

Turning Points

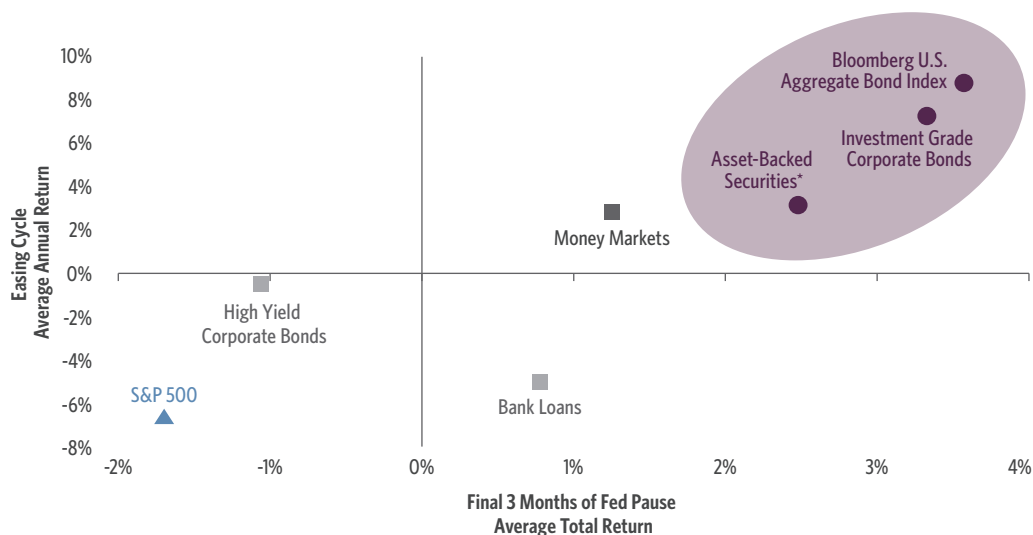
The Case for Allocating to Higher Quality Fixed Income Now

With the Fed coming to the end of the pause phase in the current policy cycle and soon to start easing (lowering rates), history suggests there is a window of opportunity for strategic portfolio allocations.

Our analysis of turning points in the last five Fed policy cycles uncovered potentially attractive total return opportunities. In both the final three months of the pause phases and the subsequent easing periods, the Bloomberg U.S. Aggregate Bond Index, Investment Grade Corporates and Asset-Backed Securities all outperformed riskier assets. Unsurprisingly, higher quality fixed-income also performed better than cash sitting on the sidelines in money markets.

With policy easing becoming increasingly more likely, the opportunity cost of not allocating to higher quality fixed income may rise.

Asset Class Performance at the End of Fed Pause and During Easing Cycles



*Fixed rate

Past performance does not guarantee future results. Source: FactSet, Morningstar and Guggenheim Analysis. **Investment Grade Corporates:** Bloomberg U.S. Corporate Bond Index. **Asset-Backed Securities:** Bloomberg US Asset-Backed Securities Index. **High Yield:** Bloomberg U.S. Corporate High Yield Bond Index. **Bank Loans:** Credit Suisse Leveraged Loan Index. **Money Markets:** Bloomberg U.S. Treasury Bill 1-3 Month Index. **Time periods used:** For pausing cycles Mar-95 to Jun-95, Apr-97 to Aug-98, Jun-00 to Dec-00, Jul-06 to Aug-07 and Jan-19 to Jun-19. For easing cycles: Jul-95 to Jan-96, Sep-98 to Nov-98, Jan-01 to Jun-03, Sep-07 to Dec-08 and Jul-19 to Mar-20.

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Index performance is for illustration purposes only and is not meant to represent any investment product. Returns do not reflect any management fees, transaction costs or expenses. The indices are unmanaged and not available for direct investment.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. **Bloomberg U.S. Corporate High Yield Bond Index** measures the USD-denominated non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt. **Credit Suisse Leveraged Loan Index** is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. The **S&P 500 Index** is a capitalization-weighted index of 500 stocks, actively traded in the U.S., designed to measure the performance of the broad economy, representing all major industries. **The Bloomberg U.S. Treasury Bill 1-3 Month Index** tracks the market for treasury bills with 1 to less than 3 months to maturity issued by the U.S. government. **Bloomberg US Asset-Backed Securities (ABS) Index** is the ABS component of the Bloomberg US Aggregate Bond Index, a flagship measure of the U.S. investment grade, fixed-rate bond market. The ABS index has three subsectors: credit and credit cards, autos and utility. **The Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS Agency fixed-rate and hybrid ARM pass throughs, ABS, and CMBS (Agency and non-Agency).

Investing involves risk, including the possible loss of principal. Investments in fixed-income instruments are subject to interest rate risk. 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, because the interest rates on floating rate securities generally reset downward, their market value is unlikely to rise to the same extent as the value of 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.

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