Macro Markets Podcast Episode 94: Portfolio Crosscurrents: Higher Rates, the Fed in Play, AI Scrutiny, a Blue Tsunami, and more

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Jay Diamond: As the rather busy title of our podcast suggests this week, there are many crosscurrents in the markets. Growth is strong. Interest rates are near the highest level in a generation. Inflation won't fully cool. The Fed paused in October but will likely hike in December. The AI trade is being reevaluated, and the midterm election has recast the power structure in Washington. With all of this in play, what is next for investors? Here to share their perspectives on the economic and market outlook and how we're positioning portfolios are two leaders from our investment team: Steve Brown, Chief Investment Officer for Fixed Income, and Patricia Zobel, Head of Macroeconomic Research and Market Strategy. I'm Jay Diamond, Head of Thought Leadership for Guggenheim Investments, and I'll be hosting today. Because the markets are moving quickly, I will note that we are recording this episode on November 12, 2026. Well, welcome back, Steve and Patricia, and thanks for taking the time to chat with us today.

Steve Brown: Thank you for having us.

Jay Diamond: Let's begin by setting the stage and discussing how we got here to this unique point in time. Steve, you actually inspired the title here because you often talk about crosscurrents in some of your talks. What have been some of the major market developments in 2026 that have occupied you and your team as you've navigated portfolios?

Steve Brown: Yeah, sure, Jay, and thanks, everybody, for listening. You can't start a fixed income or credit podcast without talking about interest rates. Of course, we started the year with the market projecting rates to be lower and the Fed to be easing. And now we're ending the year, as you said, with rates significantly higher and the Fed on what we would deem to be an intermittent and shallow tightening cycle. So the dominant driver of performance has been interest rate risk and duration more broadly. We came into the year thinking you'd rather have credit risk than duration risk. And so when we think about performance and positioning, credit has generally worked. And how we've positioned against duration and rate volatility has really been quite active even in this

period where you've seen a pronounced selloff particularly further out the curve. There have been periods where adding and tweaking your allocation has been additive. And so we've done that. We've been quite active in this range, although the range is extended now. And so we're in the process of evaluating how to go forward and what this all means. We're unlikely to have a respite from this rate volatility and likely to continue to have both implied and realized volatility be high. But we think that that's okay for credit more broadly and for risk assets more broadly. So while it's driven performance this year, going forward we don't think rate moves are likely to drive as much of the returns next year, particularly as we think about the risk of rates going higher versus lower. We argue there's a little bit more skew towards the upside from performance from rates rather than the downside. That's been the driving factor so far.

Jay Diamond: I want to turn the same question for you, Patricia. What are some of the biggest economic stories of 2026 that have influenced markets and policy?

Patricia Zobel: Well, maybe what I could do is follow on Steve's good comments about what was driving rates and credit by talking about some of the transformational forces that were shaping the economy in 2026, that led to the evolution in rates that we saw over the course of the year. I'd like to highlight two. I think the first is, of course, technological change. For some time, we've focused on AI because we believe it's going to be a transformational shift in how the economy and the world operates and conducts business. So coming into this year, we expected the AI buildout would provide a strong tailwind for growth and also reshape fixed income markets as they adjusted to the new supply to finance this AI investment. I think what surprised us, though, and probably everyone over the course of the year, was the extraordinary leaps in model capabilities. This really started with Muse early in the year, but after that it really leapfrogged. And what you saw is pretty extraordinary advancements across intelligence, time to complete tasks, and accuracy. And for us this had two macro impacts. First, it accelerated investment as people prepared for both the opportunities and the threats that AI could pose, particularly around cyber risk. And it also lifted equities, and, in particular, for companies that were at the base of the AI buildout, companies that were providing chips or investing in the AI buildout because of this that made growth even more resilient than we anticipated. The second transformational force that I would say was instrumental was geopolitics. Coming into 2026, we expected geopolitics to be a force and a disruptive one in the global economy. And this was really stemming from geopolitical strategic competition for resources and in addition, politics that on the local level in countries were disrupted after the pandemic, making countries focus more on local issues. I think our base case was that countries would be able to find common ground and avoid conflict, but we saw the potential for miscalculation. So when we were looking at this for 2026, one of the scenarios we discussed was a war with Iran. And that came to pass, so a tail risk became our base case. And this had implications for energy markets and for inflation globally. Collectively, those made us adjust our outlook with stronger investment and another supply shock, the Fed would have to lean harder against inflation. And what you saw and what Steve was describing was the impact of these two forces in U.S. markets.

