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When the U.S. Sneezes...

Scott Miner
Global Chief Investment Officer

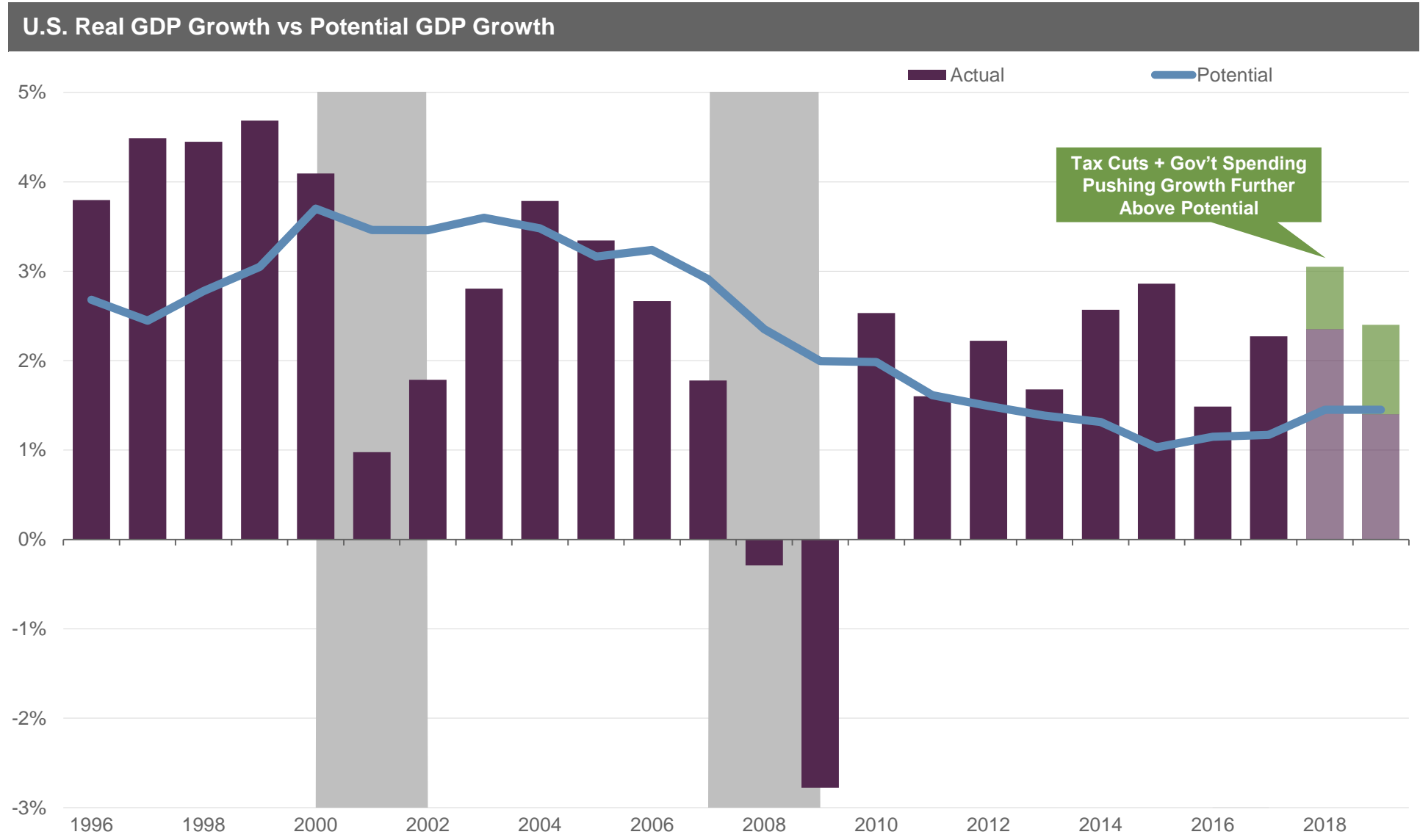
October 2018

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Where Are We Today?

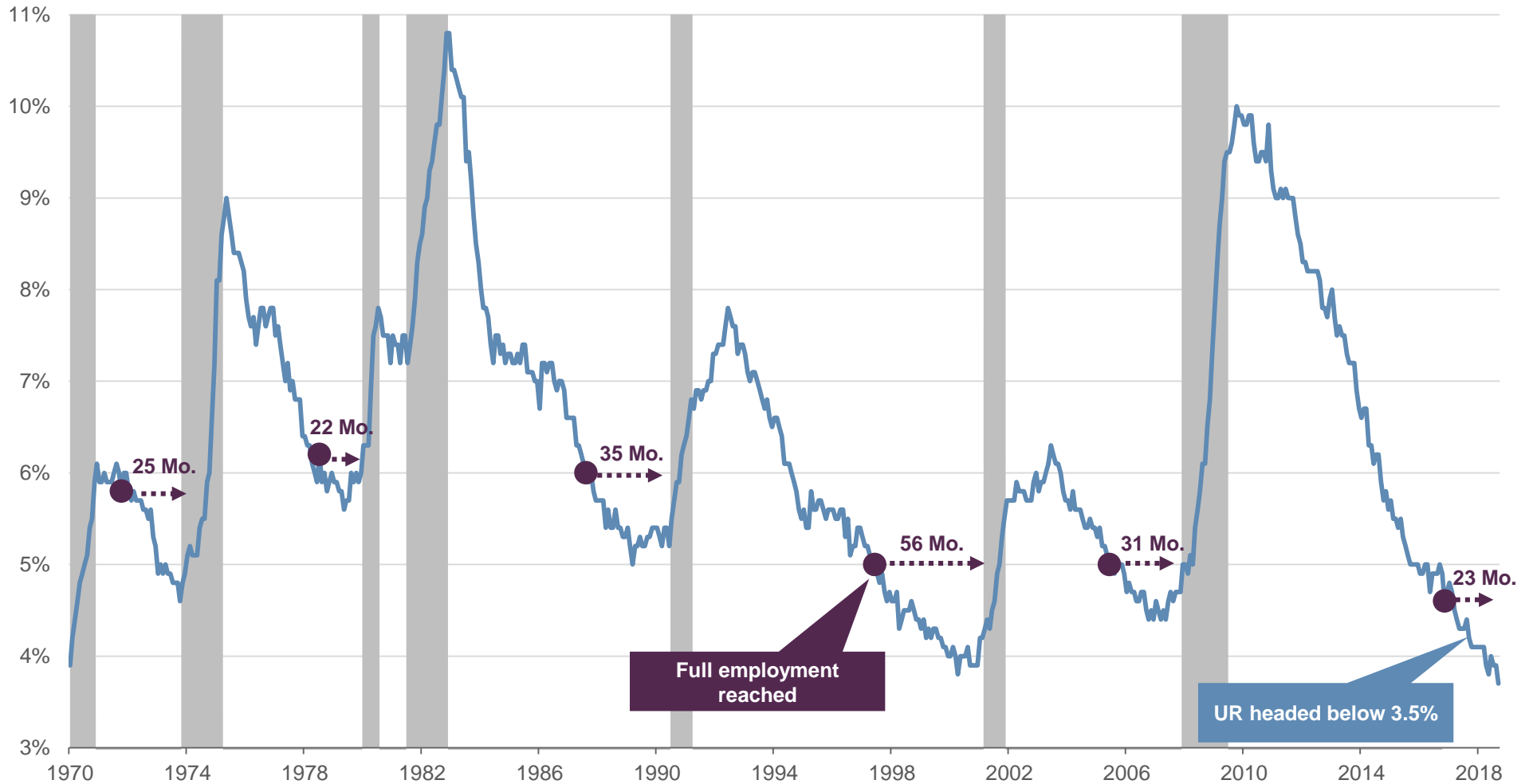
The U.S. Economy is in the Overheating Stage



Source: Bloomberg, OECD, Haver Analytics. Guggenheim Investments. Historical data as of 12/31/2017.

