

GUGGENHEIM

Guggenheim Investments

Is the U.S. Already in Recession?

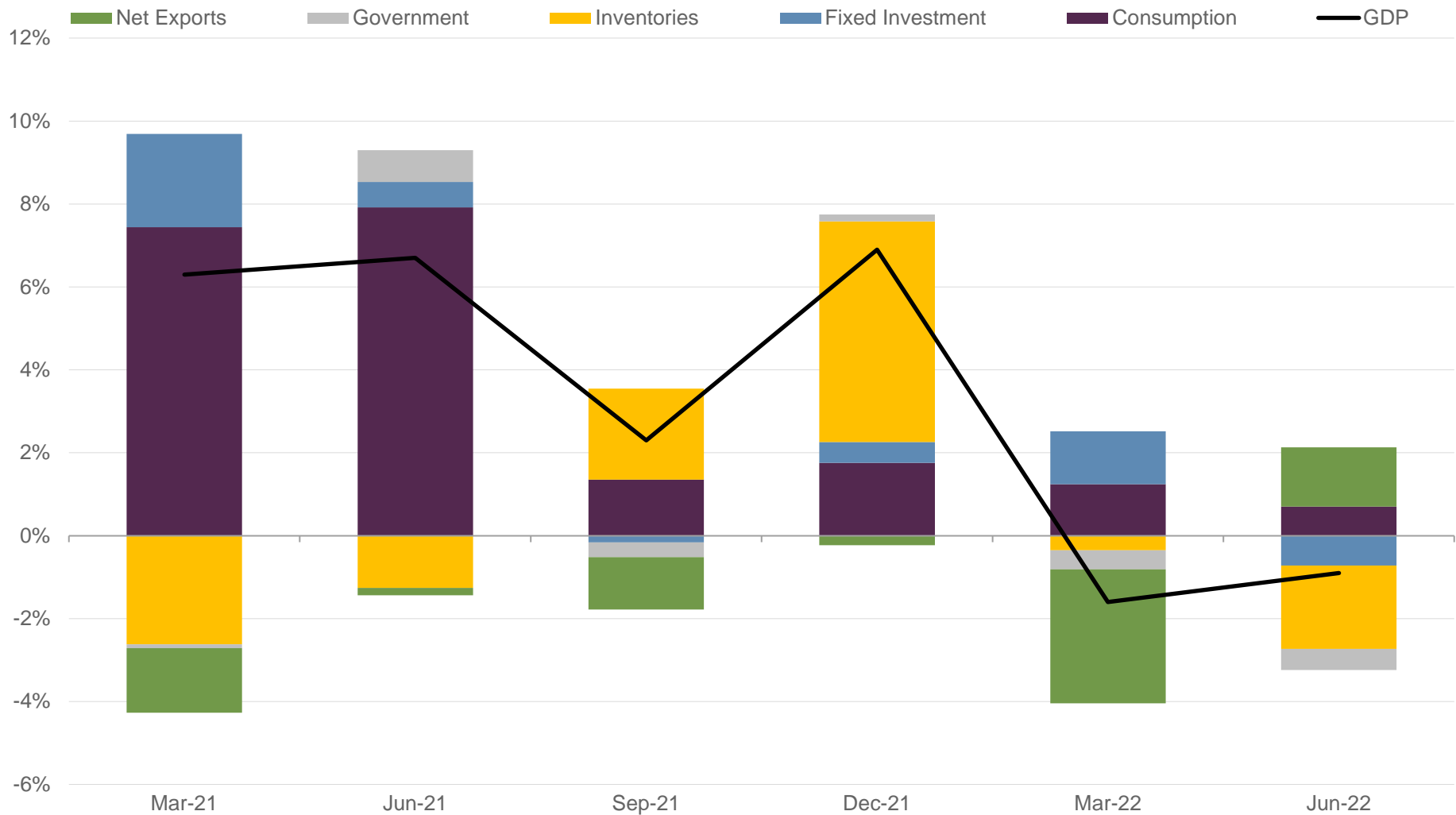
Maria Giraldo, CFA
Managing Director, Investment Research Strategist

August 2022

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Consumption and Business Investment Slowing

Real GDP, Contribution to QoQ% Annualized Change



Source: Guggenheim Investments, Haver Analytics. Data as of 6/30/2022.

Consecutive Quarterly Contractions are Unusual Outside of Recessions

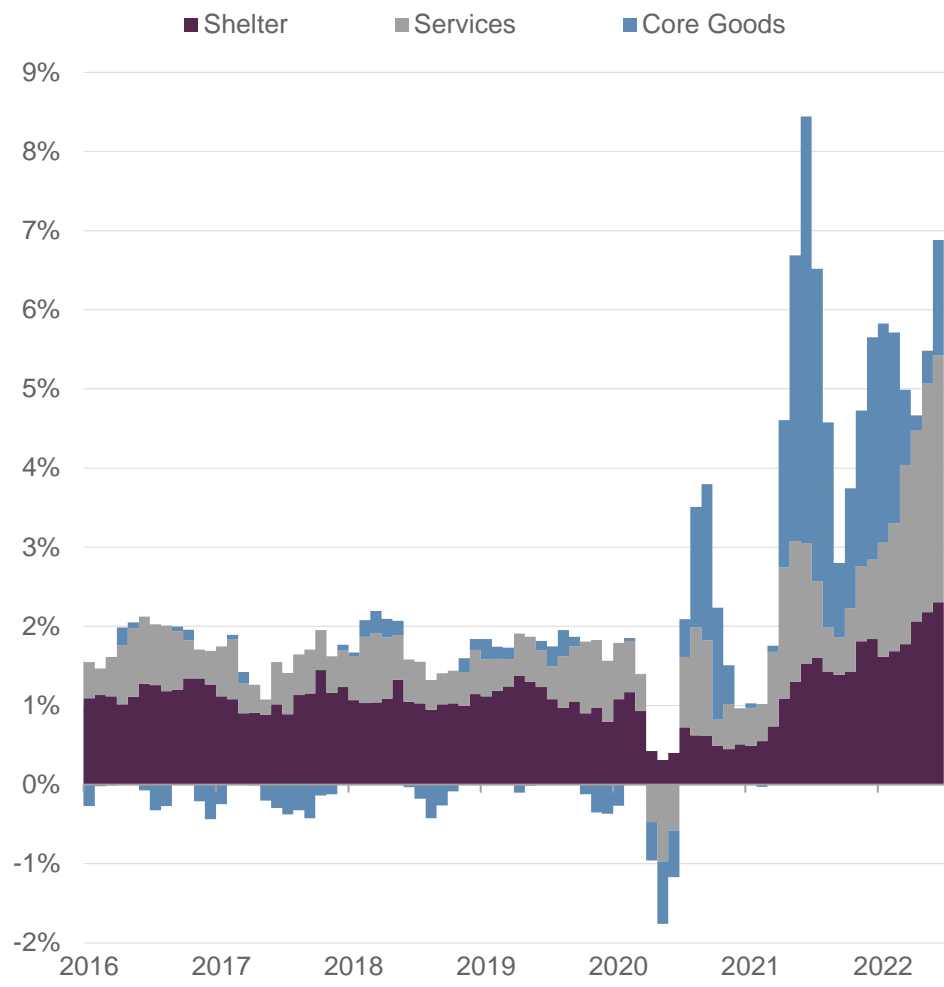
Periods of 2 Consecutive Negative QoQ GDP Growth

| Quarter | In Recession? |
|----------|---------------|
| Sep-1947 | No |
| Jun-1949 | Yes |
| Dec-1953 | Yes |
| Mar-1954 | Yes |
| Mar-1958 | Yes |
| Mar-1970 | Yes |
| Dec-1974 | Yes |
| Mar-1975 | Yes |
| Sep-1980 | Yes |
| Mar-1982 | Yes |
| Mar-1991 | Yes |
| Dec-2008 | Yes |
| Mar-2009 | Yes |
| Jun-2009 | Yes |
| Jun-2020 | Yes |
| Jun-2022 | ? |

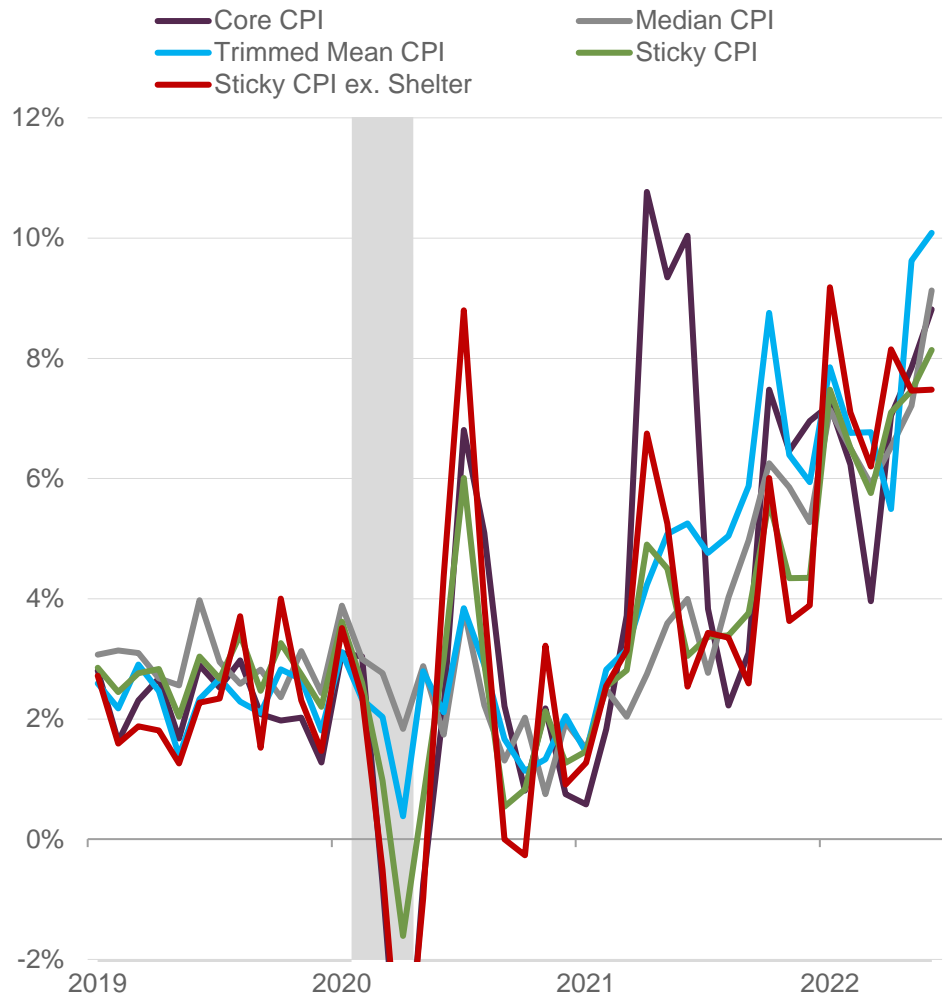
Source: Guggenheim Investments, Bloomberg.

