GUGGENHEIM INVESTMENTS

Monthly Commentary | August 2026

Economic Outlook and Key Themes

U.S. Economic Outlook

Steady U.S. Growth Outlook, Inflation Elevated but Expected to Moderate

- We see real GDP growth around 2 percent in 2026 and 2027, underpinned by robust business investment as the artificial intelligence buildout continues and fiscal policy helps broaden capex. Consumer tax refunds will deplete in coming months, which could moderate spending, but strong wealth gains continue to support upper-income consumers continue.
- A steady labor market should underpin consumption. Job gains have slowed recently after a bump earlier this year, but the slowdown reflects low labor supply growth, with the unemployment rate ticking down. We expect unemployment will remain around current levels over the next year.
- While we expect consumer spending to moderate, growth in business investment should accelerate further in the near term, keeping overall domestic demand growth steady. Hyperscalers continue to signal strong investment growth, while broadening profitability should also support capex.
- With real personal income growth soft, the U.S. expansion is increasingly reliant on a narrow set of drivers: tech investment and wealth-driven consumer spending. Any disruption to the AI investment thesis could present a downside risk to growth, both by reducing investment activity and reversing equity gains.
- Core PCE inflation remains elevated, but we expect the recent moderation in monthly prints to continue. That will keep year-over-year readings above 3 percent through year-end, but sequential run rates should show more progress. Tariff effects have receded, and while AI capex spillovers are pushing up consumer prices, we think the impulse has peaked. Pass-through of war-related costs from energy and supply chain disruptions remains an upside risk, but medium-term fundamentals continue to support a disinflationary path, given cooling labor and housing inflation and solid productivity growth.

Fed on Hold into 2027, But Rate Hike Odds Still Elevated

- Despite a more hawkish tone recently from Fed officials, our baseline view has the Fed remaining on hold into 2027 as inflation moderates. Rate-hike risks remain elevated, however, if inflation proves persistent.
- At the June FOMC meeting, the Committee signaled that its patience on inflation was wearing thin, with half of the projections in the dot plot showing rate hikes this year. We ultimately see softer inflation prints in the coming months allowing the Fed to avoid hikes, but we'll be watching whether AI-related investment continues to buoy tech-related component prices, or core services inflation remains sticky.
- Chair Warsh has created task forces to review Fed communications, balance sheet policy, data, technology and productivity, and inflation frameworks. We expect the Fed to shift away from forward guidance over time and maintain an ample reserves regime while gradually reducing demand for reserves.

Investment Implications

- Demand for fixed income remains healthy, supported by attractive all-in yields in Treasurys and credit.
- Corporate fundamentals remain strong, supported by steady earnings growth, keeping rating migration balanced. While AI disruption is likely to lift defaults modestly in leveraged loans and private credit, we see these pressures as concentrated in vulnerable segments and broadly contained.
- Supply technicals will remain important to watch, with AI-related capex fueling record gross IG issuance and strong supply across credit more broadly. This has created attractive entry points for selective investment in issues backed by high quality credits. Recent geopolitical developments have added to spread volatility, creating additional opportunities for sector and security selection.
- Our positioning continues to center on diversification and income generation. We have been using excess liquidity to capitalize on market opportunities, while keeping dry powder, as we expect volatility to persist.
- We continue to favor RMBS (Agency and Non-Agency) where spreads remain relatively attractive, especially relative to investment grade corporates where spreads remain tight and supply is very elevated.

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Key Themes

AI Demand Remains Robust as Competition Intensifies

- As the AI investment cycle continues, greater differentiation has emerged in pricing power across sectors. For model providers, token pricing continues to compress under competitive pressure, as open source alternatives gain some traction and businesses push back on pricing. However, aggregate AI spend continues to rise as higher consumption volumes more than offset declining unit-costs.
- As a result, compute demand remains strong across the stack. Hyperscaler backlogs, realized cloud growth, and forward capex are all trending higher, with supply-side frictions such as power and permitting becoming the binding constraint rather than end demand.
- Evidence that firms can generate returns on AI investment is beginning to materialize, with the recent earnings season showing hyperscalers converting backlog into realized revenue, easing some of the mid-summer concerns around returns on the buildout.
- Funding the capex cycle increasingly relies on external capital. With 2027 hyperscaler capex estimates now exceeding $1 trillion, more issuance will be required to close the gap between cash flow and investment through 2027. Most hyperscalers have ample room to increase leverage, but greater supply is expected to further pressure tech credit spreads.
- Business AI adoption continues to rise as more use cases emerge. We expect to see a more tangible impact on economy-wide productivity over the next year.

Bps (basis point): One basis point is equal to 0.01%. Carry: The difference between the cost of financing an asset and the interest received on that asset.

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