Strong Growth Will Push Us Further Below Full Employment

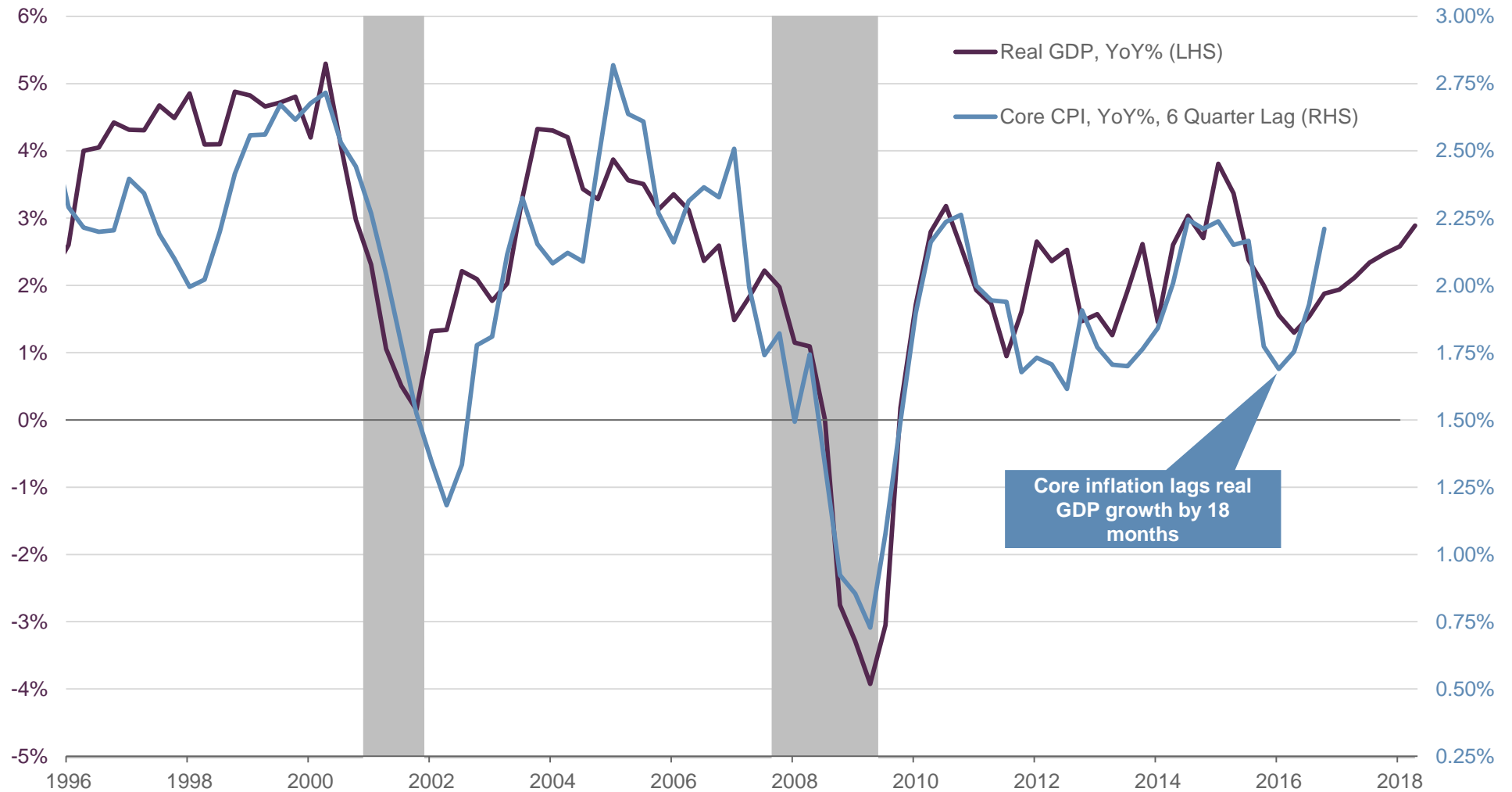
U.S. Unemployment Rate, with Months to Start of Next Recession After Full Employment Was Reached



Source: Guggenheim Investments, BLS, Haver Analytics, Congressional Budget Office. Data as of 09/30/2018.

Faster Growth Has Boosted Core Inflation

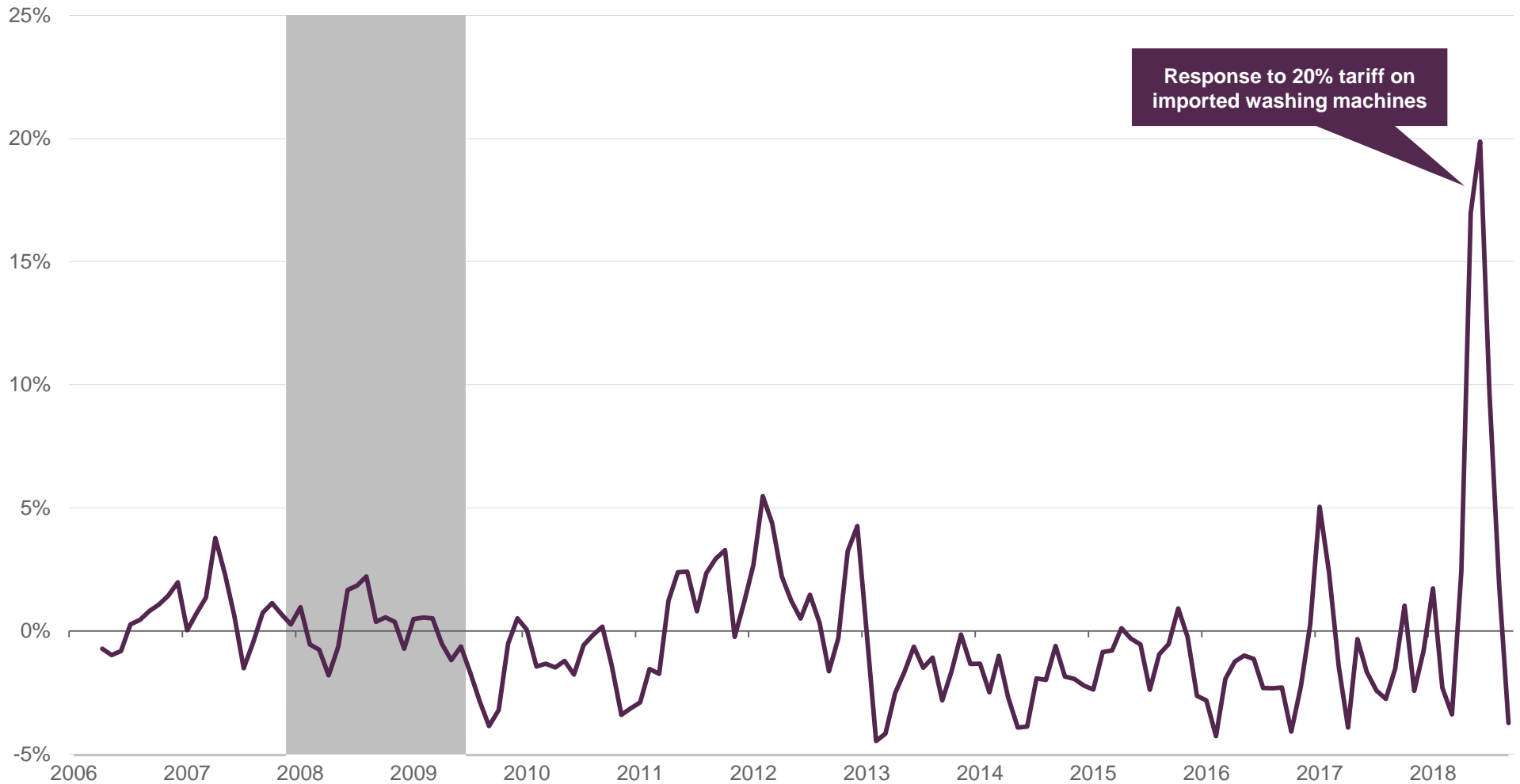
Core Inflation Lags Real GDP Growth By Six Quarters



Source: Guggenheim Investments, Haver Analytics, BEA. Data as of 06/30/2018.

Tariffs Will Exacerbate Inflationary Pressures

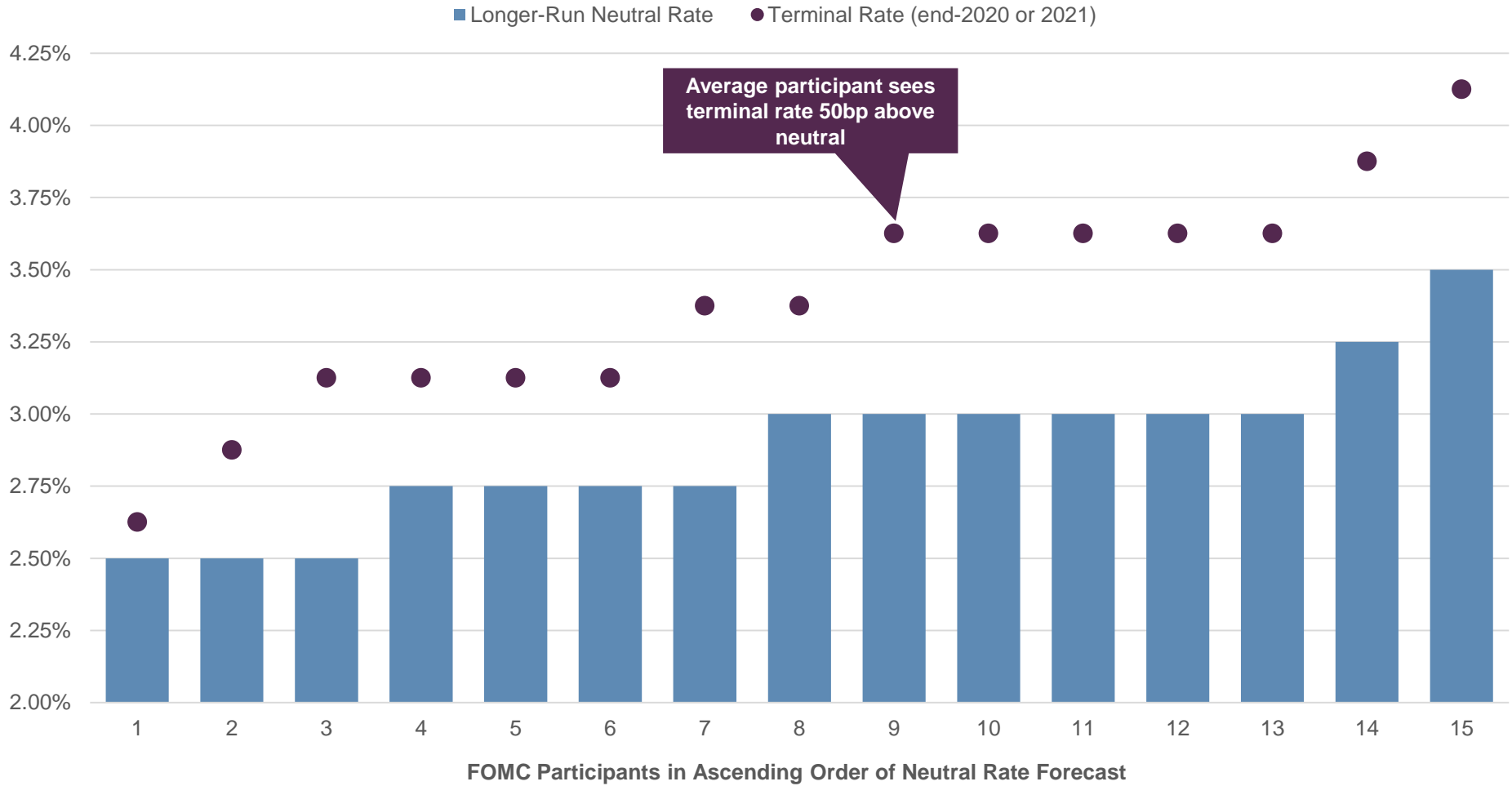
CPI Laundry Equipment, 3 Month Percent Change



Source: Haver Analytics, Guggenheim Investments. Data as of 09/30/2018.