Inflation Is Accelerating Sequentially and Broadening Out

CPI Categories, Contribution to MoM% Annualized Change



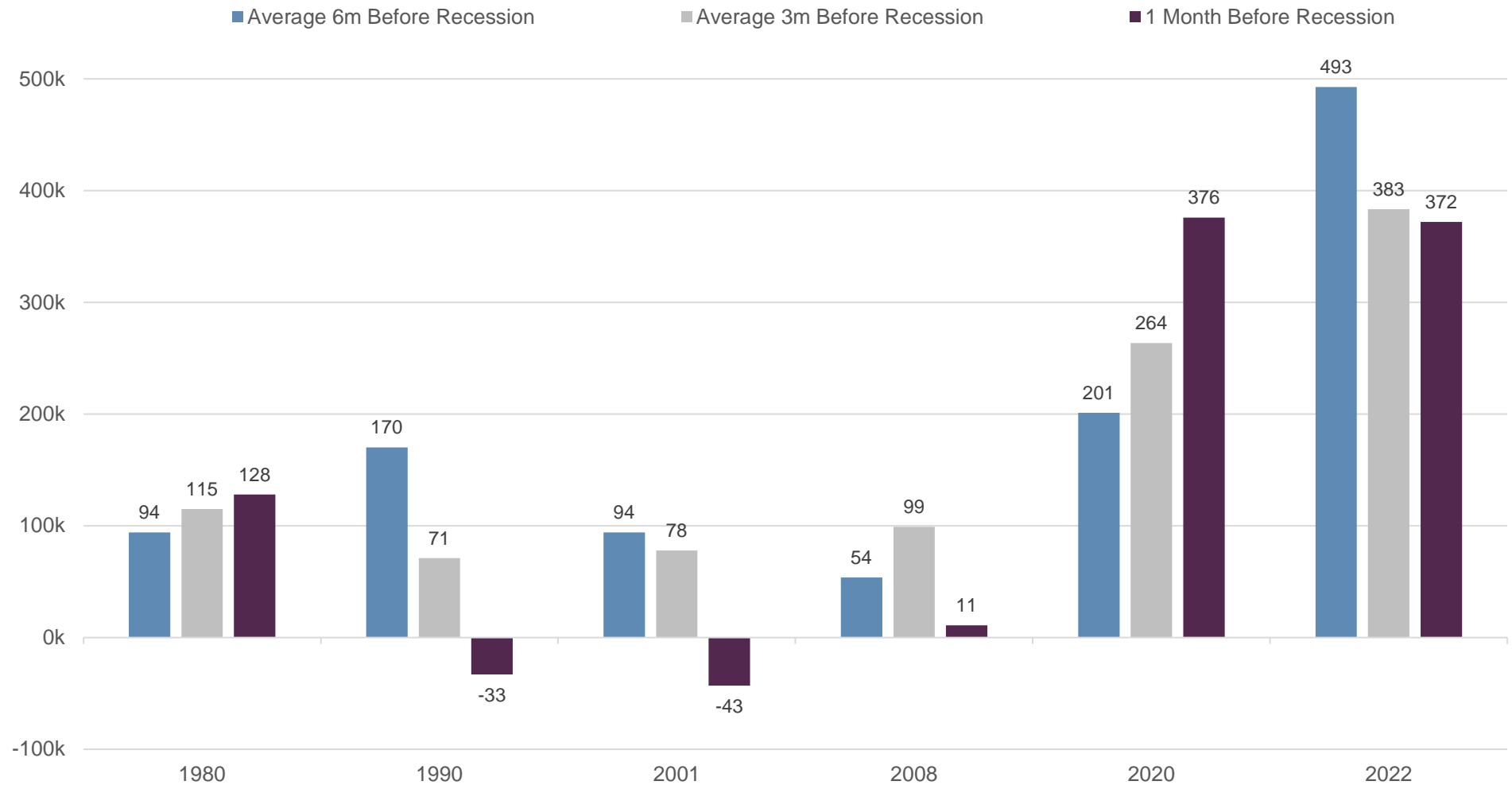
CPI Measures, MoM% Annualized Change



Source: Guggenheim Investments, Haver Analytics. Data as of 06/30/2022.

The Labor Market is Too Hot for an Official Recession Call

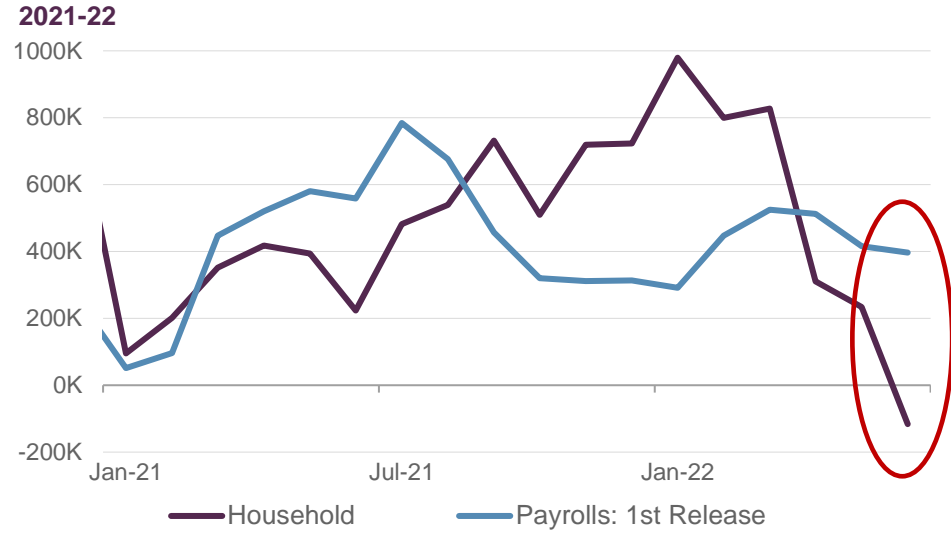
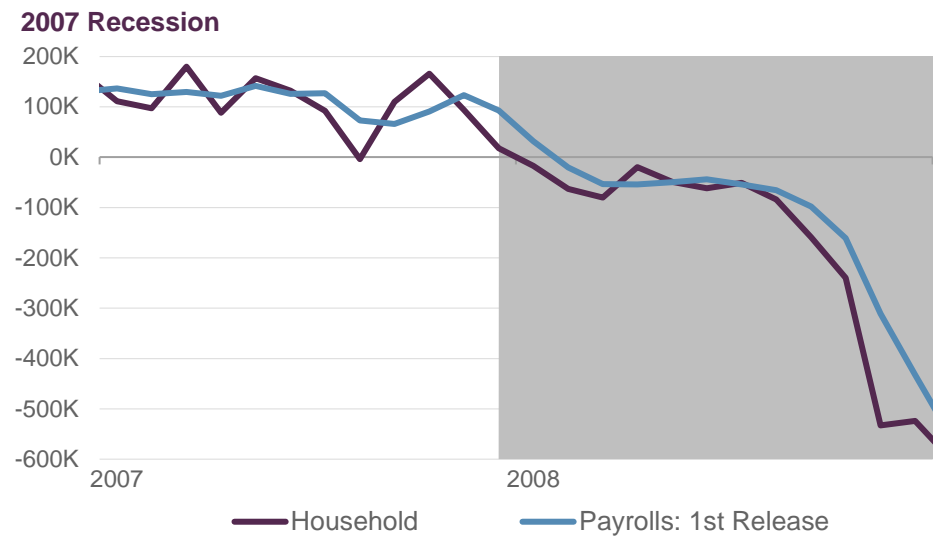
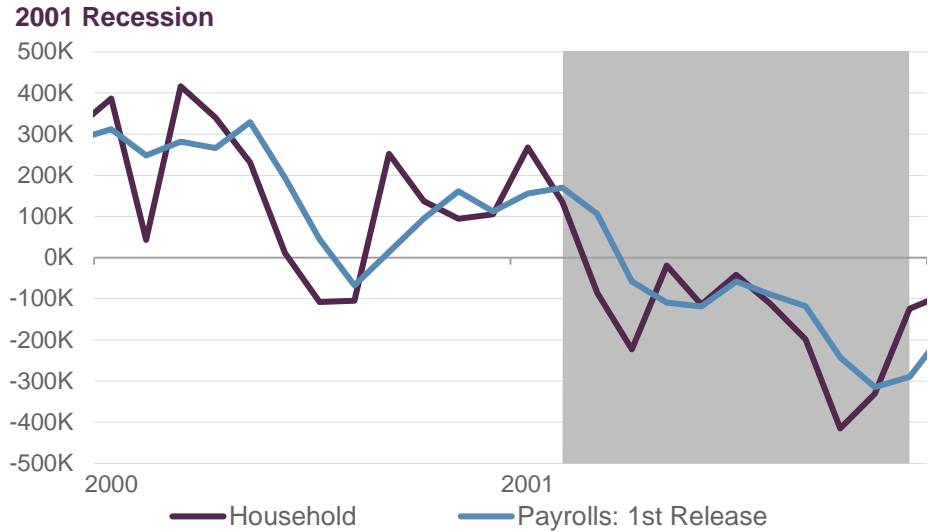
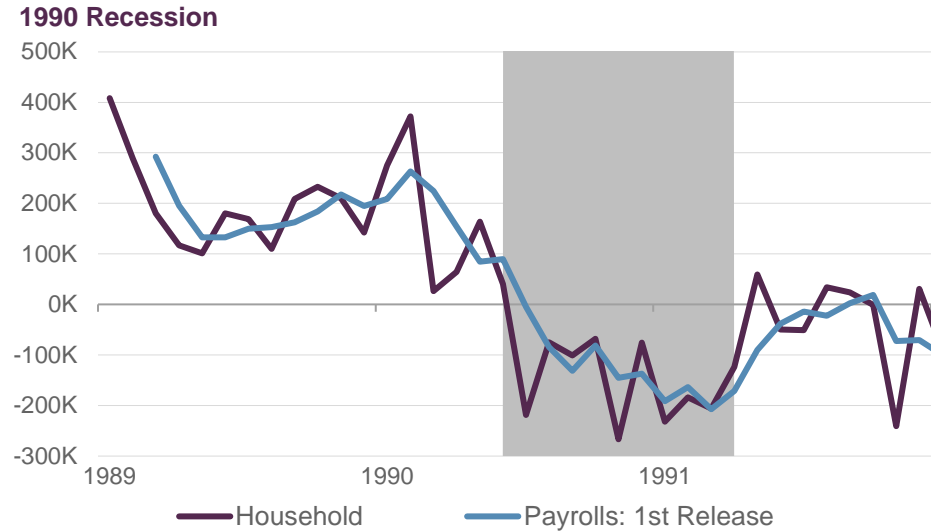
Nonfarm Payrolls Month over Month Gain Around Past Recessions vs 2022



Source: Guggenheim Investments, Bloomberg. Data as of 06/30/2022.

Divergent Signals from Job Growth Measures

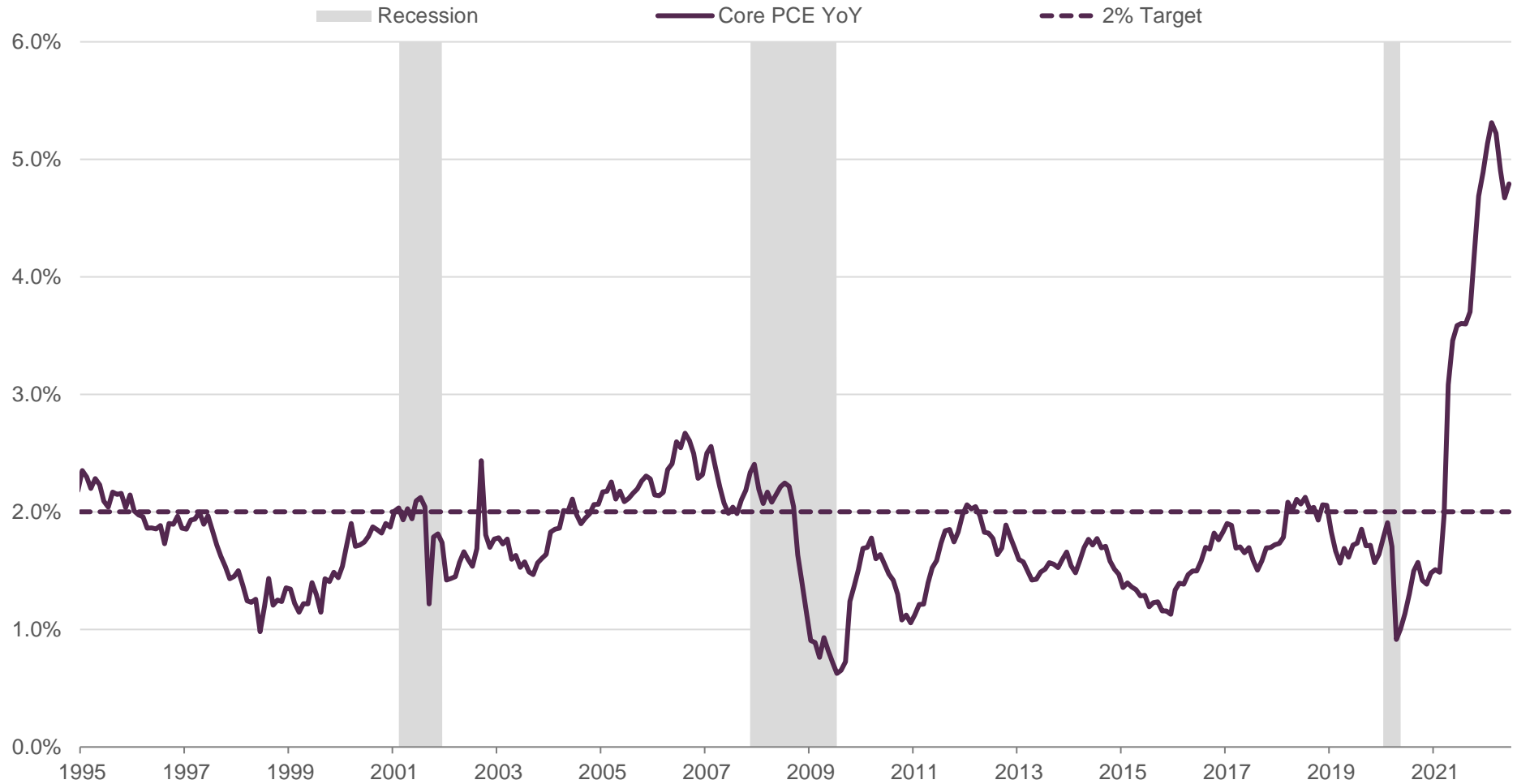
Household Survey Employment and Nonfarm Payrolls Initial Estimate, Monthly Net Change (3 Month Moving Average)



Source: Guggenheim Investments, Bloomberg. Data as of 06/30/2022.

