles shown are from January 1986 – July 1990, April 1991 – March 2001, December 2001 – December 2007, July 2009 – current. Due to data availability, the first cycle begins at +38 months after the previous recession ended in November 1982.

The Disappearance of Liquidity From Traditional Providers in the Corporate Bond Market

- Shrinking bank balance sheets and a multitude of post-crisis regulation have resulted in a 92 percent decline of primary dealer inventory of corporate bonds (excluding commercial paper) since its peak in October 2007.
- Prior to the financial crisis, primary dealer inventory represented at least 40 percent of monthly trading volume in corporate bonds. Today, primary dealers hold less than 5 percent of corporate bond monthly trading volume.

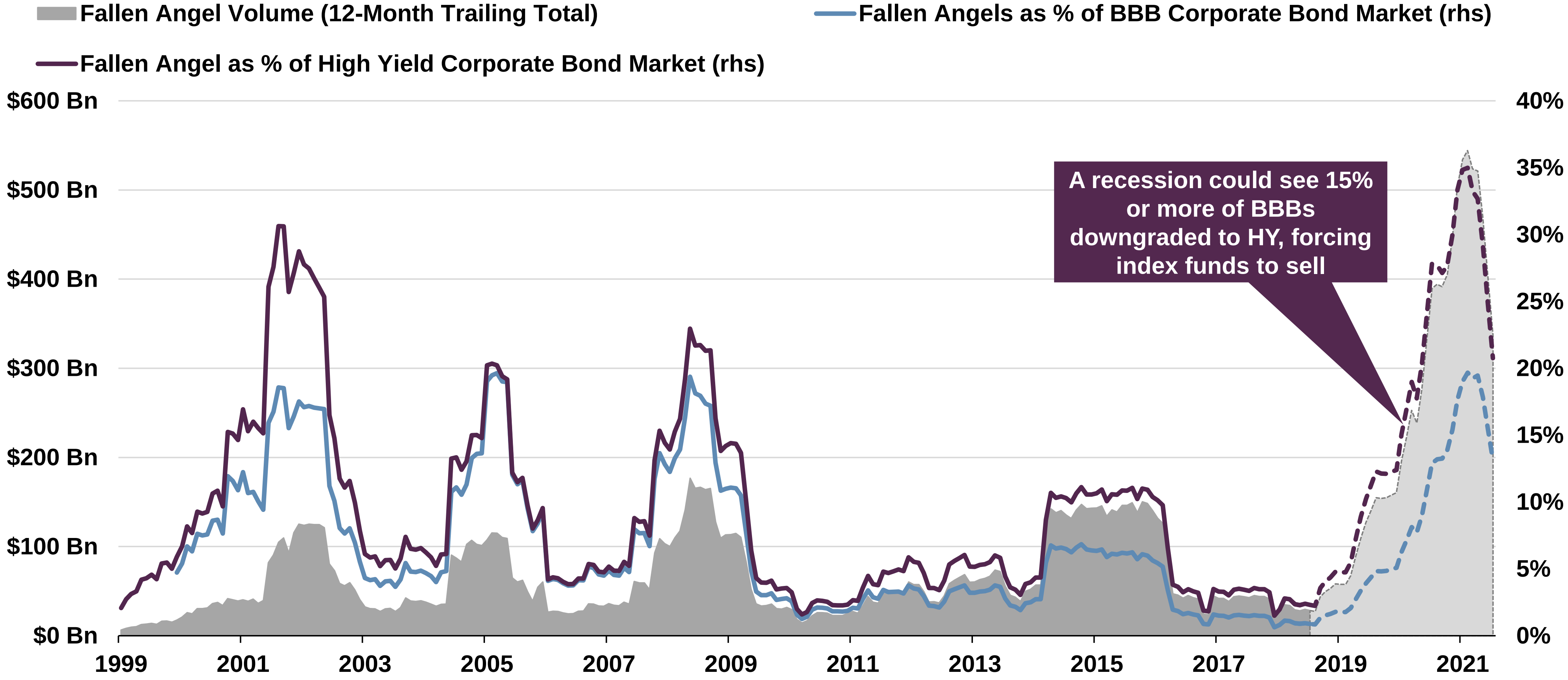
Primary Dealer Net Inventories of Corporate Bonds and Share of Trading Volume



Source: Federal Reserve Bank of New York, Bloomberg, Guggenheim. Data as of 08/14/2019. LHS = Left hand side. RHS = Right hand side.

A Fallen Angel Wave Could Overwhelm the Bond Market

Historical Fallen Angel Volume



Source: Guggenheim Partners, ICE BofA Merrill Lynch. Data as of 06/30/2019. Forward estimates assume no growth in the par value of BBB corporate bonds or high-yield corporate bonds, and are based on fallen angel rates one year before the 2001 and 2008 recessions began.

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