The Fed is Beginning to Warn About the Need for Restrictive Policy

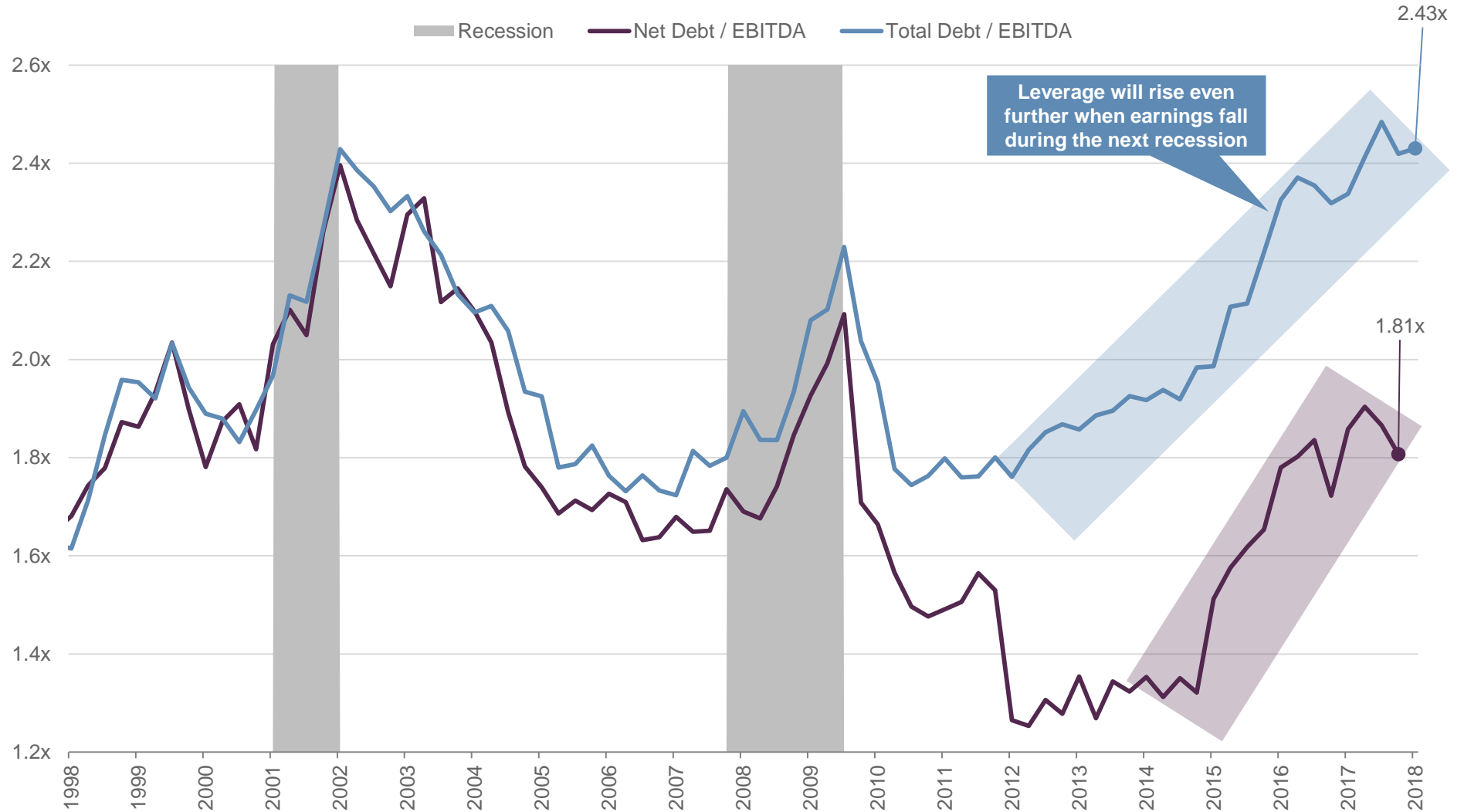
Terminal Fed Funds Rate Projections Relative to Neutral (September 2018 SEP)



Source: Guggenheim Investments, Haver Analytics, Federal Reserve Board. From the Summary of Economic Projections released in September 2018. Note: Excludes Pres. Bullard, who does not submit long-run projections or forecast a change in policy.

A Restrictive Fed Will be Problematic For Overleveraged Companies

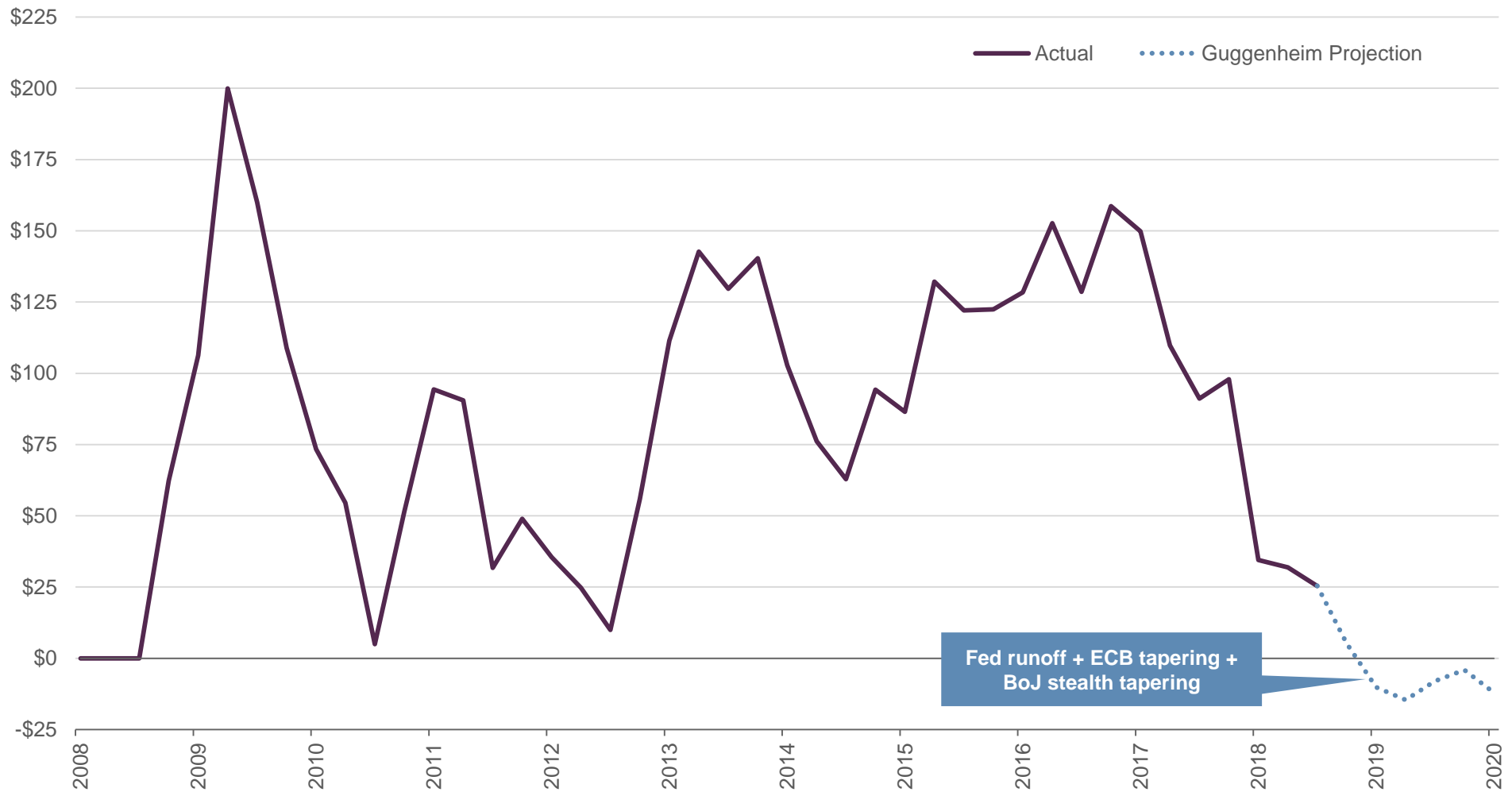
Morgan Stanley Investment-Grade Corporate Tracked Universe



Source: Morgan Stanley Research, Guggenheim. Data as of 03/30/2018.