The Fed's Preferred Inflation Measure is Way Above Target

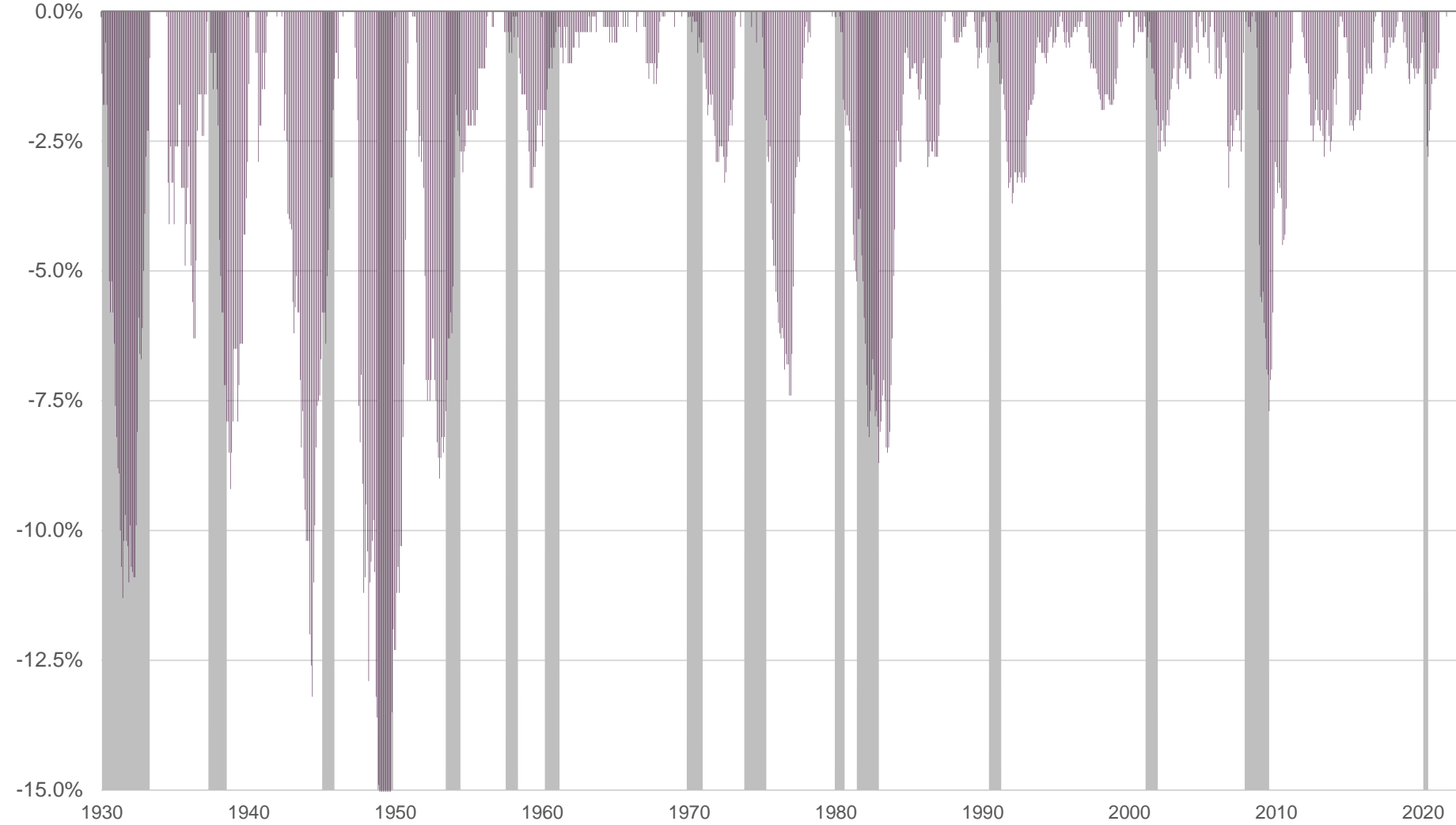
Core PCE YoY vs Fed's 2% Target



Source: Guggenheim Investments, Bloomberg. Data as of 06/30/2022.

A Recession is Needed to Bring Inflation Down Substantially from 9.1%

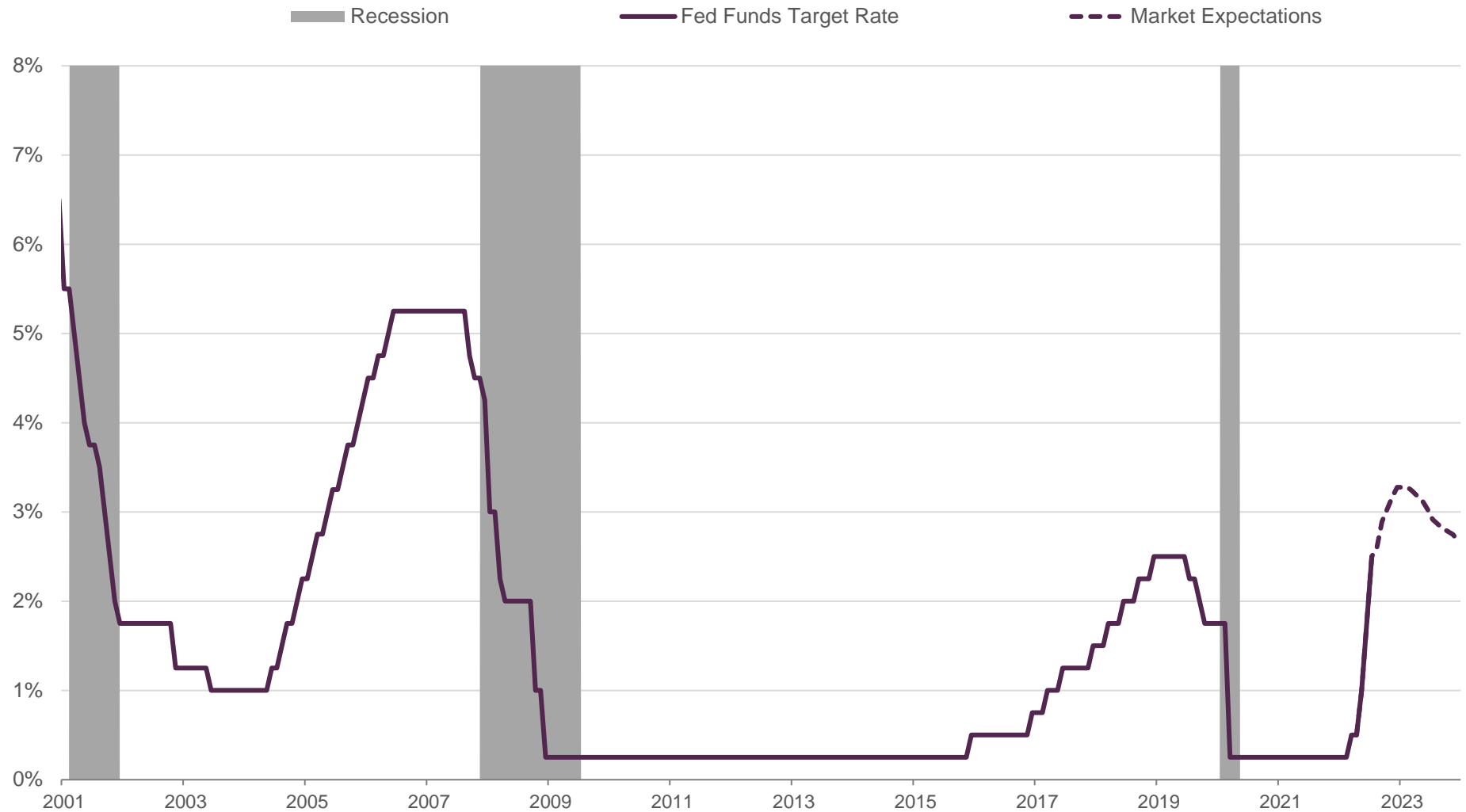
Max 2 Year Decline in CPI YoY (2nd Derivative of Inflation)



Source: Guggenheim Investments, Bloomberg. Data as of 06/30/2022. Shaded areas represent periods of recession.

Has the Fed Done Enough to Cool Inflation?

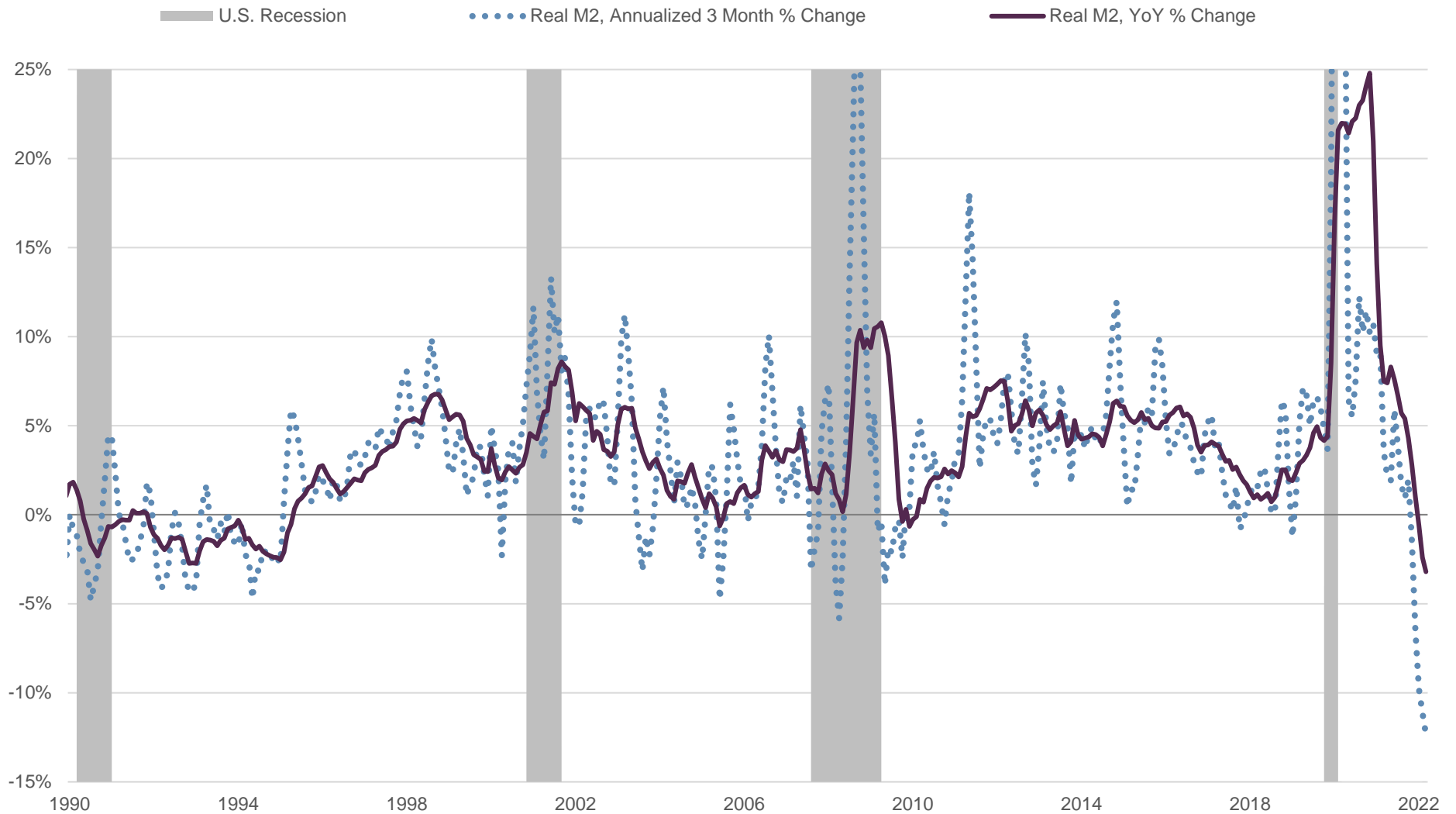
Fed Funds Target Rate and Market Implied Expectations



Source: Guggenheim Investments, Bloomberg. Data as of 07/29/2022.