Jay Diamond: Now, sticking with you, the Fed hiked in September, the first hike in what could be a cycle, but it held steady at its October 28 meeting in what the market interpreted as a hawkish hold. At that moment in time, and there's been a lot of things that have happened since then, but at that moment in time, what was the committee's message about its bias?

Patricia Zobel: As you noted, although the FOMC held rates steady in October, the statement itself maintained a hawkish tilt. I think what was notable to us was that they upgraded growth to strong. And that's a word they only use when they see growth at or slightly above potential, and they continued to see inflation as elevated. So what they were trying to communicate was that inflation was a bigger risk to their mandate, and that was where they were going to be focusing their energies. Despite this language in the statement, we didn't really see communications overall as hawkish. There was a sense coming from the committee that they preferred a gradual approach to tightening. The statement said that they wanted more information to assess the appropriate stance of policy, and in his press conference, the chair leaned on oil as a driver of inflation. And that's a temporary factor that the FOMC can take more time to assess. And he also highlighted that tightening in financial conditions were doing some of the work for the committee so they could take more time to assess the incoming information. Overall, it left the impression that the FOMC is sensitive to the risks of tightening too quickly. And so that was the impression that we were left with from the report. What I would say was that the recent inflation report, which came in rather hot, adds a little bit more urgency than maybe they were suggesting at the meeting. And we continue to expect more tightening to come, but we still think they'll favor a steady approach and the degree will be sensitive to the evolving outlook.

Jay Diamond: Now, Steve, as the CIO for fixed income, you oversee a lot of different portfolios, some more directly than others. But in general, where does the Fed fit into your outlook? But more to the point, how is the Fed influencing what you're doing right now? Does their policy stance affect your strategy and if so, how?

Steve Brown: Yeah, it most directly impacts our overall risk tolerance for taking on interest rate risk and where we want to do it across the curve. To a lesser extent, it also influences how we're positioning from a credit and overall market risk perspective. That view feeds into how we think that the relationship between interest rates and everything else will change with that policy. So as Patricia outlined, we do expect now this shallow tightening cycle. Traditionally, you would have a barbell approach to duration and you would be underweight duration in a tightening cycle. But because the market has already priced in quite a bit across the curve, we actually find ourselves neutral to very slightly long duration overall, because the market has projected more than we think the Fed will ultimately deliver. We particularly have this view in the belly of the curve that is most impacted by moves in Fed policy. But as I led in with, rates are in a wider range now and a more volatile range. So actually our most recent move last week, when the market caught up with our view, was to actually reduce some of that positioning. And so we find ourselves better positioned maybe to add back to it today, given the selloff in the last couple of days. We also expect some disinflation going forward, but think that real rates are relatively elevated and that inflation

protection is warranted. So we have that in the form of some TIPS allocation. We typically don't have much of a TIPS allocation, but we think the breakevens are relatively narrow compared to what could be realized. And then we continue to maintain quite a bit of floating rate exposure across our portfolios where the yield resets with the Fed funds rate. We do that in the securitized products market. We do it in the corporate credit markets. And those are the asset classes that have done the best this year, as is typical for a hiking cycle, no matter how long or deep or shallow that hiking cycle is. So it's not going to meaningfully shift how we position going forward, and we'll be attuned to financial conditions and spreads more broadly as we continue to navigate what we think will be a short, intermittent, shallow cycle where income and your starting yield is going to be highly predictive of your forward returns.

Jay Diamond: Well, let's get into that in a second. But I do want to stick with the interest rate outlook, a topic which as you both discussed, is front and center for an investor in fixed income this year. But Patricia, our house view on the range for potential interest rate moves has evolved over the course of the past year. Why has it evolved and what is the outlook from here?