Global Financial Conditions Will Tighten as QE Goes Into Reverse

Net Monthly Central Bank Purchases of Securities, in USD Billions (Includes Fed, ECB, BoJ, BoE)



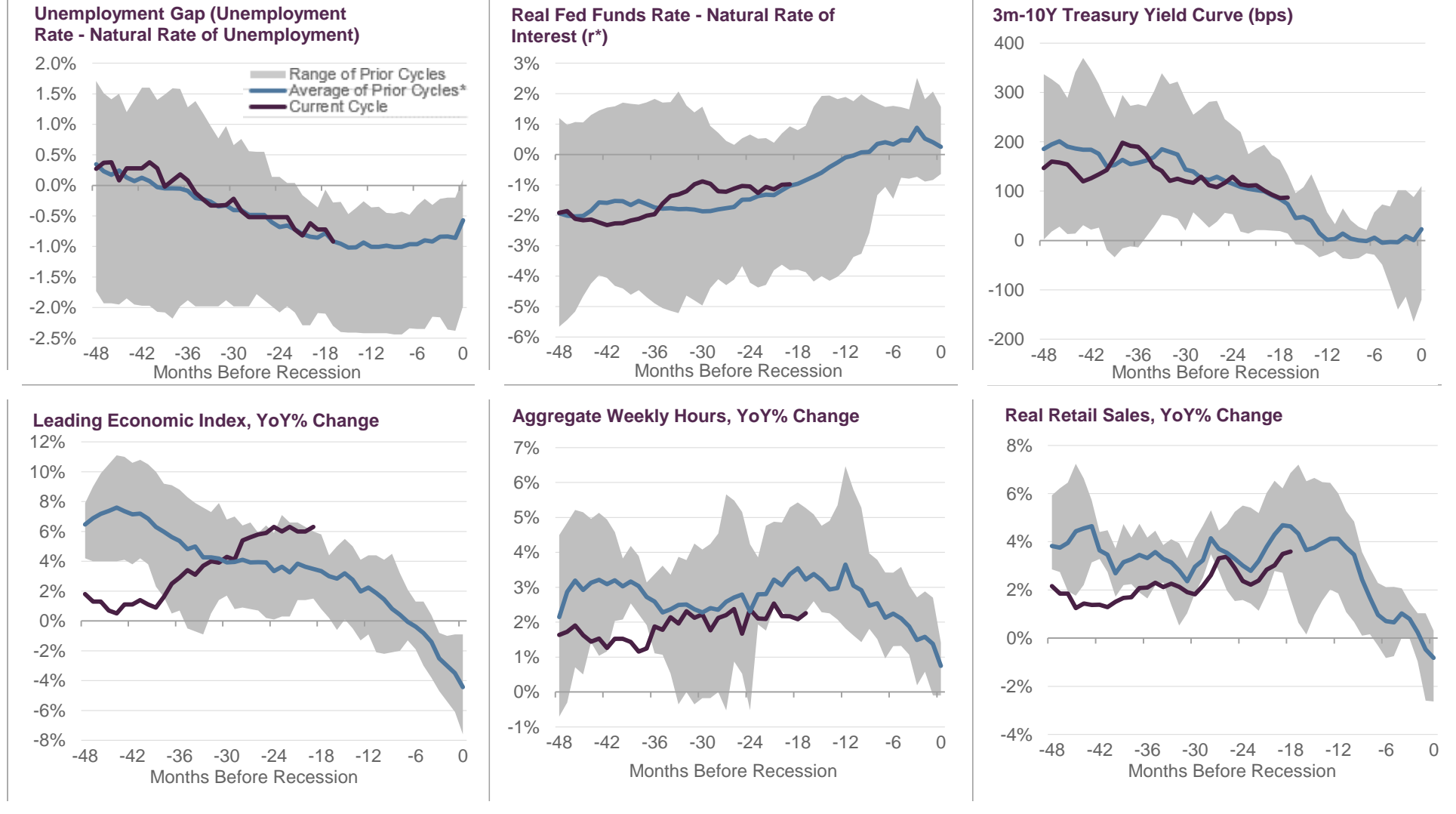
Source: Guggenheim Investments, Haver Analytics, Federal Reserve Bank of New York. Data as of 09/30/2018. Note: Quarterly average. Based on constant 10/2017 exchange rates.

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Where Are We Heading?

Our U.S. Recession Dashboard Points to Early 2020 Recession

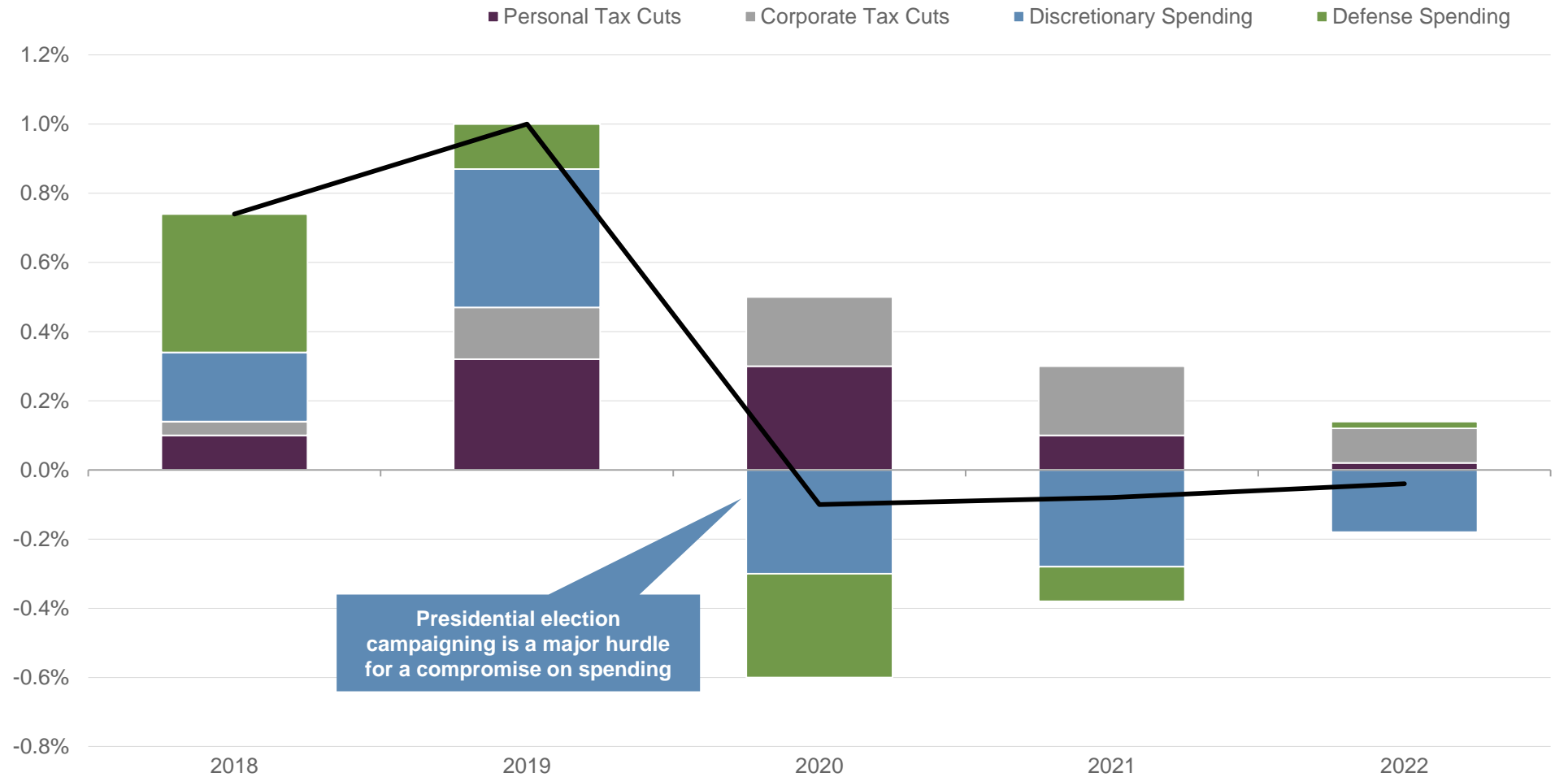
Assumes Current Cycle Ends in February 2020



Source: Haver Analytics, Bloomberg, Guggenheim Investments. Data as of 09/30/2018 for unemployment, yield curve, and hours, 08/31/2018 for others. *Note: includes cycles ending in 1970, 1980, 1990, 2001, and 2007.

Fading Fiscal Impulse Supports Our 2020 Recession Forecast

U.S. Fiscal Impulse: Contribution to Real GDP Growth, in Percentage Points



Source: Citi, Guggenheim Investments. Data as of 02/16/2018.

The Fed is Likely to Return to the Zero Lower Bound...