Balance Sheet Runoff is Helping to Shrink Real Money Supply

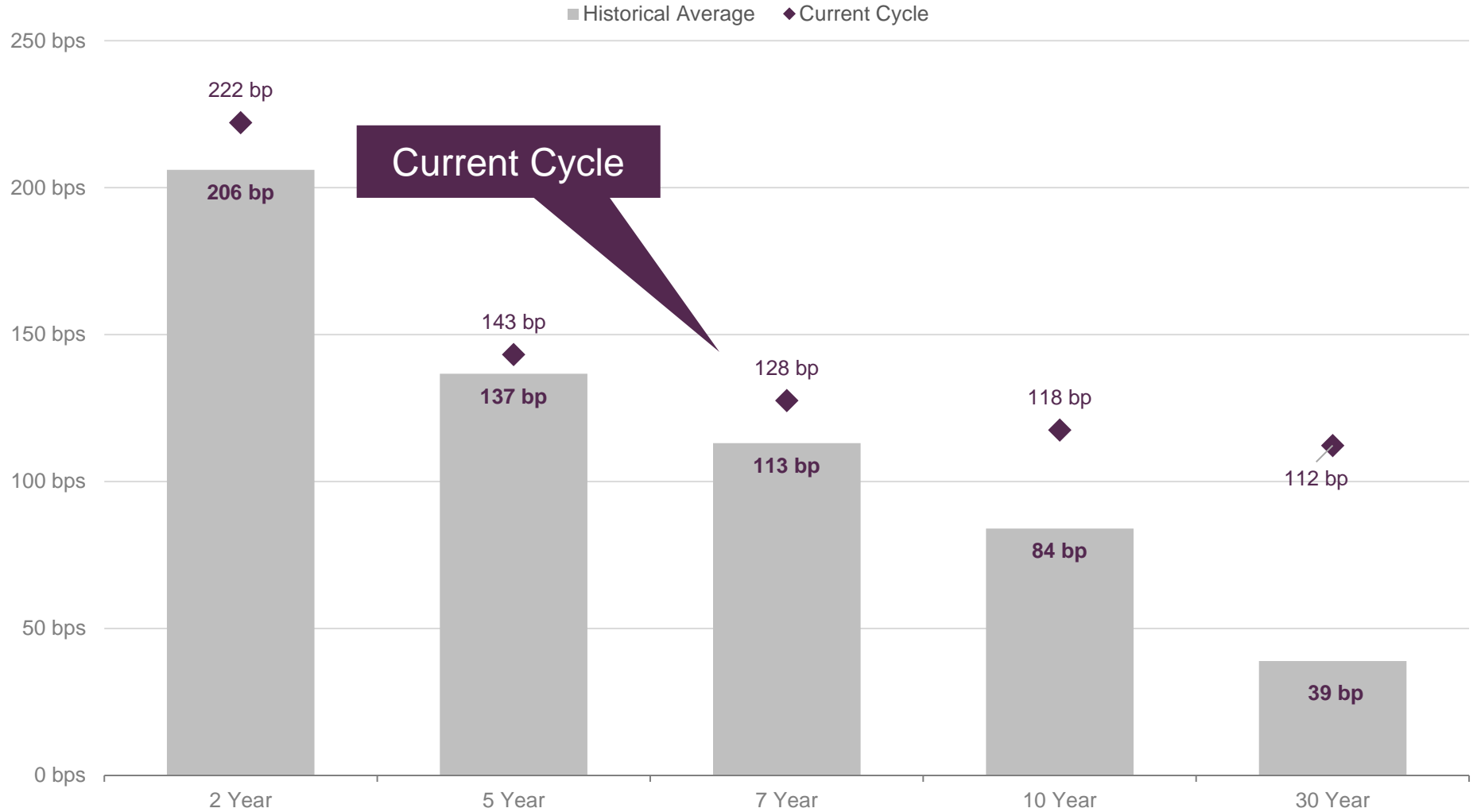
3 Month Annualized and YoY Change in Real M2 (Deflated by CPI)



Source: Guggenheim Investments, Bloomberg. Data as of 06/30/2022. Shaded areas represent periods of recession.

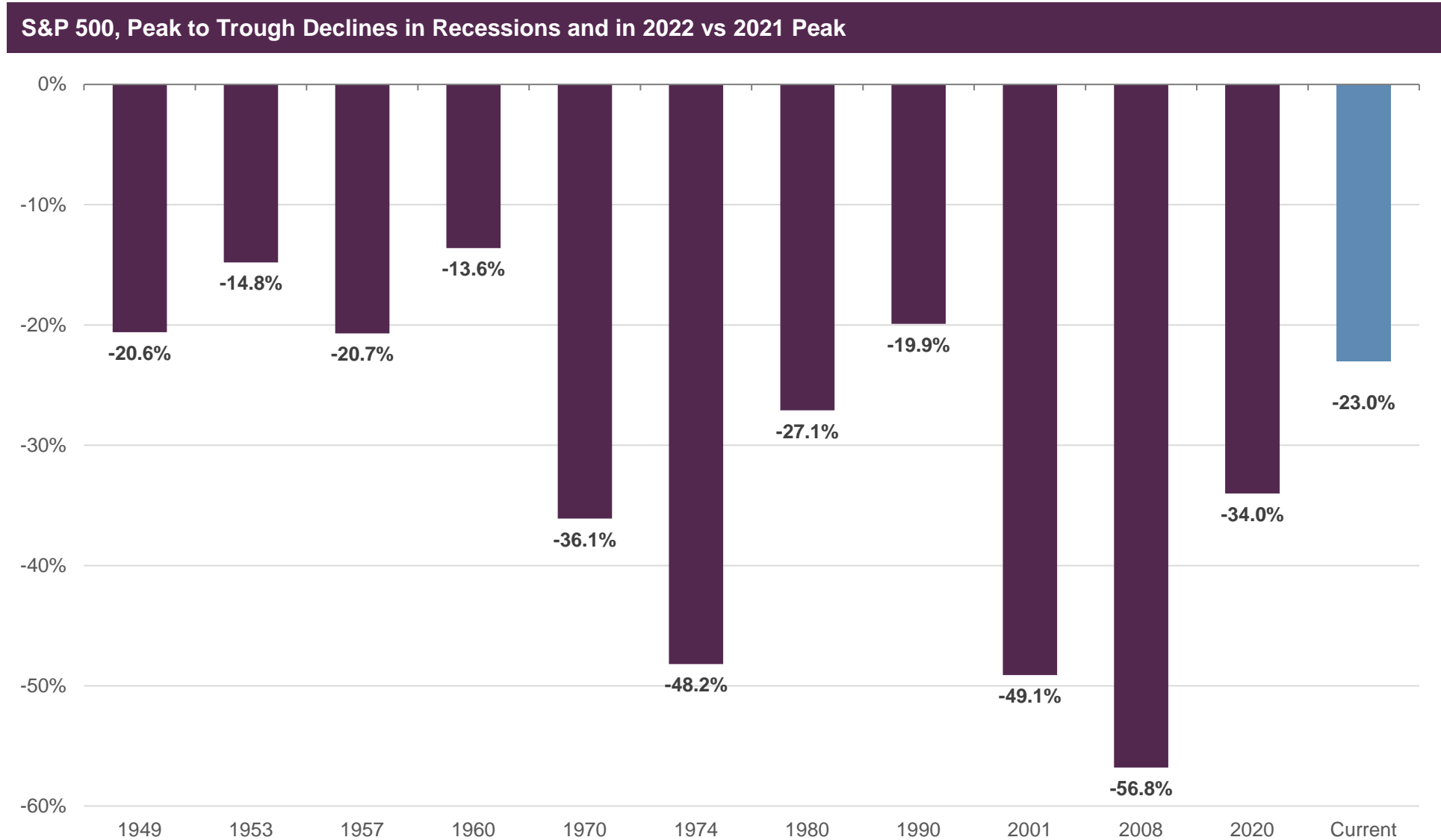
Treasury Yields Have Increased More than in Recent Hiking Cycles

Change in U.S. Treasury Yields During the Last Four Fed Hiking Cycles



Source: Guggenheim Investments, Bloomberg. Data as of 6.30.2022.

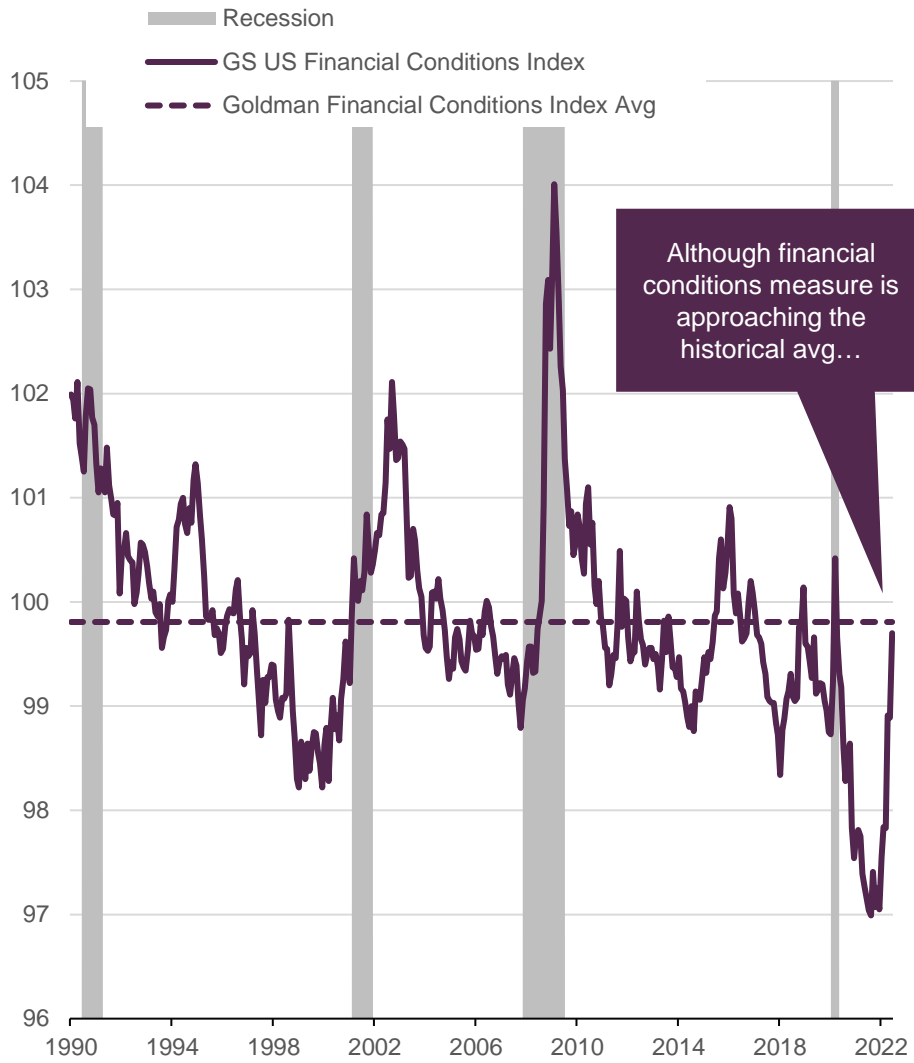
Stock Market Drawdown Is Already Comparable to Some Past Recessions