Patricia Zobel: Yeah. And so maybe I can just follow up on Steve's comments on this and the wider range that we're expecting now and start with how we came into the year. We came into the year expecting the 10-year yield to stay in kind of the trading range it had established since the pandemic—higher than pre-pandemic but a relatively narrow range. As fundamentals shifted over the course of the year because of the two transformational forces that we've both been speaking about, we lifted our 10-year yield forecast. Certainly resilient growth and higher inflation had us pencil in a higher policy path for the Fed, but also the shifting fiscal outlook, including some deterioration in that, lifted our modeled term premium estimates. I think what we saw in markets, though, was that yields were rising more sharply than we saw in the fundamentals. So what we did was we looked at history to give some context to that experience and to make sure that we understood the potential upside. I would say what we learned from that exercise were two things. One, a wider range on Treasury yields was normal in history. So we looked back at 60 years of data, you know, even when you detrended it, the range that we had been seeing in the most recent time was relatively narrow. And in an environment characterized by disruption, you probably would be likely to see a wider range. But two, translating historical episodes to the current context also suggested to us that yields probably were less likely to go much higher than the peaks that we saw in October. That seemed a little bit stretched to us when we combined the historical experience with the fundamentals that we know about the U.S. economy today. So yields, as Steve has said, they've come down from the peaks, but we continue to see a wide range and we remain in an environment characterized by macro surprises. So we see a broader set of potential outcomes. We've been kind of penciling in a range somewhere between 4 to 5.5 percent as being kind of the bounds on what we might see under normal circumstances.

Jay Diamond: As a follow-up, Patricia, what is the risk to that outlook either on the upside or the downside?

Patricia Zobel: We're constructive on the U.S. economy. It has healthy fundamentals. And as Steve said we expect inflation to come down over the course of 2027. But there certainly are risks. And I would highlight two. In particular, I would say any disruption to the outlook for AI would impact our forecast for sure. It would lower investment growth, but it would also feed through more broadly into a tightening in financial conditions and any sustained disruption or drawdown in equity markets could meaningfully reduce consumption in the U.S. So that's a downside risk. One of the key ones we're watching. Another key risk is if the Fed has to embark on a more assertive tightening cycle to tackle inflation, and this slows growth. That's not our base case. But there are potential for shocks. So, for example, if energy is resurgent or there's another supply shock. So for fixed income investors that means downside growth scenarios have the potential to lower yields. And that could provide some offset to risk in other places in their portfolios. In a very sharp downturn, we could even see yields falling below the bottom of our range. On the upside, we think under most scenarios that 5.5 percent is pretty well managed. But there are inflation scenarios in which that would be challenged. We view those as tail events.

Jay Diamond: So, Steve, that's a wide range. 2026 hasn't been as dramatic as 2022. But it's nevertheless been quite a roller coaster, going from 3.94 percent on the 10-year early in the year to a peak of about 5.30 percent last month, and back down and back up. And now I think it's around 5.10 percent or so as we speak. So, given all this, how has your team managed duration risk in this environment?

Steve Brown: Well, we have managed it actively and within those ranges that were outlined. The fact that the Fed did start this tightening cycle and that the range did expand, did cause us to reduce our overweight bias by about half of the magnitude that we had. And as briefly mentioned earlier, we have imbedded in some real rate exposure and some inflation protection in our portfolios where that's eligible and where we can actively manage versus a benchmark. But overall, it's brought duration to the forefront for absolute returns. But when you think going forward, as Patricia outlined, historically starting yield is highly correlated with realized returns, particularly the longer you go out. We actually looked back over the last 30 years: anytime the benchmark index yield (we'll use the Agg as an example) is plus or minus 50 basis points of the yield it has today, which is, call it, the low- to mid-5s, on a one-year basis the returns are positive 100 percent of the time. And actually the 25th percentile returns are about your starting yield. So we've already absorbed, as you said, a lot of pain this year. Even if you were to get the same amount of yield move next year, you'd likely have positive returns in most sectors. Whereas this year it's slightly negative and that's owing to the higher starting yield. So, it's painful, to realize some of the mark-to-market performance. When you look at a multi-asset portfolio though, you still have equity indices with healthy gains on the year, whereas fixed income depending on the strategy, is roughly flat to slightly positive. So, for a year that has had a historically wide range in yields and a historically poor year of returns, relatively speaking, we don't think it's that bad. And going forward it leaves the potential skew for returns a bit more positive. Whereas coming into this year it was a bit more negative. So duration is a component. We don't think duration will be the story next year

that drives returns, and certainly not likely to be to the magnitude to the downside that it was this year. If anything, it might be a slight positive.

Jay Diamond: We've been talking about higher yields as it relates to duration. But higher yields also affect credit performance, which I know you're looking at. So how are you thinking about higher yields when it comes to credit exposure?