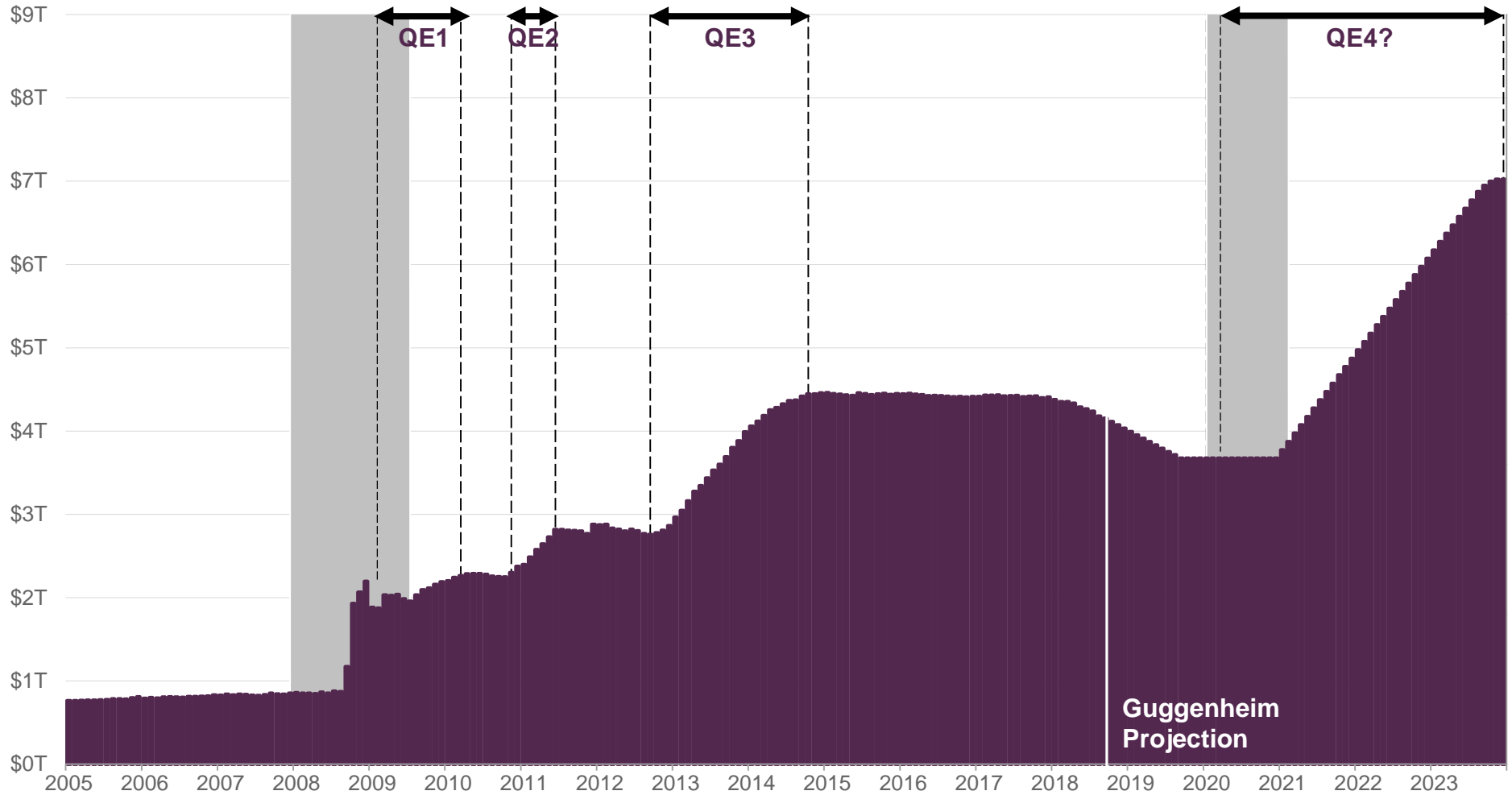
Change in Fed Funds Rate During Past Recessions, in Percentage Points*

Recession	Total Rate Cuts	Funds Rate Trough vs Natural Rate
August 1957 - April 1958	-2.9	---
April 1960 - February 1961	-2.8	---
December 1969 - November 1970	-5.5	-5.0
November 1973 - March 1975	-7.7	-4.7
January 1980 - July 1980	-4.8	-1.6
July 1981 - November 1982	-10.4	-3.3
July 1990 - March 1991	-5.3	-3.6
March 2001 - November 2001	-4.8	-2.8
December 2007 - June 2009	-5.1	-3.2
Average	-5.5	-3.5

Source: BCA, Janet Yellen, "The Federal Reserve's Monetary Policy Toolkit: Past, Present, and Future", Guggenheim Investments. *For recessions prior to 1990, the total amount of easing is the difference between the maximum and the minimum monthly average of the effective federal funds rate in a period extending from six months prior to the start of the recession to six months after it ends. For the last three recessions, the periods of continuous reductions in the intended federal funds rate are June 1990 to September 1992, December 2000 to January 2002, and August 2007 to December 2008. Uses the Laubach-Williams natural rate estimate.

...Requiring Another Round of QE

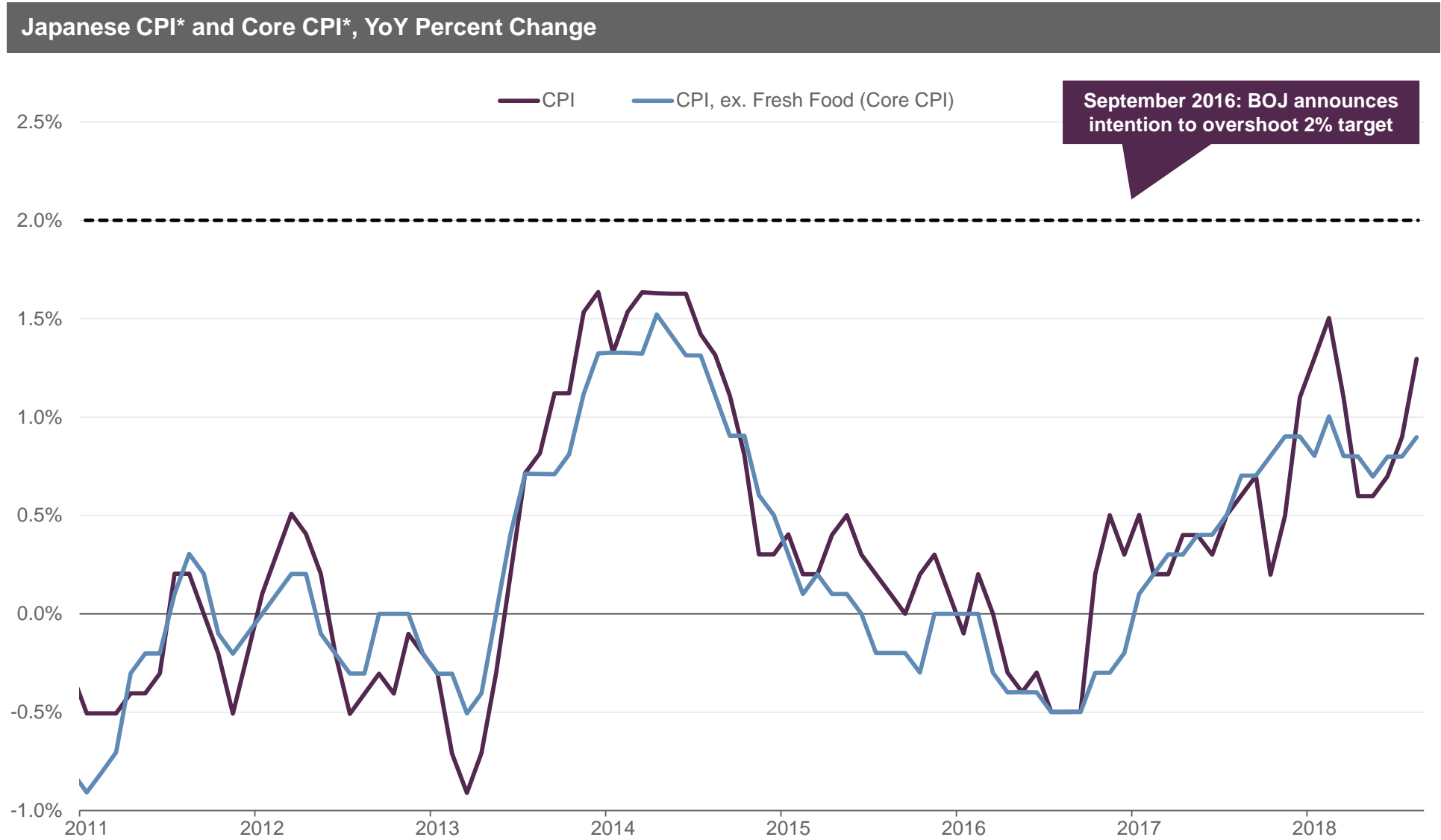
Fed Assets, in USD Trillions



Source: Haver Analytics, Guggenheim Investments. Actual data as of 09/30/2018. Assumes balance sheet runoff continues through September 2019 and QE resumes at a monthly purchase pace of \$100 billion starting in April 2020.

What Are the Implications for Japan?