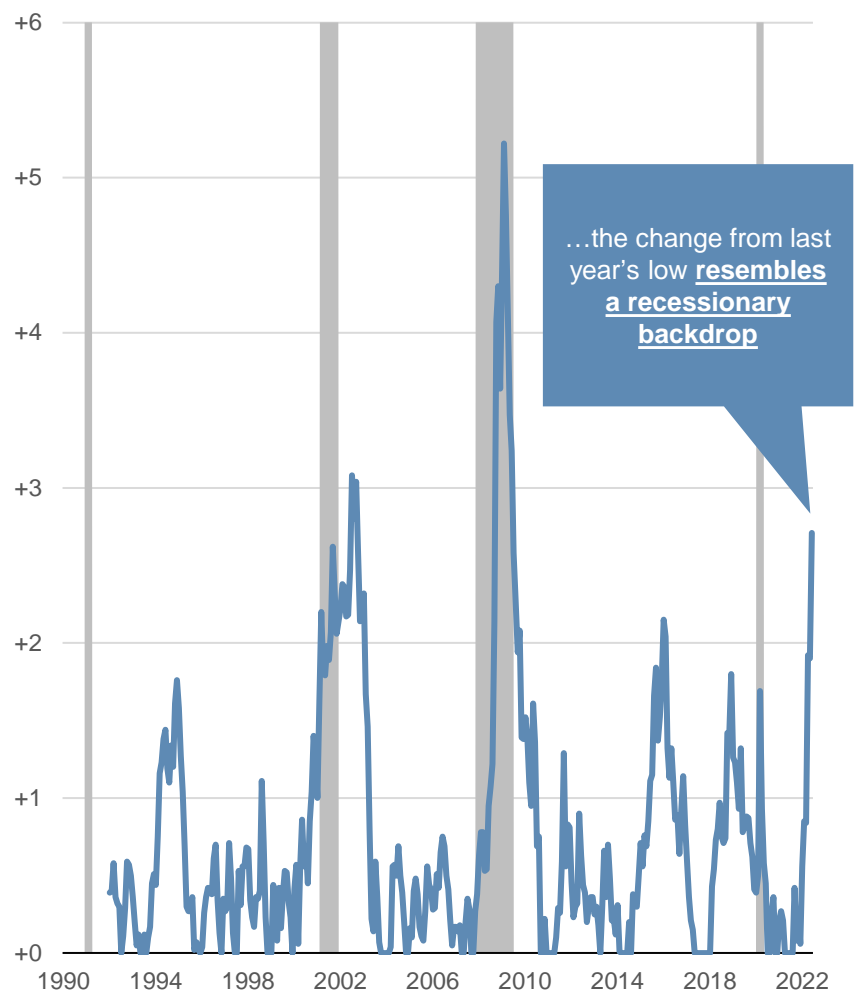
Source: Guggenheim Investments, Bloomberg. Data as of 07/26/2022.

Tightening Financial Conditions Resemble Recession-like Conditions

Goldman Sachs Financial Conditions Index



GS Financial Conditions Index, Rolling 1Y Max Increase



Source: Guggenheim Investments, Bloomberg. Data as of 06/30/2022.

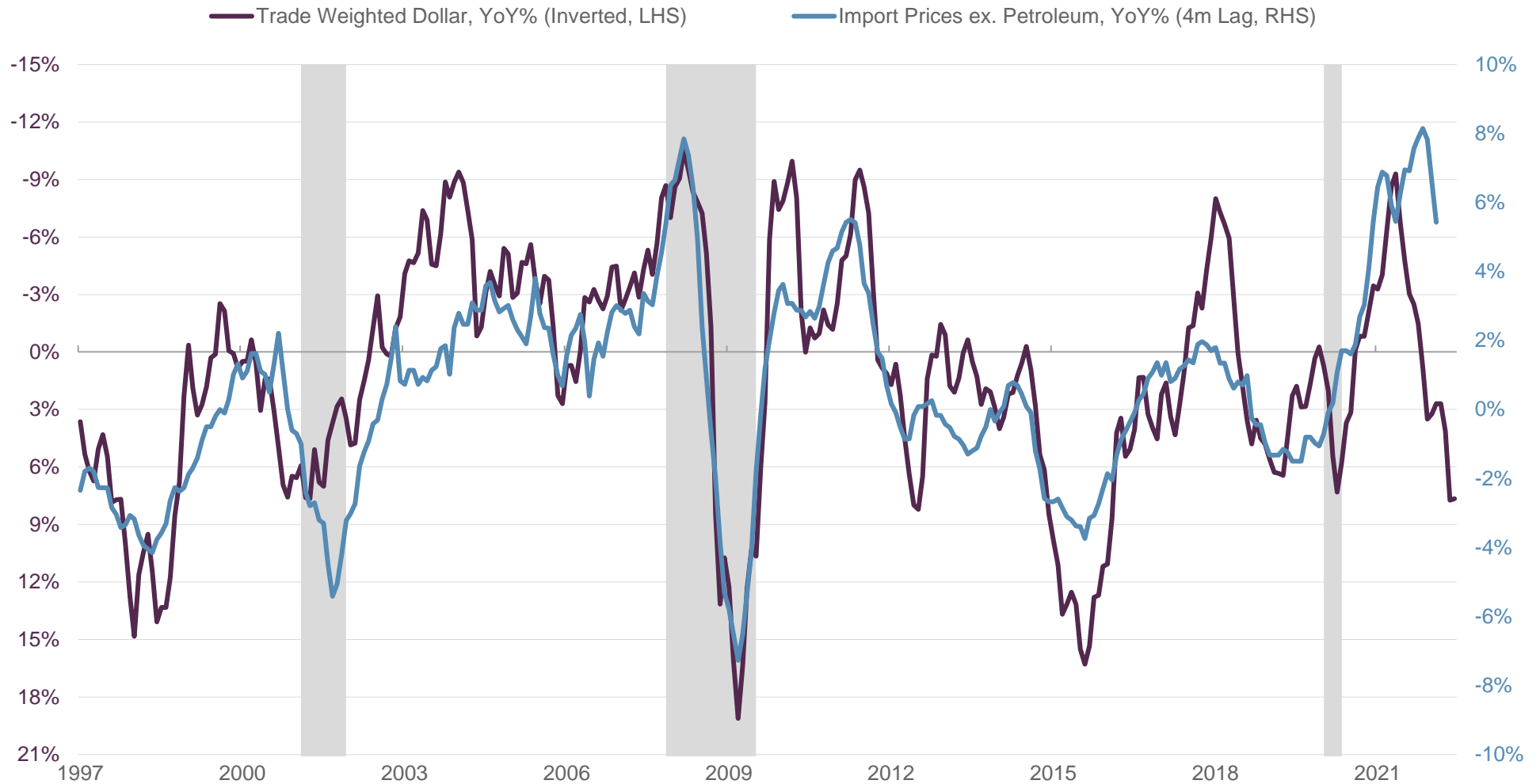
New Issuance Activity Has Slowed As Borrowing Costs Rise



Source: Guggenheim Investments, S&P LCD. Data as of 07.08.2022.

Stronger Dollar Should Provide Some Inflation Relief

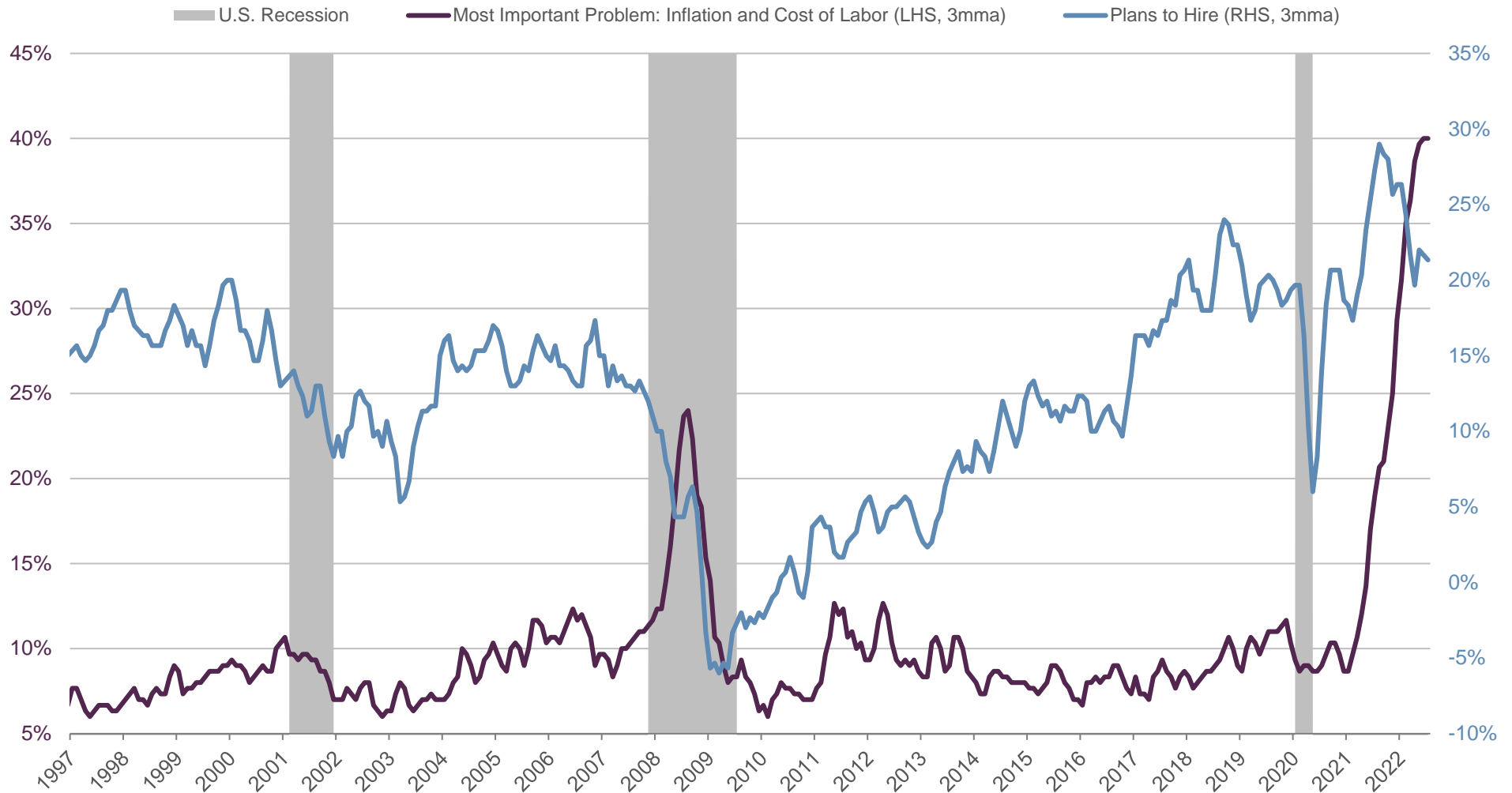
Trade Weighted Dollar and Import Prices, YoY% Change



Source: Guggenheim Investments, Haver Analytics. Data as of 06/30/2022.

Cost Pressures are Beginning to Curb Business Expansion Plans

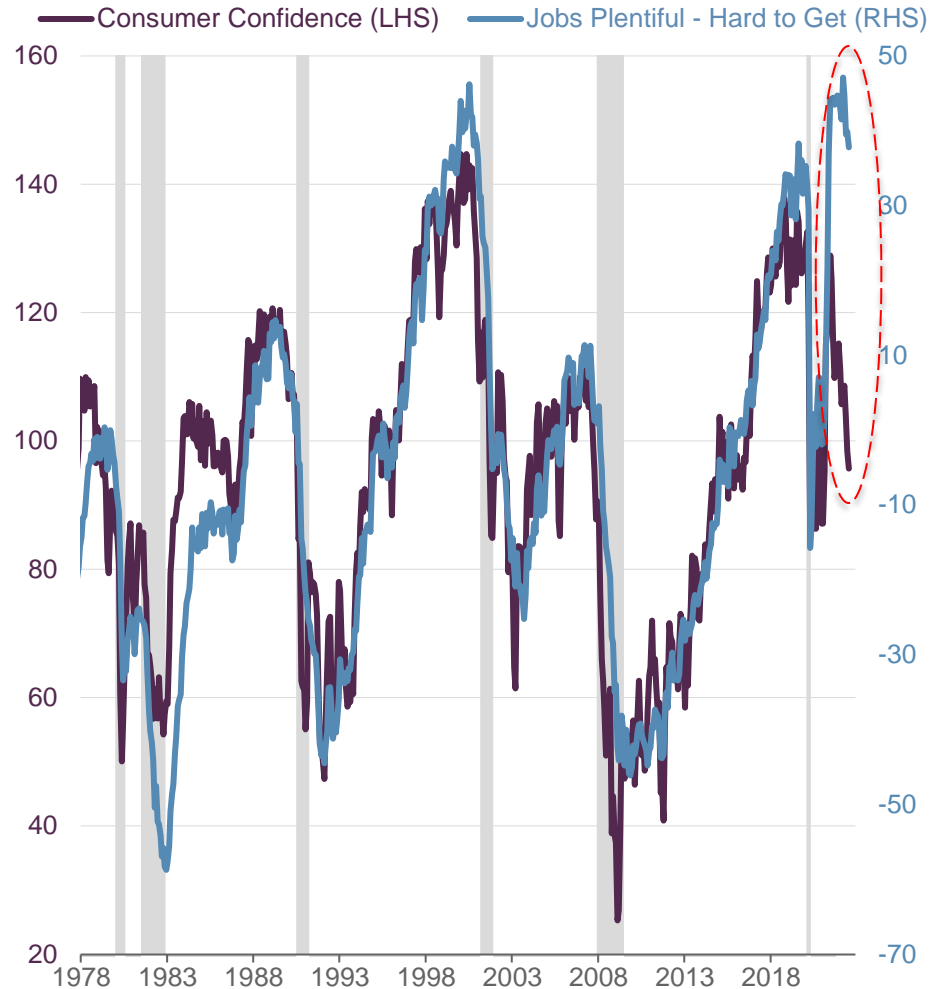
NFIB Small Business Survey Results: Companies Citing Inflation and Cost as Most Important Problem vs Plans to Hire