Steve Brown: We're finally getting some dispersion. And that's something that as active managers we look for. That's when we think we can add value, both in avoiding things that don't work, and adding to things that are working. So when you look across the indices, taking corporate credit as an example, the lowest quality has done the worst. And part of that is this higher for longer interest rate regime. But part of it too is the business mix and the industry and sector mix there. So you have some melting ice cube industries, communications, cable, and the like that have driven some of the negative performance. And then, as a result of that, you've seen a lot of M&A activity. And coming back to the debt markets to try to solve a business opportunity. So there's some bad businesses and then there's some bad balance sheets. And then there are some where bad businesses and bad balance sheets are combined. So interest rates are a component. You know they're particularly having an impact on real estate and on private equity more broadly. It's something to navigate, but so far it's not driving the fundamental performance.

Jay Diamond: Okay, got that. So let's turn to your outlooks, respectively, your economic outlook and kind of investment and market outlook. Patricia, we got the October jobs number last week. We got the CPI earlier this week. What did we learn from these data points, and what are your expectations for the economy going forward?

Patricia Zobel: I think the data confirmed what we've been talking about, which is that the labor market remains healthy and inflation is too high right now, both of which underpin the hawkish lean that you're getting from the FOMC. Looking at the jobs report, it was a 165,000 gain in jobs. That was well above estimates. And you also saw a broadening in job gains across industries. The unemployment rate ticked down. And that suggests to us a gradual strengthening in the job market. We tend to look more at the unemployment rate than the job gains themselves, because the recent data have been quite noisy because of methodological changes. And so the unemployment rate gives you a better read. But the overall picture is that the labor market isn't a source of inflationary pressure, but it's certainly healthy and strengthening a bit. That leaves the Fed focused on inflation. The CPI report came in elevated and it showed broadening pressures, which is not welcome news for the FOMC. So, for 2026 they're probably expecting core PCE to come in at 3.2 percent. And that was not the progress they were hoping to see over the course of this year. Some of this you can attribute to supply shocks. There's certainly that element in there. But you're also starting to see gains broadly across services, which affirms that the near term path of policy is going to be somewhat higher. Overall, though I would say these reports didn't change our outlook. We have seen solid fundamentals underpinning the economy. We expected a healthy labor market and we expected inflation to remain high through Q1 from some of the pressures that

are underpinning these gains: the AI buildout, supply shocks, and some of the feed through of those to prices. Over the course of the year, though, we're expecting firmer monetary policy—somewhat firmer—and fading supply pressures should bring inflation down. And our base case is that growth remains resilient to higher rates. We're cognizant that tightening cycles always bring risks, but we're still pretty constructive on the outlook for 2027.

Jay Diamond: What is the probable path for monetary policy from here?

Patricia Zobel: On balance, our expectation given the makeup of the data that's coming in and the shifts in financial conditions, we expect the FOMC to hike rates in December. And we're probably expecting a hike in the first quarter as well. I see the committee as less likely to support some of the more hawkish voices that are coming out, like Waller saying that a 50-basis-point move is possible. I don't think the center of the committee is there. They're trying to firm policy, but in a steady manner. They don't prefer abrupt moves. And what I would say is, a lot is priced in as Steve said, so yields are already reflecting somewhat more at this juncture given the move since the CPI than we're anticipating. And so, if you had to look at the risks in terms of markets, they are a little bit asymmetric. A lot's already priced in. And the degree of tightening will depend on how things evolve. But there's some cushion there.

Jay Diamond: Now Steve what is your credit market outlook with yields where they are and spreads relatively tight based on historical measures?

Steve Brown: Yield is still winning. And the more yield you can get with the higher quality and the less other risk you're taking, whether it's duration related or fundamental, still is a pretty safe position to take, with the likelihood of significantly big moves low in both rates and credit spreads. So overall constructive on carry, cautious on spreads. You're probably going to see an uptick in realized defaults. The negative price performance from the low-quality cohort of the levered credit indices. Many of them we think will not recover. You will go through a realization event over the coming year or so. But as Patricia mentioned, high grade fundamentals still look pretty positive and are pretty insulated from a cost of capital and certainly from the cost of debt capital. Because if you look outside of AI, there was a lot of other M&A activity this year and the environment for that, with higher yields now and slightly wider spreads, goes down next year. So, the technical supply of credit is likely to subside to some degree. And as you see with a consumer that as we saw with the housing data today has low housing activity, lower borrowing needs, overall that should provide a more positive technical to some of the sectors that we like, including non-Agency RMBS and other of the more defensive consumer plays that are less impacted by this significant amount of supply that we've seen, which to a degree has moved spreads.