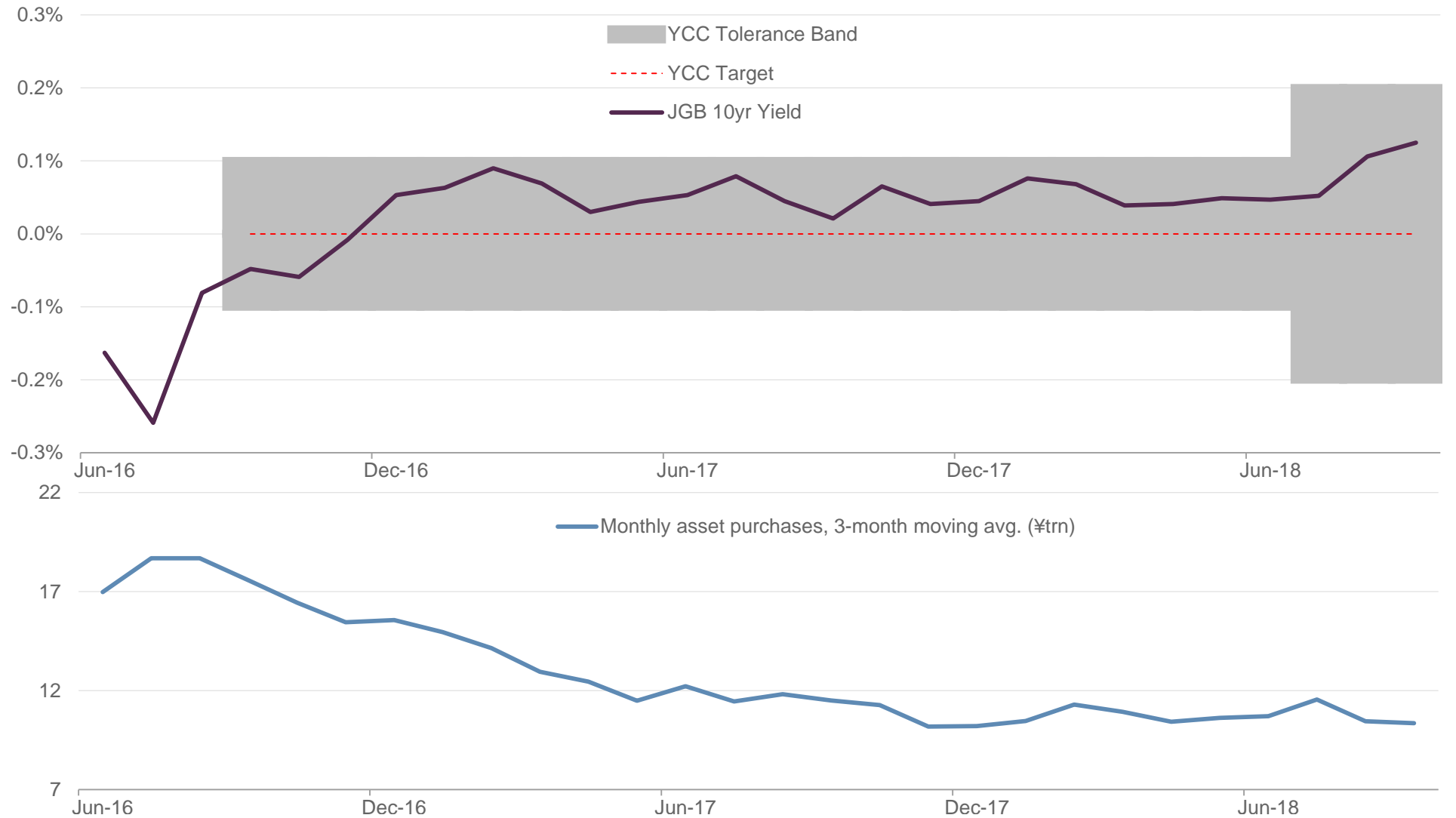
BOJ Normalization is Nowhere in Sight as Inflation is Still Below Target



Source: Haver Analytics, Guggenheim Investments. Data as of 10/10/2018. Note: Excludes effects of 2014 consumption tax hike.

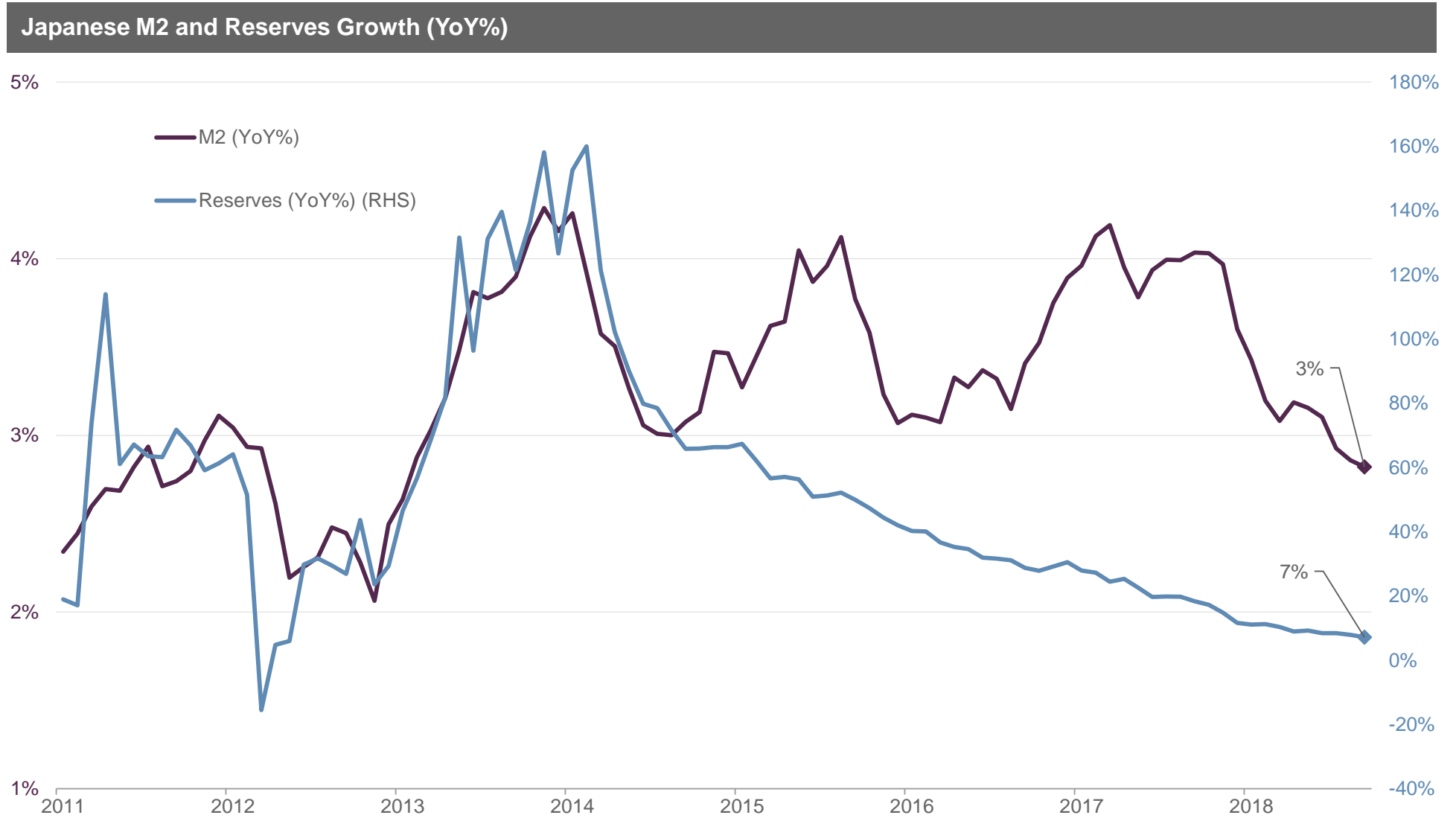
Yield Curve Tweak, Reduced Purchases Position QE For the Long Haul

BOJ Monthly Asset Purchases, 10-year JGB Yield, Yield Curve Control (YCC) Target, and YCC Tolerance Bands



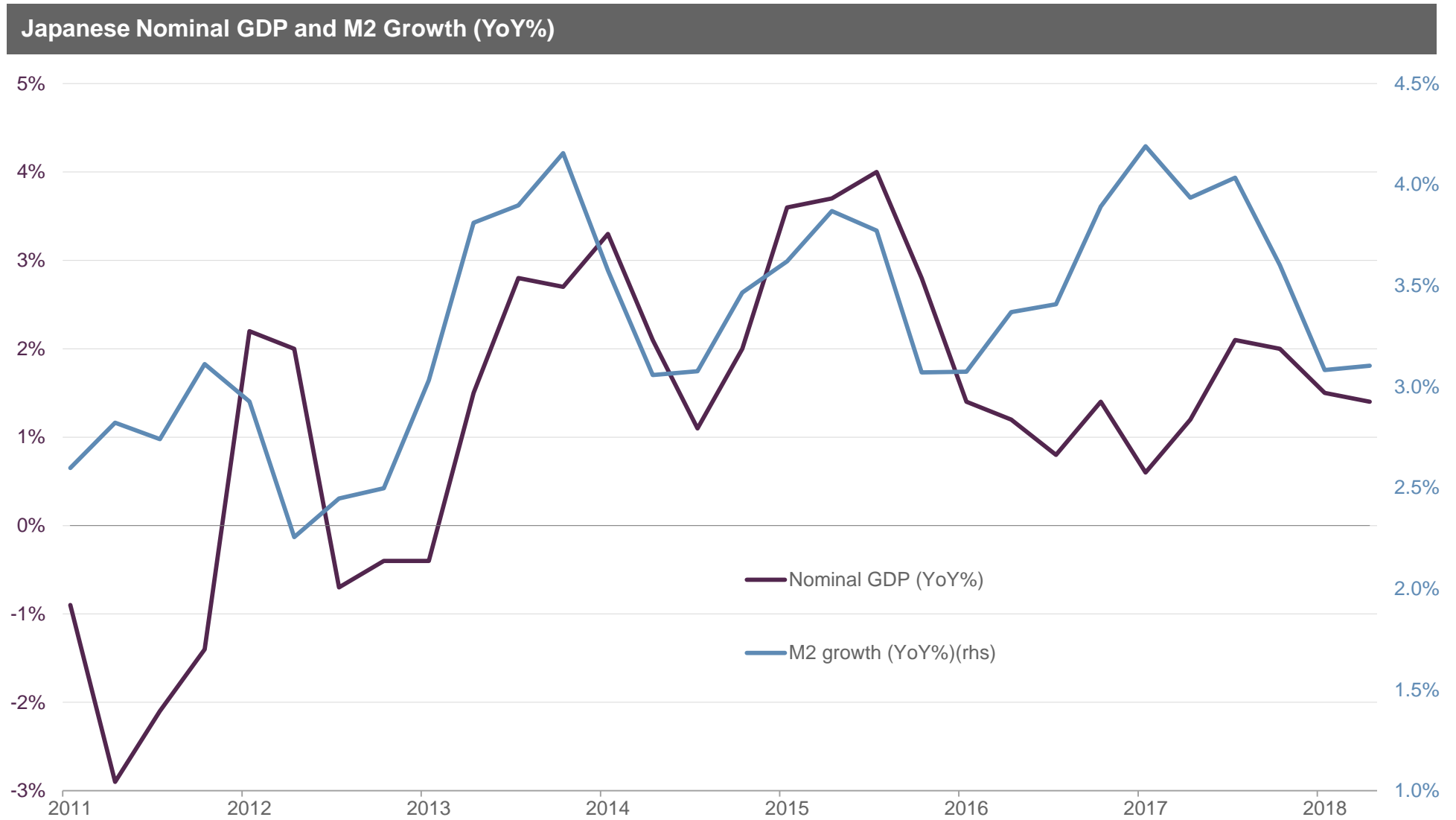
Source: Bloomberg, Guggenheim. Data as of 10/10/2018.