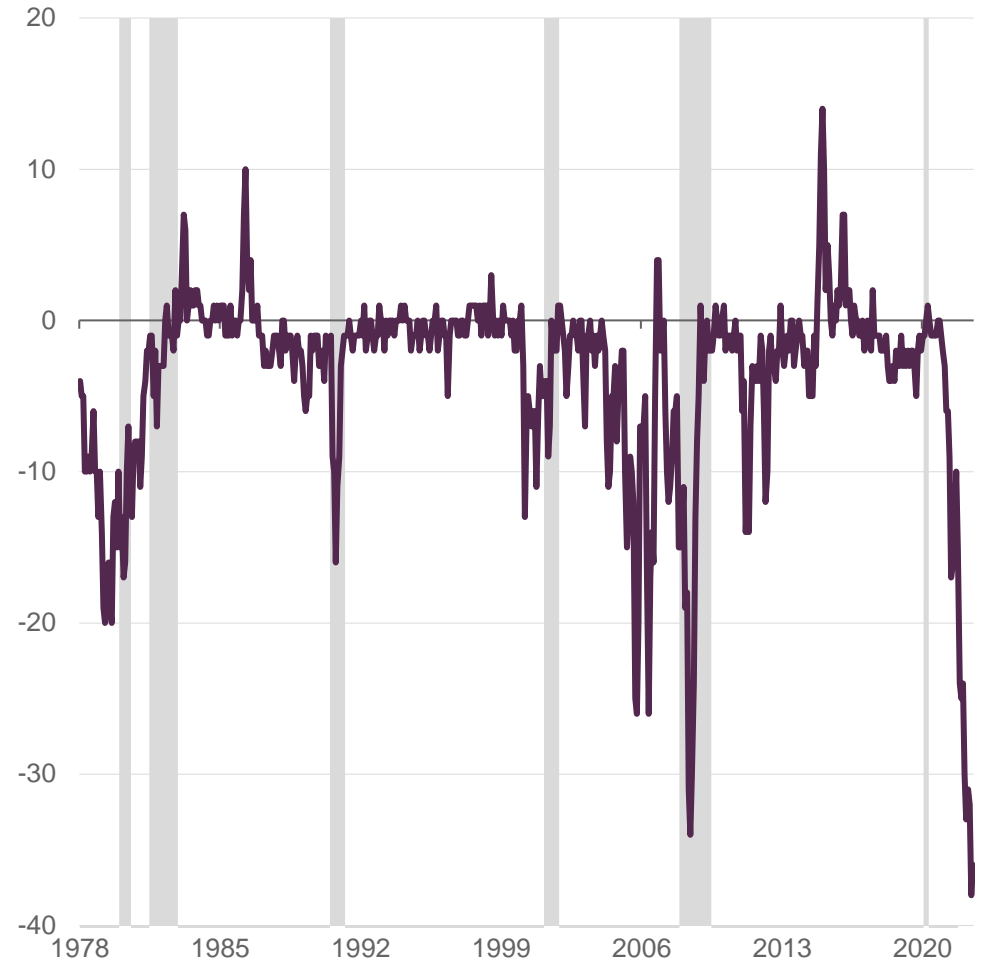
Source: Guggenheim Investments, Bloomberg. Data as of June 2022. Shaded areas represent periods of recession.

Inflation Is Hurting Consumer and Business Sentiment

Despite Reporting a Strong Job Market, Consumer Confidence is Falling



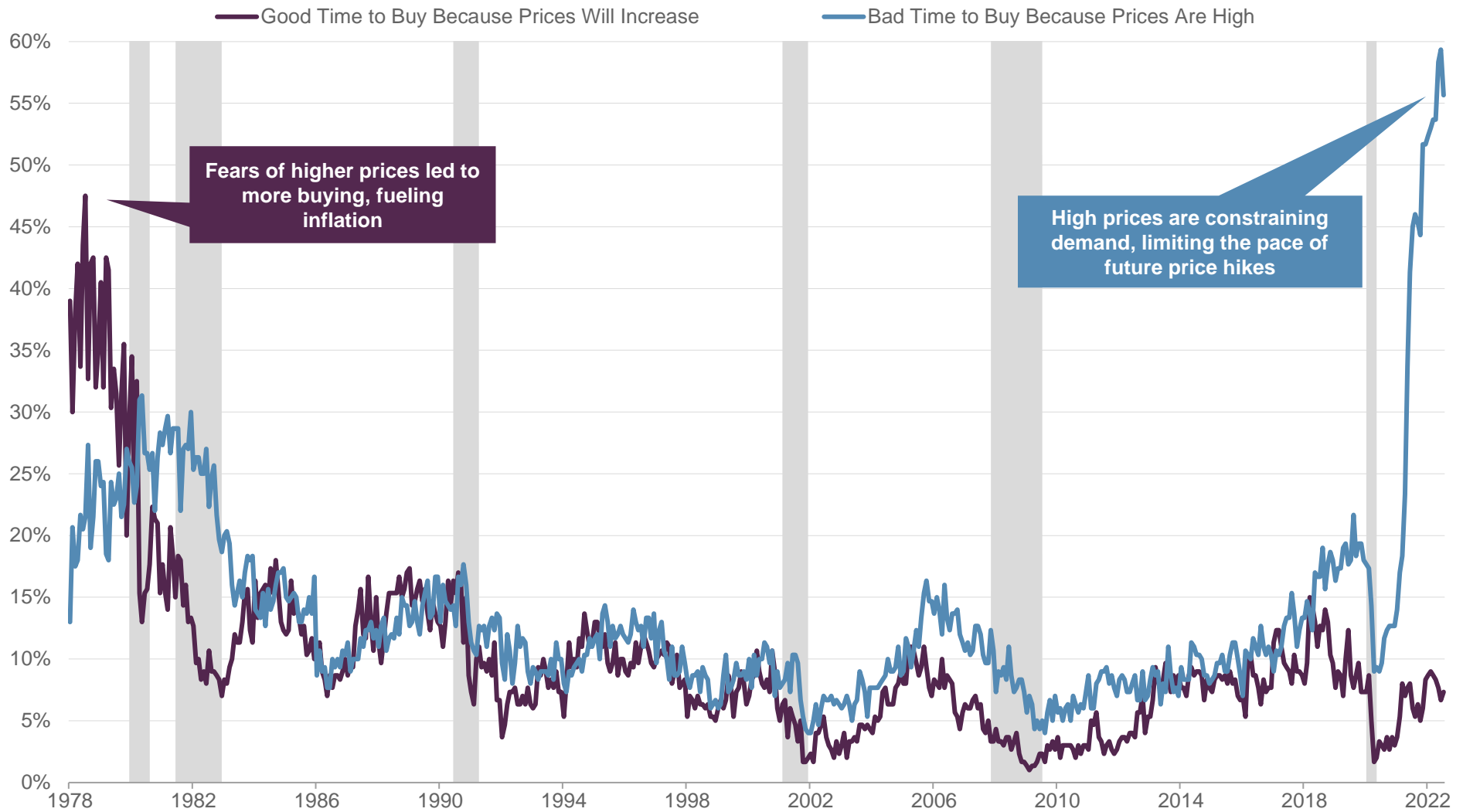
Consumers Are Attuned to Rising Prices
Consumer Sentiment: Net Favorable News Heard About Prices



Source: Guggenheim Investments, Haver Analytics. Data as of 07/31/2022. Shaded areas represent periods of recession.

High Prices Are Weighing on Demand, Unlike the 1970s

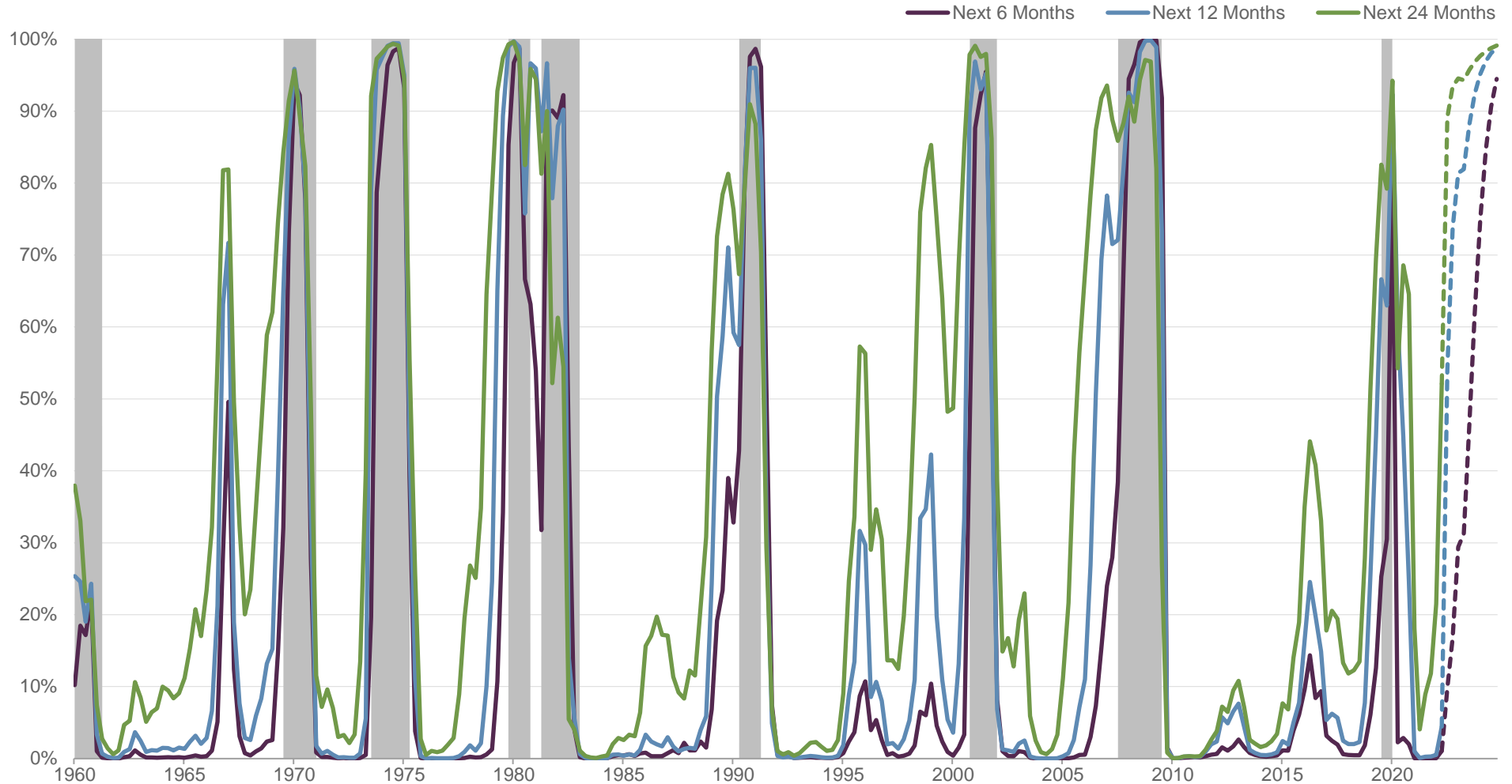
Consumer Sentiment Survey: Buying Conditions for Vehicles, Houses, and Household Durable Goods (Average)



Source: Guggenheim Investments, Haver Analytics. Data as of 07/01/2022. Shaded areas represent periods of recession.

