GUGGENHEIM INVESTMENTS

Monthly Commentary | July 2026

Economic Outlook and Key Themes

U.S. Economic Outlook

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

- We see real gross domestic product (GDP) growth around 2 percent in 2026 and 2027, underpinned by robust artificial intelligence (AI) capital expenditures and near-term fiscal tailwinds. While fiscal support for consumers will fade in coming months, some relief from lower energy prices will help support spending, and upper income consumers in particular continue to benefit from strong wealth gains.
- A steadier labor market should also help support consumption, with payroll growth picking up in recent months and a stabilizing unemployment rate. With wage growth continuing to cool, we don't see the pickup in job growth as tightening the labor market so far. We expect unemployment will remain near current levels over the next year.
- While we expect slight slowing in consumer spending, robust growth in business investment should accelerate near term, keeping overall domestic demand growth steady.
- Labor market stabilization has helped lessen downside risks to the outlook. But with weak real income growth, the expansion is increasingly reliant on a narrow set of drivers in the form of tech investment and wealth-driven consumer spending. Any disruption to the AI investment thesis could present a downside risk to growth.
- Core personal consumption expenditures (PCE) inflation has been hot so far in 2026. While tariff effects have receded, new inflationary impulses have emerged in technology goods from AI capex spillovers, and in passthrough of higher costs from energy prices and supply chain disruptions. While year-over-year core PCE is expected to end the year above 3 percent, we expect some moderation in sequential numbers in coming months as these impulses cool. Fundamentals continue to support a disinflationary path over time, helped by cooling labor and housing inflation along with elevated productivity growth.

Fed On Hold into 2027, But Rate Hike Odds Rising

- Despite a more hawkish tone recently from Federal Reserve (Fed) officials, our baseline view has the Fed remaining on hold into 2027 as inflation prints moderate. However, rate hike risks remain elevated if inflation proves persistent.
- At the June Federal Open Market Committee (FOMC) meeting, the Committee signaled that its patience on inflation was wearing thin, with half of the projections in the dot plot projecting 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 to see if AI-related investment continues to buoy tech-related components, and whether the labor market goes beyond stabilization to renewed tightening.
- Chair Warsh has created task forces to review Fed communications, balance sheet policy, data, technology and productivity, and inflation frameworks. We expect a shift away from forward guidance over time, and for balance sheet policy to maintain an ample reserves regime while seeking to reduce demand for reserves gradually.

Investment Implications

Sector and Bond Selection Essential Given Tight Spreads and Strong Supply

- Demand for fixed income remains healthy given attractive all-in yields in Treasurys and credit.
- Corporate fundamentals continue to look strong and are 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 pressures as concentrated in vulnerable segments and broadly contained.
- Supply technicals will remain important to watch, with AI-related capex fueling record gross investment grade (IG) issuance and strong supply across credit more broadly. Recent geopolitical developments have added to spread volatility, providing strong opportunities for sector and security selection.
- Our positioning continues to center on diversification and income generation. We have been utilizing our excess liquidity to take advantage of market opportunities but are keeping dry powder with the expectation that volatility will persist for some time.
- We continue to favor Agency and non-Agency residential mortgage-backed securities (RMBS) where spreads remain relatively attractive, especially versus IG corporates where spreads remain tight and supply is very elevated.

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Global Economic Outlook

Oil Buffers Continue to Erode Amid Volatile Negotiations

- Declining oil prices from their spring peak provided some relief for consumers from rising energy prices and eased headline inflation. However, the U.S.-Iran interim deal remains fragile. Recent U.S. strikes and Iranian retaliation have frayed the ceasefire and driven a rebound in prices, leaving the durability of any agreement highly uncertain.
- While supply is recovering, it remains well below pre-war levels, and depleted global reserves make the oil market more vulnerable to disruptions. The Strategic Petroleum Reserve is down to roughly half of capacity, and commercial inventories are rebuilding only slowly. Demand destruction has helped rebalance the market and limit price increases, with Asia and downstream products bearing the brunt.
- Our baseline sees Brent in the $70–80 range through Q3 and Q4, with a return to pre-war levels not expected until late 2027. The gradual descent reflects a volatile Hormuz reopening, demand from inventory rebuilds, and a persistent security risk premium.
- Renewed hostilities and fresh U.S. restrictions on Hormuz threaten to stall the recovery, and as shock absorbers thin, any further disruption carries nonlinear upside risk for prices.

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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