Reduced BOJ Purchases Have Weighed on Money Supply Growth



Source: Haver Analytics, Guggenheim Investments. Data as of 10/16/2018.

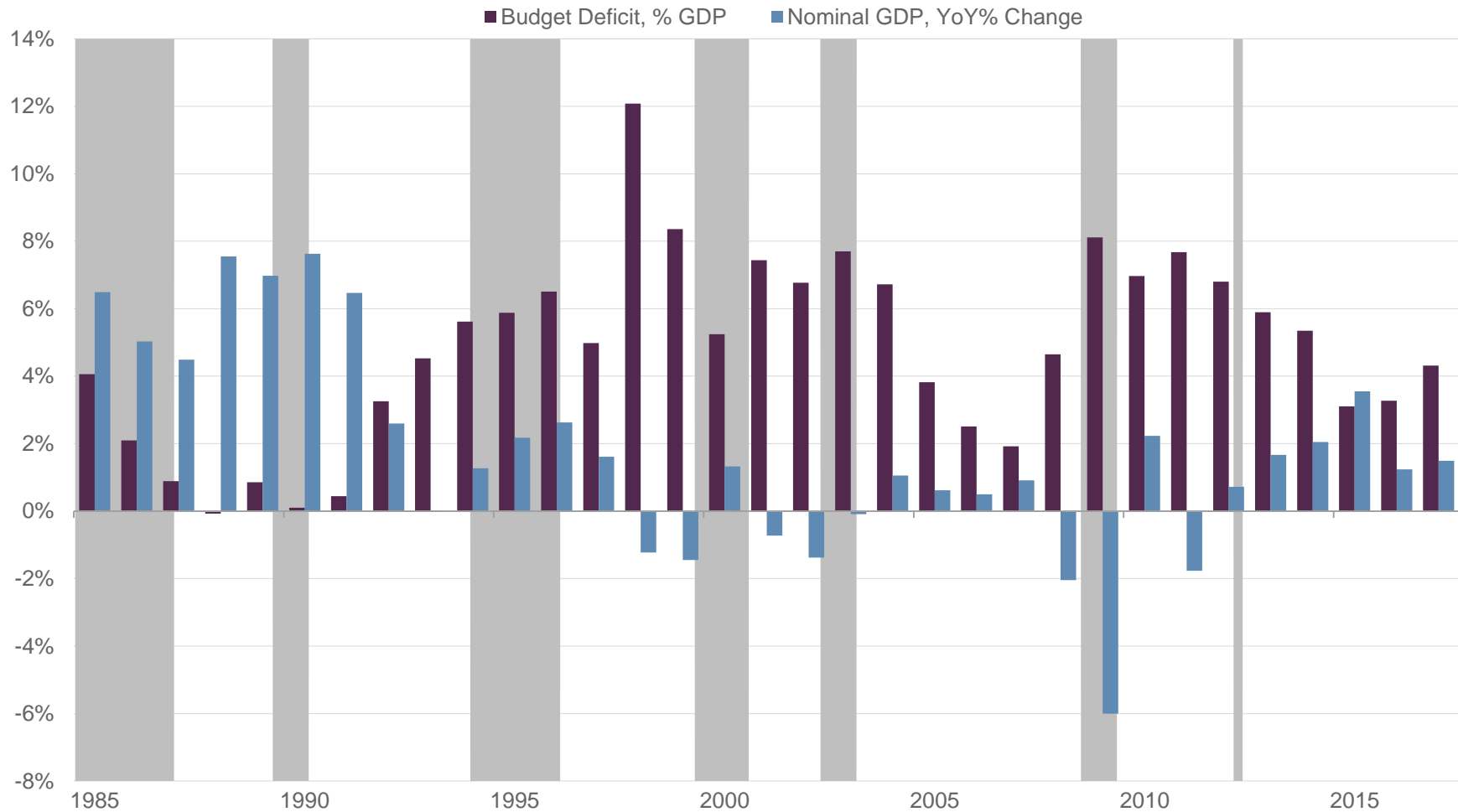
Reduced Monetary Accommodation is a Drag on Output



Source: Haver Analytics, Guggenheim Investments. Data as of 10/16/2018.

Budget Deficits Are a Key Driver of Growth

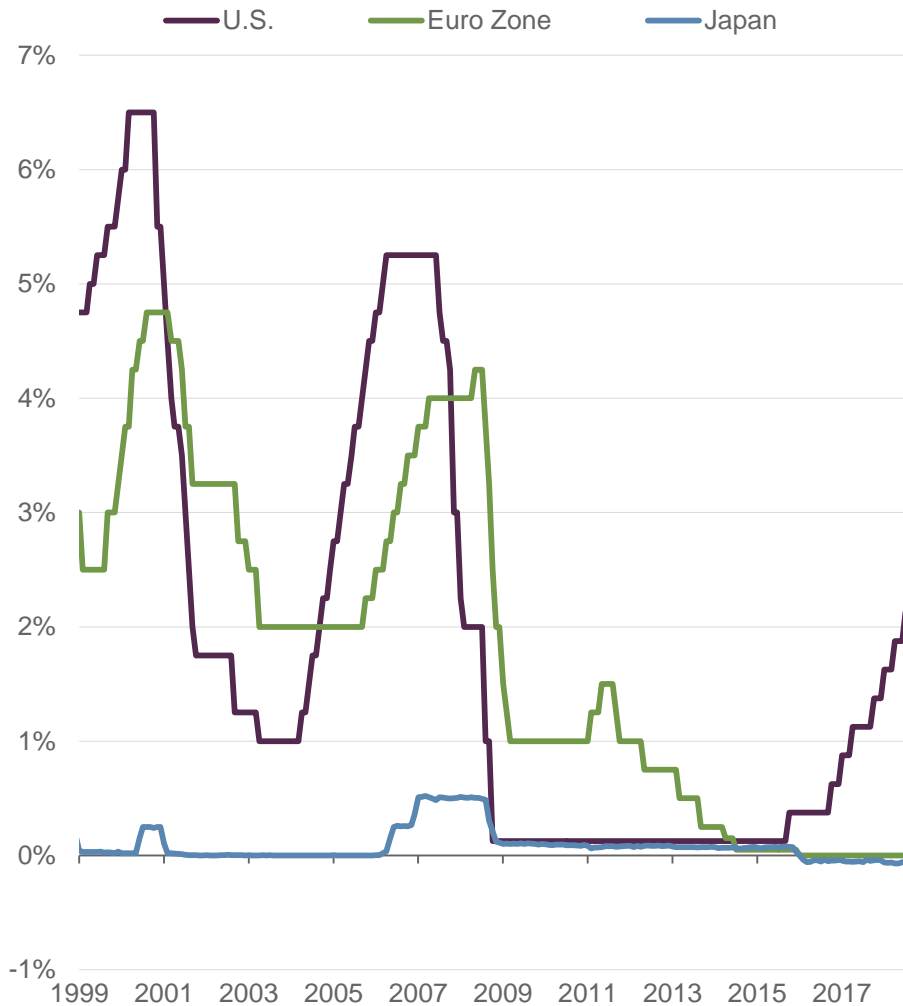
Budget Deficit and Change in Nominal GDP, Trillion Yen



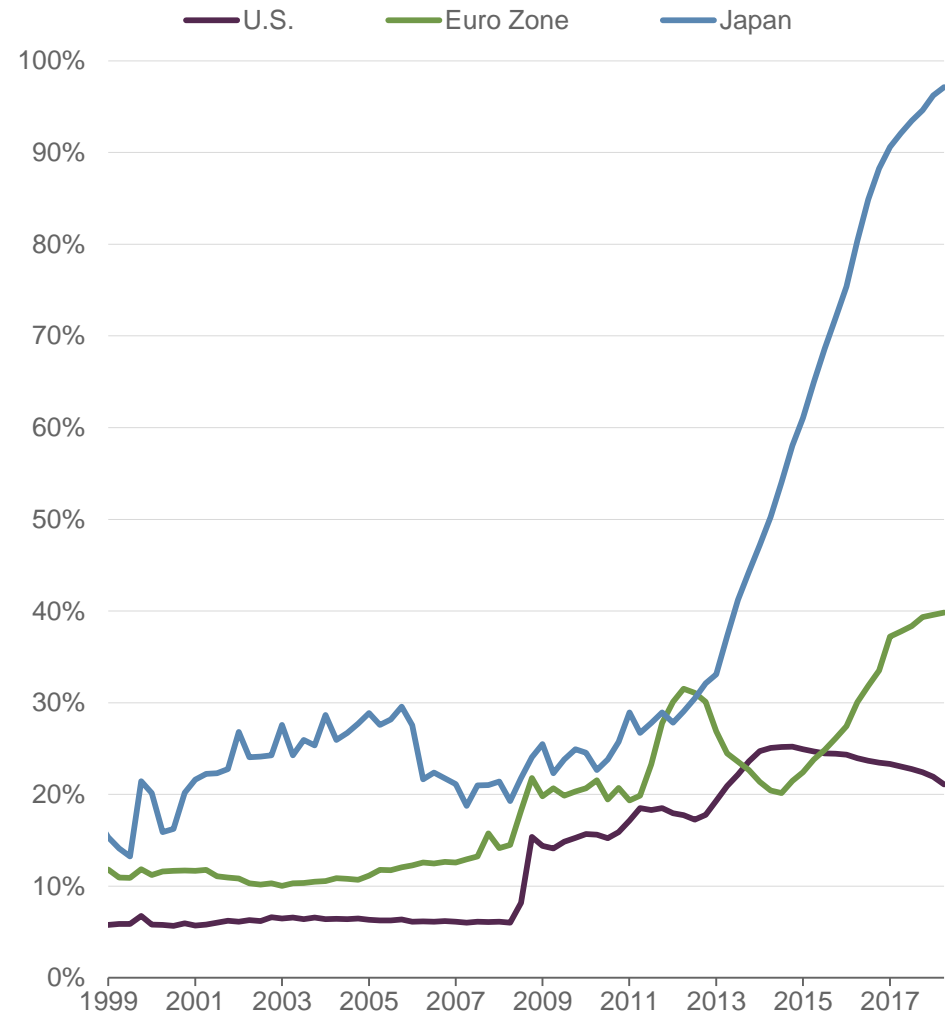
Source: Haver Analytics, Guggenheim Investments. Annual data as of 2017.

