



Monthly Commentary | October 2026

Economic Outlook and Key Themes

U.S. Economic Outlook

Steady U.S. Growth, but Elevated Inflation

- ◆ **We see real GDP growth a bit above 2 percent in 2027, underpinned by robust business investment as the artificial intelligence buildout continues.** Fiscal support to consumers will fade in coming months, which could moderate spending, but upper income consumers continue to be supported by strong wealth gains. A steady labor market should put a floor under consumption. Job gains have stabilized and show improving breadth. Low labor supply growth has helped the unemployment rate tick down, and we expect it will remain around current levels over the next year.
- ◆ **AI investment spending should continue to accelerate near term, keeping domestic demand growth steady.** Hyperscalers continue to signal strong investment growth, while broadening profitability should also support capital expenditures. However, the U.S. 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 would present a downside risk to growth, both by reducing investment activity and by reversing equity gains.
- ◆ **Core Personal Consumption Expenditures (PCE) inflation remains elevated, but we expect disinflation over the course of 2027.** Year-over-year readings are likely to stay above 3 percent through year end. Tariff effects have receded, and while AI capex spillovers are pushing up consumer prices, we think the impulse should moderate. Passthrough of war-related costs from energy and supply chain disruptions remains an upside risk to our forecast. With some firming of monetary policy, medium-term fundamentals should continue to support a disinflationary path. We expect core PCE inflation of 2.5 percent in 2027, with sequential measures closer to target.

More Fed Rate Hikes in Store

- ◆ **Federal Reserve (Fed) Chair Warsh's Jackson Hole speech helped clarify his monetary policy framework.** He affirmed the 2 percent PCE target and interest rates as the primary policy tool, reducing uncertainty. Warsh also affirmed his focus on inflation and said that unless it was moving toward target "clearly and at sufficient speed," the Federal Open Market Committee would have "work to do."
- ◆ **With recent insufficient progress on inflation, we expect two rate hikes this year with a peak policy rate in the 4–4.25 percent range.** This would be a shallower rate hiking cycle than most prior ones as policy rates are already closer to neutral. As the disinflationary trend becomes more evident in late 2027, the Fed could begin to reverse these hikes. This differs from market pricing, which reflects expectations for further rate hikes next year.
- ◆ **We expect Fed balance sheet policy will maintain an ample reserves regime while seeking to reduce demand for reserves gradually.**

Investment Implications

- ◆ We view current yields as attractive, with markets pricing overly restrictive policy for longer than we expect.
- ◆ 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 have been deploying excess liquidity but are keeping dry powder, expecting volatility to persist. We continue to favor residential mortgage-backed securities (Agency and non-Agency), where spreads remain relatively attractive versus investment-grade corporates. We see value in senior commercial ABS and AAA–A CLOs.

Please see disclosures and legal notice at end of document.

Key Themes

Global Sovereign Yields Trading in a Higher Range

- ◆ Resilient growth and higher inflation have pushed global sovereign yields higher. Market-implied policy rates have risen across major economies. The Fed and the European Central Bank have recently pivoted to rate hikes, while the Bank of England and the Bank of Canada are expected to do so soon. The Bank of Japan's hiking cycle has continued uninterrupted.
- ◆ Rising sovereign yields also reflect concerns about fiscal and monetary policies. In Japan, concerns about the determination of Bank of Japan policymakers to tackle inflation appear to be a primary driver of higher yields. Worsening fiscal outlooks, exacerbated by expectations for rising interest costs, are also lifting term premiums. Nowhere is this more apparent than in France, where the government has struggled to implement fiscal consolidation measures.
- ◆ Global sovereign yields are likely to remain in a higher range. Treasury yields have entered a higher range, and we see 5.5 percent as likely the upper end on 10-year yields. That said, we think the bulk of the repricing is behind us. We see scope for central bank policy moves to fall short of current market pricing for the middle of next year, particularly for the United Kingdom, where a soft labor market and tight financial conditions will weigh on activity.

Investing involves risk, including the possible loss of principal. 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, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as 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.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the author, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are

subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. No part of this material may be reproduced or referred to in any form, without express written permission of Guggenheim Partners, LLC.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Private Investments, LLC, Guggenheim Investments Loan Advisors, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, and GS GAMMA Advisors, LLC.

©2026 Guggenheim Partners, LLC. Guggenheim Investments represents the investment management business of Guggenheim Partners, LLC. Securities offered through Guggenheim Funds Distributors, LLC.

GIMOS-ECON-1026 x1027 #6028055