Jay Diamond: And what strategies do you see performing well in an environment like this, given what you've just said about where you're seeing value and risk?

Steve Brown: We typically say diversified strategies, and we continue to believe that. We like taking structural risk over fundamental risk. And we'll talk about AI more specifically. But that's certainly the case in that market, where you can clip a coupon and take 2 to 4 years of spread or duration risk

has been the part of the curve and the part of the credit markets that have generally performed the best. We expect that to continue. But we don't want to just completely ignore the thing that we've mentioned a few times, which is that rate volatility is here to stay. That means higher and lower. And so there are scenarios where duration is helping a portfolio and adding to returns. So it's all the more reason we think to have kind of a laddered portfolio, one that still skews a bit more defensive and a bit more higher grade. But be ready to change because market conditions are changing quickly. In fact, more recently we've actually been looking through some of the more distressed part of the credit markets. We haven't found much that we've liked, but there are a few situations. And then you kind of have the haves and the have nots across credit sectors and across industries. So there's a lot to be done when you're active like we are.

Jay Diamond: I want to switch gears and talk about the seismic event of last Tuesday, which was the midterm elections. We saw one of the most abrupt swings leftward, certainly since the post-Watergate midterms in 1974. So, Patricia, to start with you, what broad policy shifts do you expect could occur with this mandate for Democrats?

Patricia Zobel: Well, so first, , taking a step back on the election, what we saw was a Democratic sweep that was largely expected in financial markets. I think the thing that was more unexpected was the gains were broader and more in Republican strongholds than anticipated. And also it went to the local level as well, where you had governors, state legislatures making gains for Democrats. Despite this, the reality is, you know, the U.S. will still be operating at the federal level with a divided government. For our outlook, what this means is it limits the ability to enact new legislation, and it keeps our baseline not much changed. We still have a lot to learn, I would say, about how the president and the incoming Congress will engage. It could be a noisy period for politics, or there may be places where they find common ground. But in terms of our economic outlook, I'm really watching kind of three things. The first is the Iran war. The president still has considerable influence over how that unfolds. And oil prices have fallen on signals from the president that he will try to avoid escalation. And this could ease some pressure on the Fed. Although, as I've said, there are broader inflationary pressures as well. However, the issues that underlie the Iran war are still not resolved. And so I would say there's still a lot of uncertainty around how that will evolve and its impact on energy prices.

The second thing I'm watching is AI investment. Voters made it clear that the data center buildout is challenging local communities. Of the almost 50 bills that you saw on local ballots across the country, nearly all went against new development. From a macro perspective, if this results in somewhat slower permitting, it could smooth the AI capex over a longer time horizon. This could be beneficial to help ensure AI demand keeps up with the new data center supply and the new compute capacity that's coming online. But there's still a lot to learn about how legislatures and local governments will respond to this concern of voters and about how it's going to play out. So it's a fine balance, given particularly elevated valuations in the AI space. This could be more impactful to companies that are sensitive to a growth slowdown, for example, chips or neoclouds. So we're watching AI. It could be important from a macro perspective.

Finally, fiscal policy is on our radar. As Steve mentioned, the potential for stimulus is limited by the fact that we already have wide fiscal deficits, but there could be a rollback of Medicaid and SNAP cuts that will provide a little bit of lift. But the real watch point for us, though, is some of the deadlines around funding and the debt limit, because one thing that would bring investors to focus on some of the fiscal challenges ahead is brinkmanship and less confidence in governance. And I think that was what Steve was alluding to when he was talking about the need to finance deficits and that potentially putting more pressure on yields. Overall, these are, you know, the three key areas that we're watching.

Jay Diamond: So, Steve, from a portfolio perspective, are these black swans that you really can't prepare for or are you actually taking any significant positioning to offset or anticipate some of these moves?

Steve Brown: I mean, I think, as Patricia said, this is more of an environment where you're going to have maybe pinpoints of volatility around the debt ceiling or something. In theory you have more checks and balances, but you also have parties that are in strong disagreements. So it should, on balance, kind of reduce the impact of fiscal policy and government policy on markets. That's how markets historically have interpreted it. But as she outlined a few things on housing policy AI and then even financial market regulation, bank insurance, there could be some specific agendas from the newly elected that manifest and impact the markets. But we're just going to have to stay tuned.

