GUGGENHEIM INVESTMENTS

Monthly Commentary | November 2026

Economic Outlook and Key Themes

U.S. Economic Outlook

Steady U.S. Growth, but Elevated Inflation

- **We see 2027 as a year of steady growth, underpinned by robust business investment as the artificial intelligence (AI) buildout continues**. AI investment spending should continue to accelerate near term, with hyperscalers continuing to signal growth in capex in 2027. At the same time, broadening profitability should also support business capex across a wider range of businesses.
- **We see consumption moderating from elevated levels, as fiscal support fades and higher rates cause consumers to push off some purchases.** Still, strong wealth gains for upper income cohorts and a steady labor market should keep consumption healthy. Job gains have stabilized, and low labor supply growth has helped the unemployment rate tick down. We expect the unemployment rate to remain steady over the next year.
- **While we are constructive on the economic outlook, any disruption to the AI investment thesis remains a risk.** The expansion is increasingly reliant on AI investment and wealth. Any loss of confidence **in** the AI investment thesis would present a downside risk to growth, both by reducing investment activity and by reversing equity gains.
- **Inflation remains elevated, but we anticipate fading supply shocks and firmer monetary policy to result in gradual disinflation in 2027**. Year-over-year readings will stay above 3 percent through year end. While AI capital expenditure spillovers are pushing up consumer prices, we think the impulse should moderate next year. Passthrough of war-related costs associated with energy price increases and supply chain disruptions should continue into the first quarter. However, with oil and refined product prices peaking, these effects should fade by midyear. With some firming of monetary policy, medium-term fundamentals should continue to support a disinflationary path. We expect core personal consumption expenditures inflation of 2.5 percent by the end of 2027, with sequential measures closer to target.

More Fed Rate Hikes in Store

- **We expect the Federal Open Market Committee (FOMC) to lean against inflationary pressures with two more rate hikes in December and January.** Inflation readings have continued to surprise to the upside, and commentary from FOMC participants has shifted more hawkish as a result. Strong growth and a stable labor market reinforce the Fed's focus on the inflation side of the mandate.
- **We then see the Federal Reserve (Fed) holding rates steady as tighter monetary policy helps inflation cool.** The three cumulative hikes in our baseline would reverse the 2025 rate cuts, after which we expect the Fed will pause to assess the outlook. Signs that inflation is gradually moderating and that rate hikes are working to tighten financial conditions should keep the Fed on hold.
- **We expect Fed balance sheet policy will maintain an ample reserves framework, while seeking to reduce demand for reserves and shorten the maturity of the System Open Market Account portfolio.**

Investment Implications

- **Markets are pricing more hikes than we expect, along with an extended period of elevated rates, which favors front-end duration**. Longer maturities look fairly valued, but yield levels remain attractive relative to history.
- **Corporate fundamentals remain strong, and we see healthy investor demand for fixed income, including credit.** Earnings growth has been robust, keeping rating migration balanced. While AI disruption could lift defaults modestly in leveraged loans and private credit, we see pressures as broadly contained.
- **Supply technicals have widened spreads in some sectors and, alongside increased rate volatility, have created more dispersion.** Large deals have widened spreads in AI-related names without a broad repricing of risk. High yield stress remains concentrated in weaker capital structures. This creates attractive entry points in high-quality credits.
- **Our positioning continues to center on diversification and income generation.** We continue to favor residential mortgage-backed securities (non-Agency in particular), where spreads remain relatively attractive versus investment-grade corporates. We see value in senior tranches of securitized credit as a source of high quality, short duration income.

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Key Themes

Gridlock Post-Midterms Doesn't Shift Our Outlook, Lifts Uncertainty and Volatility

- **While midterm results showed much stronger gains for Democrats than expected, they have limited impact on our baseline outlook.** Democrats control both chambers but lack filibuster- or veto-proof majorities, so we expect gridlock, modest fiscal changes, and leverage concentrated around funding and debt-limit deadlines.
- **A fiscal deal will likely moderate the drag on growth that would have occurred in 2027.** The most likely outcome delays Medicaid and SNAP cuts and possibly restores enhanced Affordable Care Act credits in exchange for higher defense spending. Depending on the size, the fiscal impulse to growth could shift from a modest drag to roughly neutral. We expect that the potential for larger stimulus is limited by already large deficits.
- **Voter pushback against rapid data center expansion could moderate the pace of the buildout as new projects experience permitting delays and local restrictions.** We expect much of this impact to fall beyond 2027. Most of the data center capacity that was expected to come online next year is in varying phases of construction, so the largest impact is likely to be on projects planned for 2028 and later.
- **Debt ceiling and shutdown brinkmanship is a key policy risk**. Because the debt limit is must-pass legislation, it gives Democrats their best leverage over a Republican White House. The Treasury is likely to hit its borrowing limit by midsummer, with estimates on the X-date around the fourth quarter of 2027. We expect a compromise in the end, but the path there could unsettle markets.

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