U.S. Recession Risk is Rising Quickly

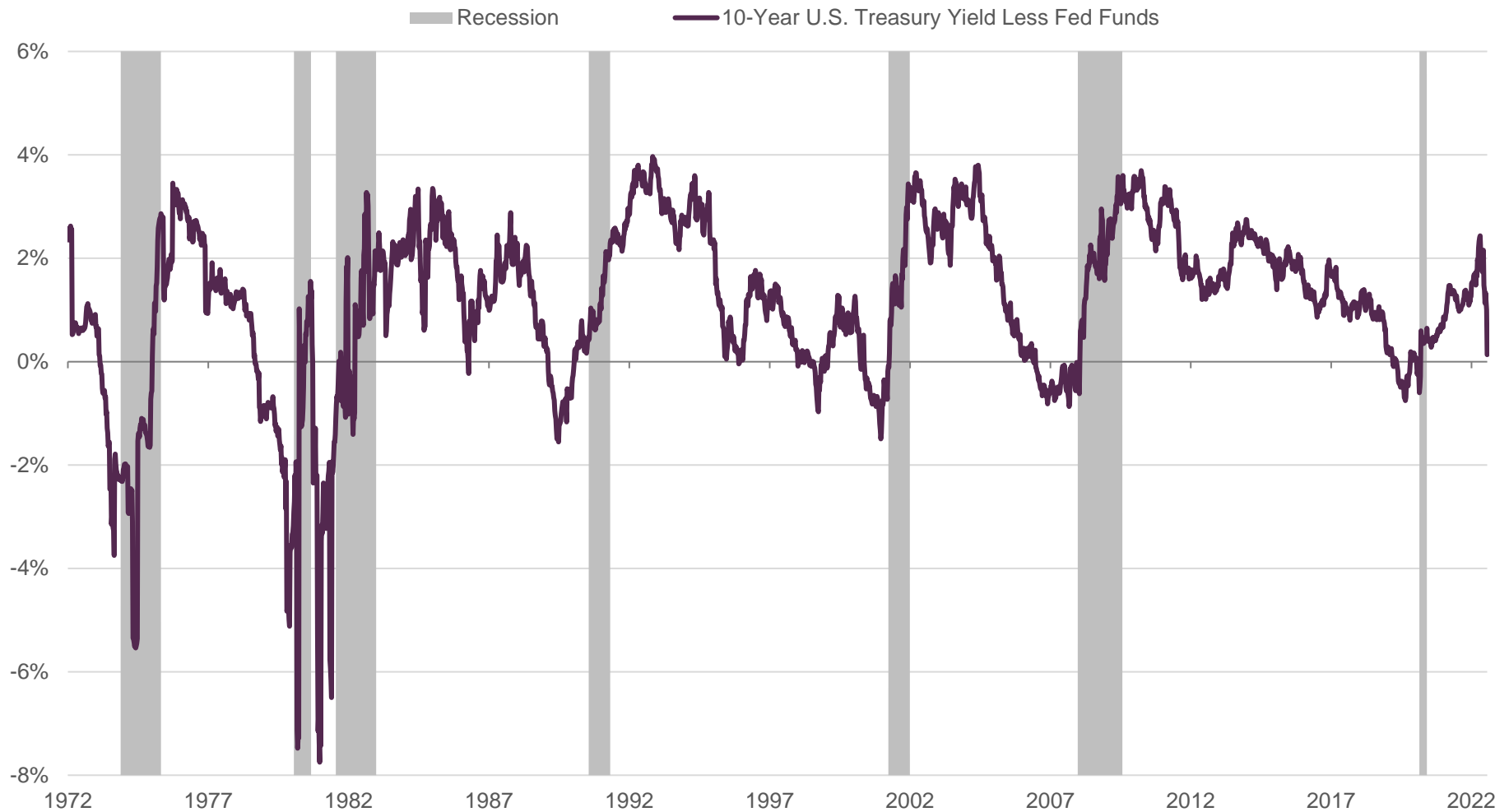
Model Based Recession Probability



Source: Guggenheim Partners, Haver Analytics, Bloomberg. Data as of 06/30/2022. Shaded areas represent periods of recession.

10-Year Treasury Yield Should Fall Below the Fed Funds Target Rate

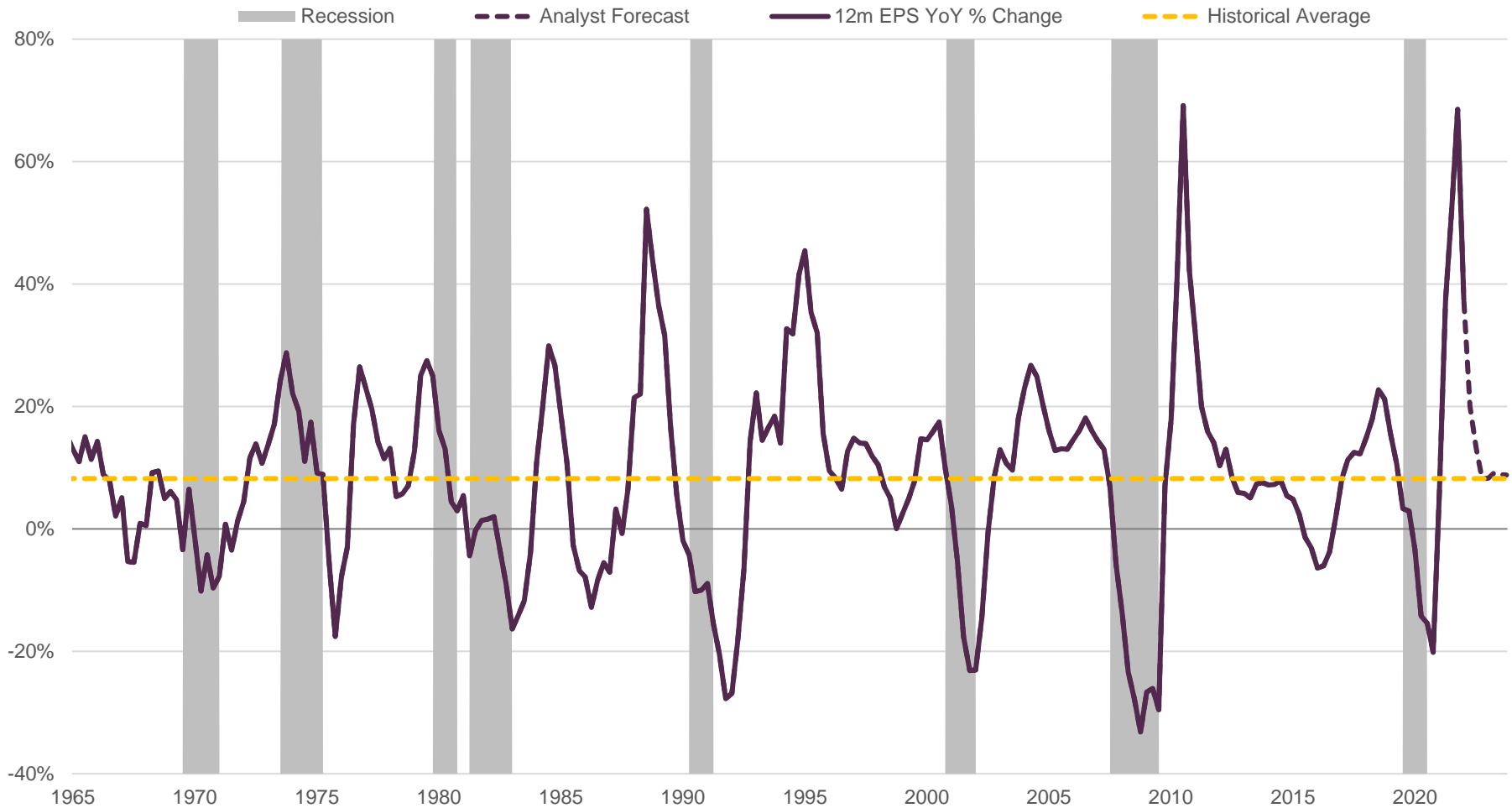
10-Year U.S. Treasury Yields Less Fed Funds Rate



Source: Guggenheim Investments, JP Morgan Research. Data as of 6.30.2022.

U.S. Corporate Earnings Growth Projections are Likely to Fall

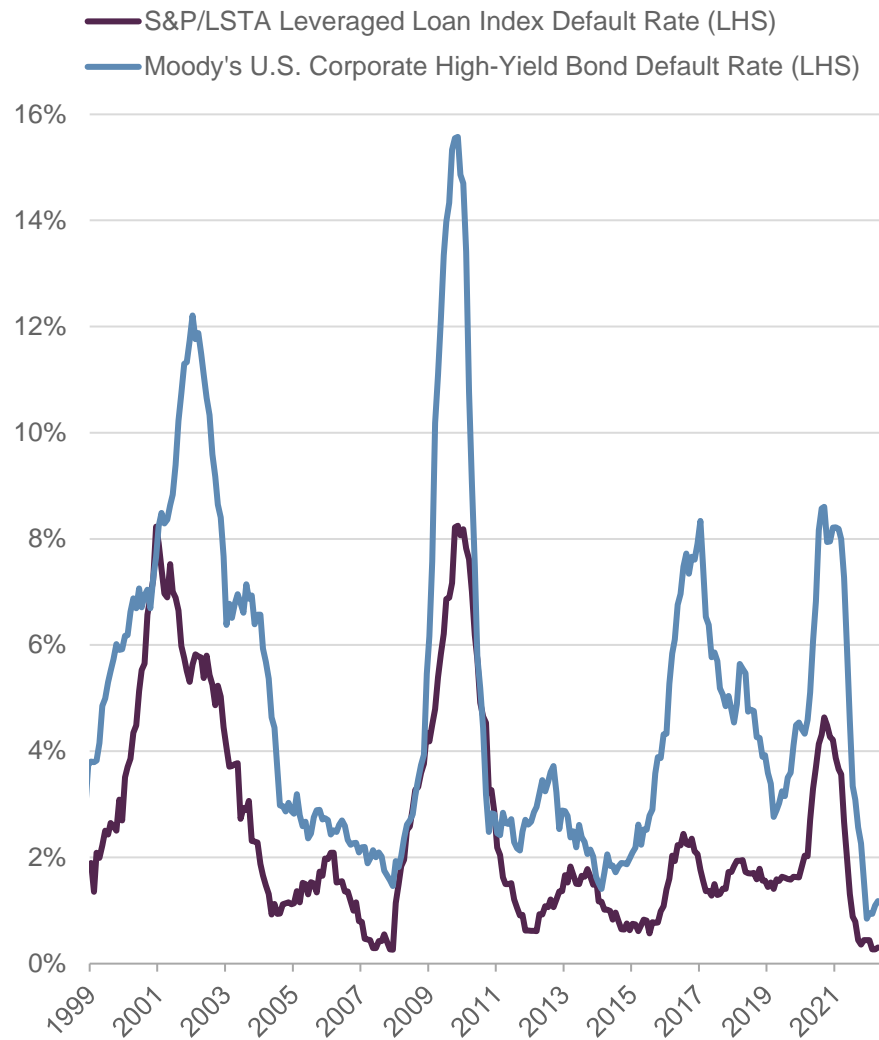
S&P 500 Earnings Per Share Growth and Analyst Expectations