Jay Diamond: Okay, great. Well, we've been dancing around this topic for the whole conversation. So let's address the elephant in the room, artificial intelligence, which has really dominated the markets and the economy both literally and figuratively. Patricia, the investment in AI, besides the wealth effect for anyone who's owned the shares, has been a significant driver of growth in the U.S. How do you quantify that impact and what are your expectations now given what's been happening for its contribution going forward?

Patricia Zobel: So it's a great question. AI has certainly been a driving force on the economy this year. We do try to quantify it. We look at the direct impact of AI investment. We also look at the indirect impacts. And both of those have been contributing pretty strongly to growth. Direct investment has added, we think, a little over one percentage point to domestic demand in 2026. And maybe that doesn't sound like a lot, but given that investment is such a smaller share of the economy than consumption, that's actually a pretty big contribution. Some of this was imported, and so the U.S. is lifting global growth through its demand for AI infrastructure in places like Korea and Taiwan. But in the U.S. there were also spillovers. This impacted industries across the U.S. And I think you've seen it lifting a lot of boats through the direct investment. As you noted, AI is also supporting consumption, which is the larger share of the economy. The exact amount there is hard to quantify, but when you think about it, equity gains have been a big force for household wealth. And what this has the effect of doing is it pulls forward consumption from the expected benefit of AI by lifting asset prices. And household wealth has gained over $1 trillion in recent years. And so

that's been supporting a lot of consumers and keeping consumption really healthy this year. So it was really impactful to growth this year.

I think in terms of the outlook, what we're thinking about is the direct and indirect effects next year. Overall, we expect AI to continue to support growth, but over the course of the year, a lot will be shifting. First the AI capex cycle, there's still a lot of investment to come in 2027. At some point over the course of the year, you're going to start to see the investment cycle mature. So whereas the growth rate in 2027 will be high and investment in 2028 will also be pretty high, the growth rate of that investment will slow. And from a macroeconomic perspective, what that means, it has a little bit more modest of an effect on domestic demand. In addition, in 2027, we're hoping to start seeing broadening in AI adoption. We should start to get a better picture of how this might translate into revenue streams for companies. I think that you'll see some companies benefit from that. And as Steve suggested, some companies won't be in the right position. There will be a lot of dispersion in outcomes. But we are pretty optimistic overall in the long run for AI to deliver those productivity gains. So again, our outlook is constructive. AI has a lot of potential, but we'll be learning a lot in 2027 that I think is going to affect our macro outlook.

Jay Diamond: Now, Steve, AI's impact on the markets has many facets, not least of which is new issue supply in fixed income, but it also is potentially disruptive in so many other industries. So how are you evaluating investments in this space and what are you buying?

Steve Brown: The disruption point has been a little bit lost more recently, which is a good question. And again, going back to the start of the year and even the middle of last year, that's when you started to see some weakness in the levered credit markets, particularly around tech and software more specifically which fed into other parts of the market. we still think that story is valid and there will be winners and losers. And it's something that's a key part of every credit analysis we do at the individual issuer level is obsolescence risk, business risk. And so having that a part of your credit analysis is very important. When we think about investing in the AI ecosystem, really two years ago we decided to have a more holistic view on how we're going to take risk in this buildout, both in which issuers we prefer as well as which markets and which structures. And I think that's important because this issuance is finding its way into every market, and oftentimes it's going to the market where there is more demand or where they can fit in the terms that they like, and the demand doesn't push back. So this year, you've seen almost $500 billion of issuance, we would say, related to the AI buildout in the U.S. It has mostly been in the corporate credit markets. If you look at the securitized markets, which we've been investing in these types of transactions for the better part of a decade, you had $20 billion of issuance. So you're seeing 20 times the issuance that you had before. So a lot of it has been on the balance sheet of the hyperscalers. Again, going back to the beginning of this year, there were fewer concerns because it was cash flow funded, it was on balance sheet funded. Of course, they then had to hit the markets both debt and equity. Going forward, we expect less issuance in data center construction financing, more chip related or broader usage. So we've been focused on some of the off-balance-sheet financings for data centers, for high quality hyperscalers, where you can pick up 100 to 150 basis points of additional

spread and yield versus the unsecured credit risk of those hyperscalers. Select investments in the securitized market, which tend to be kind of already in place, already existing assets in place, leases again to high-quality off-takers. Where we've been much less to almost not involved has been in spec financing and investing in the neoclouds and then in other parts of the markets that we view as having either obsolescence risk in and amongst themselves, or where you can't tie yourself to a strong obligor at the end of the day. Eventually some of this capital will start being returned. Chip financing is likely to be a greater part going forward. Those tend to be much shorter average life investments. The assets themselves depreciate much faster, and so it's not going to be just capital going in and never coming back. And then that ties into how issuers get evaluated on ROI of their investments, their equity, how the equity markets value or don't, these investments will all feed into issuance trends and relative value. So for now we're pretty selective but very interested in some of these transactions that I mentioned. But the issuance pattern is going to shift. We think pretty materially even as soon as next year while still being quite large and fast.

Jay Diamond: Steve, quick follow up for you. I would like to think that the market is bigger than Jensen Huang, but is what's happening at Nvidia a market issue for you?

Steve Brown: So it's an evolving story. They are half of the total value chain, if you will. Of the dollars invested in AI, half of it, without trying to double or triple count, ends up with Nvidia. So they are obviously the world leader in advancement, and they are the preferred choice for everyone who wants the latest technology. They have a $4 trillion market cap. They still don't have much debt. They have financed a lot of the counterparties in the ecosystem who in turn are their customers. So it's quite complicated. But we do think most of the value chain does add value. There are some parts of it that exist in this supply shortage. So the fact that Nvidia is going through something doesn't change our overall narrative or view. But they're a huge company and they're a huge part of the equity markets, much less so the debt. But they're kind of more shadow involved in the debt markets. So absolutely, it could be market moving. So far it's not. And in fact it's being seen as maybe a, kind of reducing at least from a credit perspective supply needs going forward. You saw spreads actually a little bit tighter today across the ecosystem, but hard to extrapolate much from a few hours on a story that's, you know, a couple of days old at this point.

Jay Diamond: We'll all stay tuned to see how it all turns out. But listen, Steve and Patricia, thank you so much. You've been very generous with your time. It's a very busy week. But before I let you go, Patricia, are there any final takeaways for our listeners on what we've discussed today?

Patricia Zobel: Well, first of all, I just want to thank you for having us on and thank everyone for listening. I think I would follow on something that Steve said, which is that this year has been an environment where macro forces shaped the outcomes. I think this lifted yields and widened the tails somewhat. And, at this point a lot is priced in. Our outlook is pretty constructive still for the U.S. economy. And economic fundamentals are strong and with yields already pricing a lot of tightening by the Fed, we think it's a good point for fixed income investors from a macro perspective. I would say that we're still watchful. There's a lot to learn in 2027. But we think we're

well positioned to take advantage of this environment given the strong fundamentals, elevated yields, and some of the fundamentals that we see.

Jay Diamond: Fantastic, thank you. Steve, you get the last word. Any final thoughts for listeners who are considering investing in these markets today or have portfolios already invested in these markets?

Steve Brown: I'd reiterate the thanks and appreciation for the time. And Jay, thanks for hosting us. And Patricia really summed it up well. You have a high starting yield that is a ballast for market moves going forward. It would be hard to have the returns you've had in fixed income this year next year as well and not have it be a greater impact on other markets. So I think the relationship between fixed income and everything else will still be pretty tightly correlated. But it's a place that gives you real yield and nominal yield and protects you from some downside because none of us know exactly what's going to happen. So thank you for your time.

Jay Diamond: Thank you both for your time. I hope you'll visit with us again soon and give us more updates. And thanks to all of you who have joined us for our podcast. If you like what you are hearing, please rate us five stars. If you have any questions for Steve, Patricia or any of our other guests, please send them to macromarkets@guggenheiminvestments.com and we will do our best to answer them on a future episode or offline. I'm Jay Diamond. We look forward to gathering again for the next episode of Macro Markets with Guggenheim Investments. In the meantime, for more of our thought leadership, including our recently published fixed income sector views, visit guggenheiminvestments.com. So long.

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vice versa. High yield securities present more liquidity and credit risk than investment grade bonds and may be subject to greater volatility. Structured credit, including asset backed securities, mortgage backed securities and collateralized loan obligations, are complex investments and may not be suitable for all investors. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

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