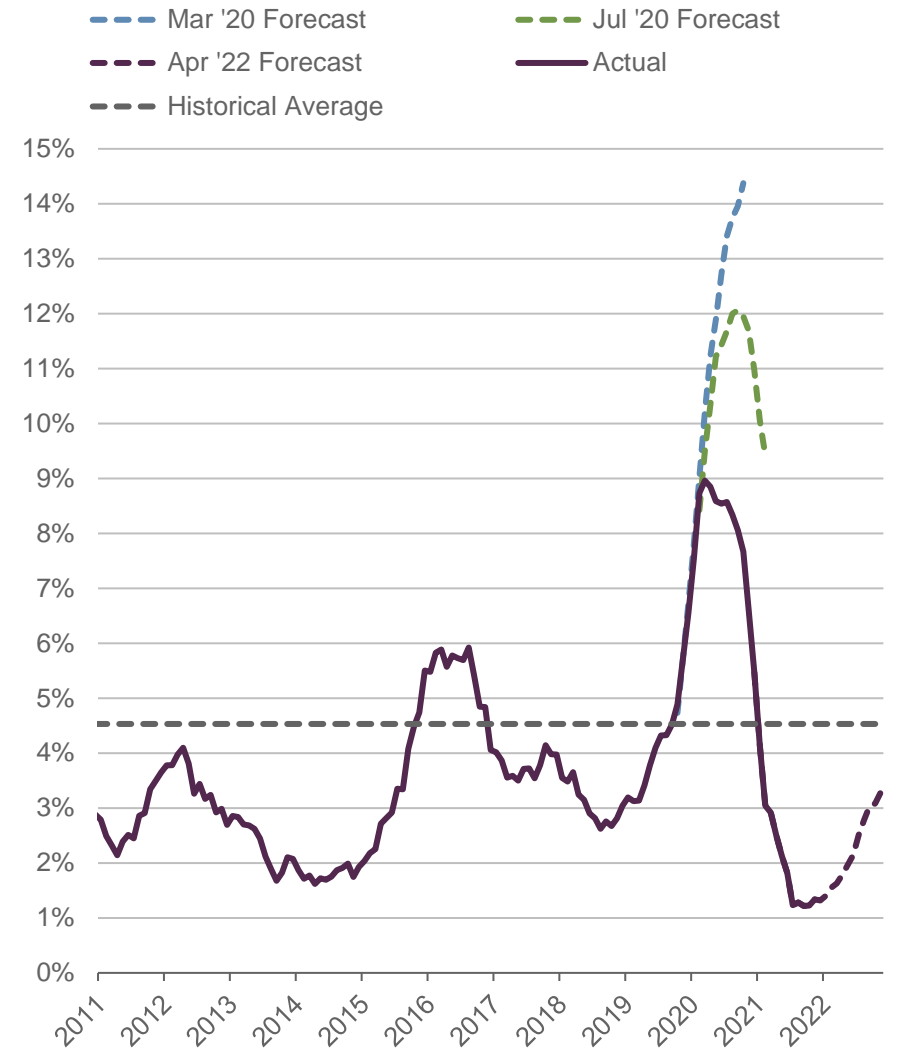
Source: Guggenheim Investments, Bloomberg, Factset. Data as of 7/26/2022. Shaded areas represent periods of recession.

Default Rate Remains Low But Expectations of Credit Stress Are Rising

U.S. Spec Grade Default Rates: Lev Loans and Bonds



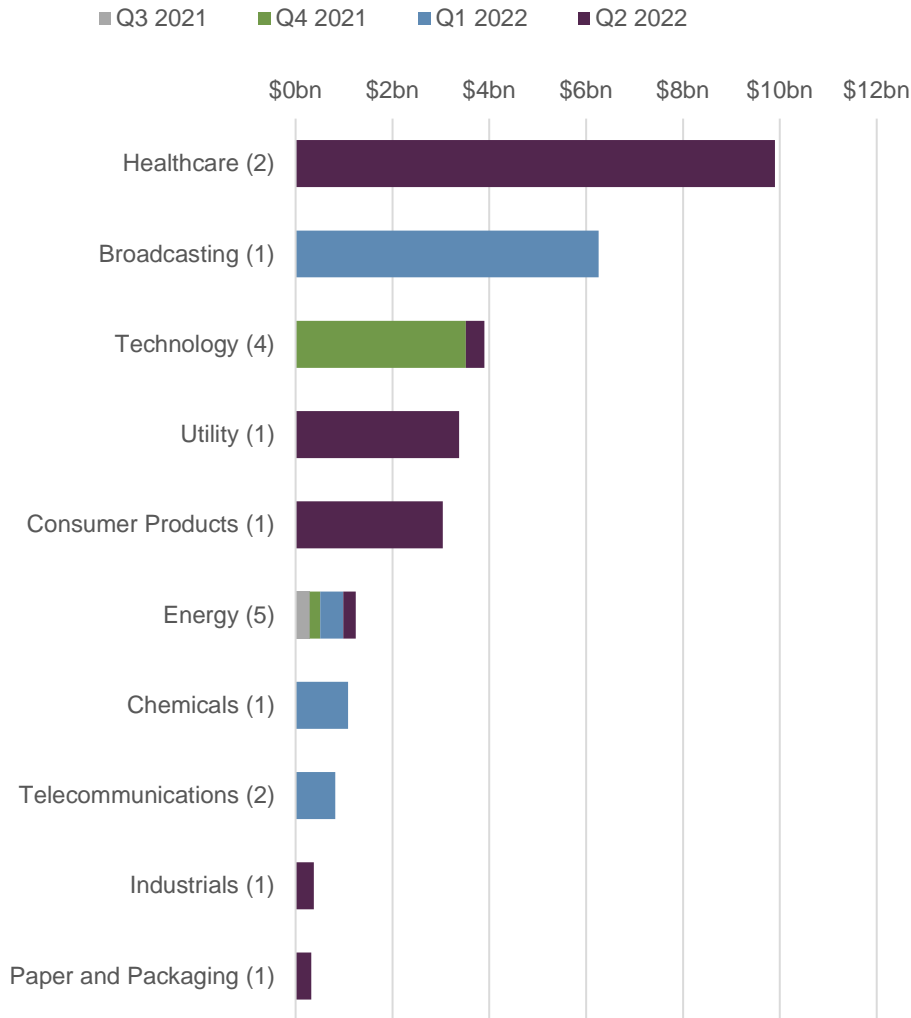
Moody's 12m Speculative-Grade Default Rate Forecasts



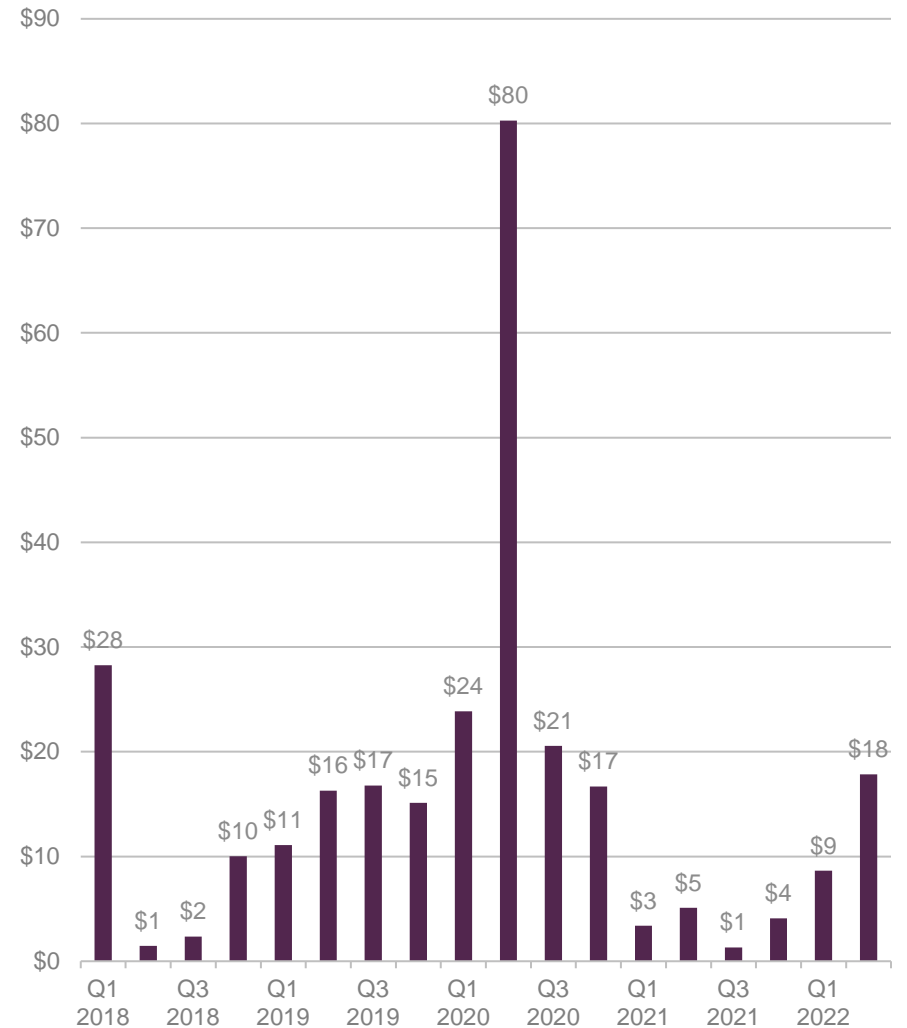
Source: Guggenheim Investments, Bloomberg, Moody's. Data as of 04/30/2022.

Corporate Default Volume is Rising

Last 4Q U.S. Quarterly Default Volume by Industry



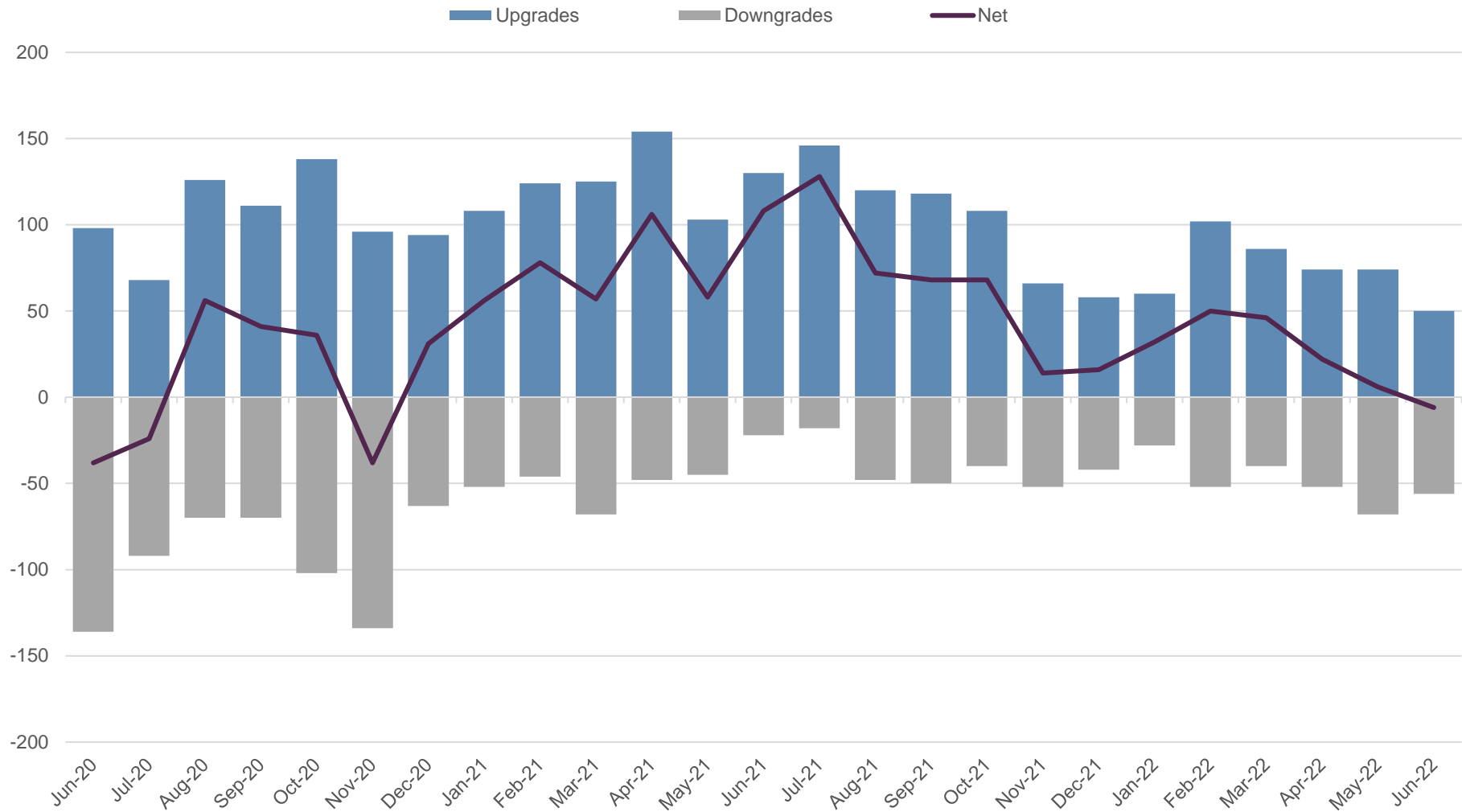
Total U.S. Quarterly Default Volume Q1 '18 – Q2 '22



Source: Guggenheim Investments, JP Morgan Research. Data as of 6.30.2022.

Rating Migration Hitting an Inflection Point as Upgrades Slow

S&P Global Long-Term Rating Changes for U.S. High-Yield Companies



Source: Guggenheim Investments, Bloomberg. Data as of 6.30.2022.

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