Japan Has Little Scope to Increase Accommodation to Match the Next Fed Easing Cycle

Central Bank Policy Rates



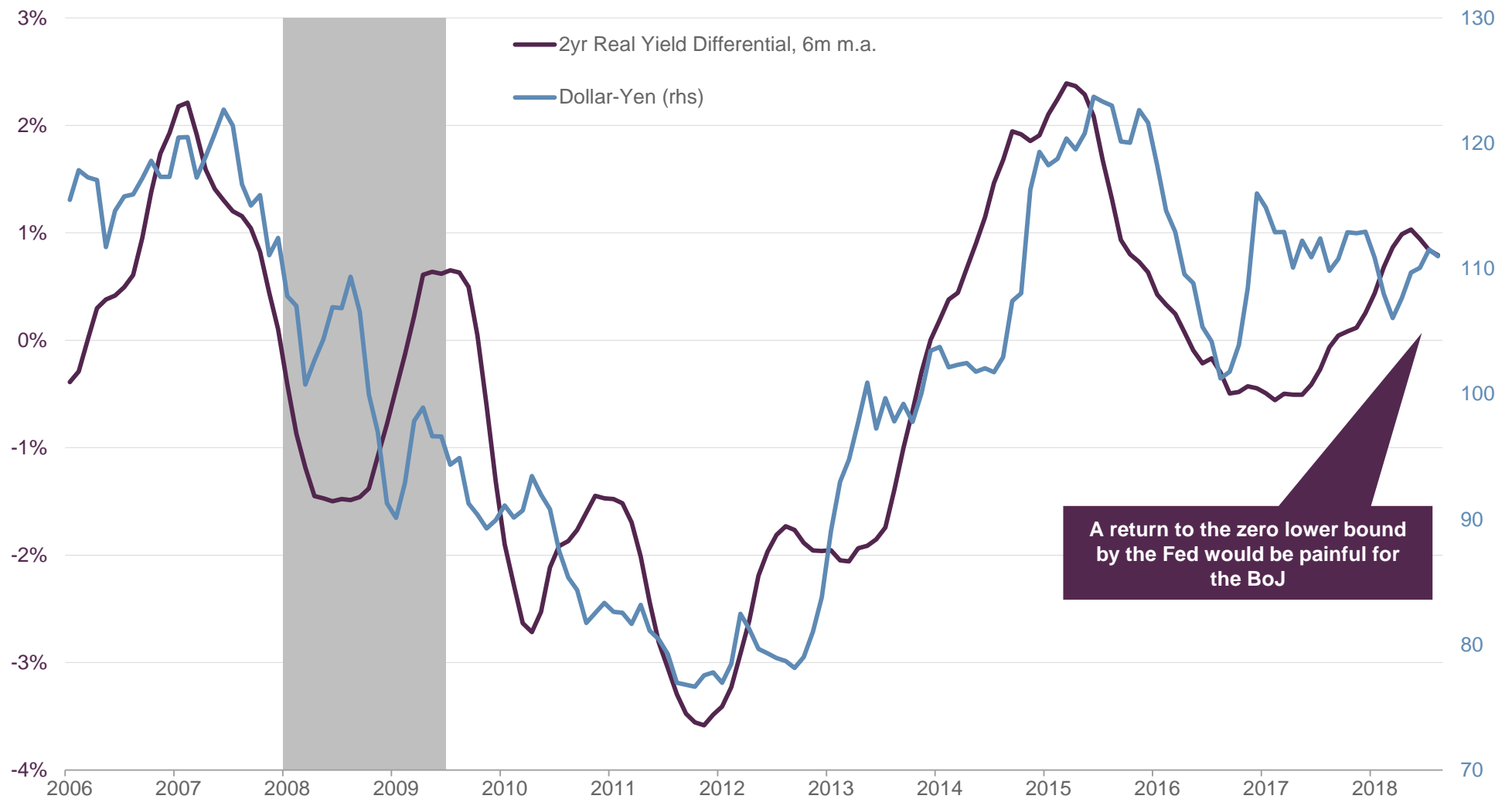
Central Bank Balance Sheets, % of GDP



Source: Haver Analytics, Guggenheim Investments. Data as of 09/30/2018 for policy rates, 06/31/2018 for balance sheets.

Yield Convergence Will Cause Sharp Yen Appreciation in U.S. Recession

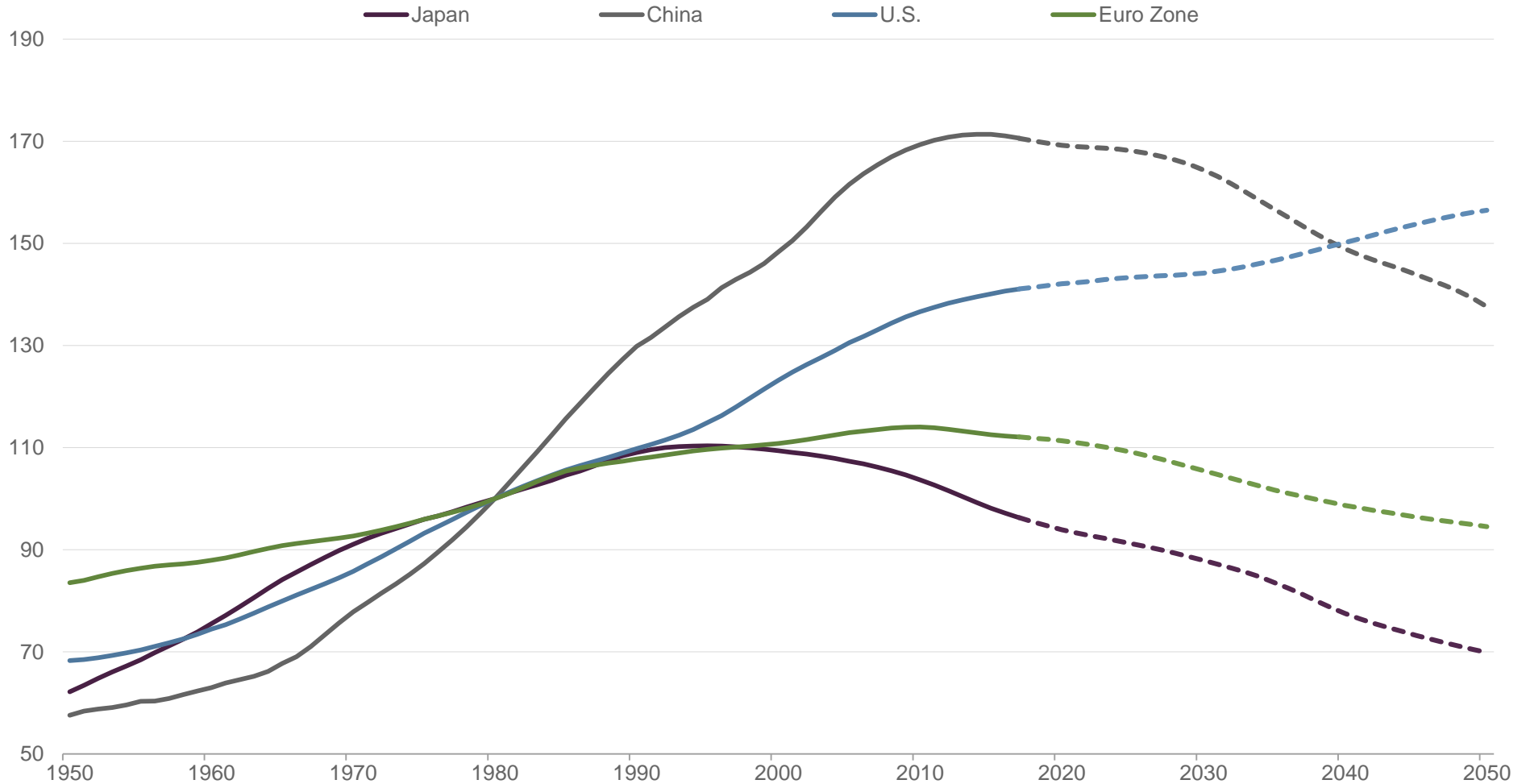
Dollar/Yen Exchange Rate and 2-Year Real Yield Differentials (6-month moving average)



Source: Bloomberg, Guggenheim Investments. Data as of 10/10/2018.

Trends in Population Growth Are Not Favorable for Japan

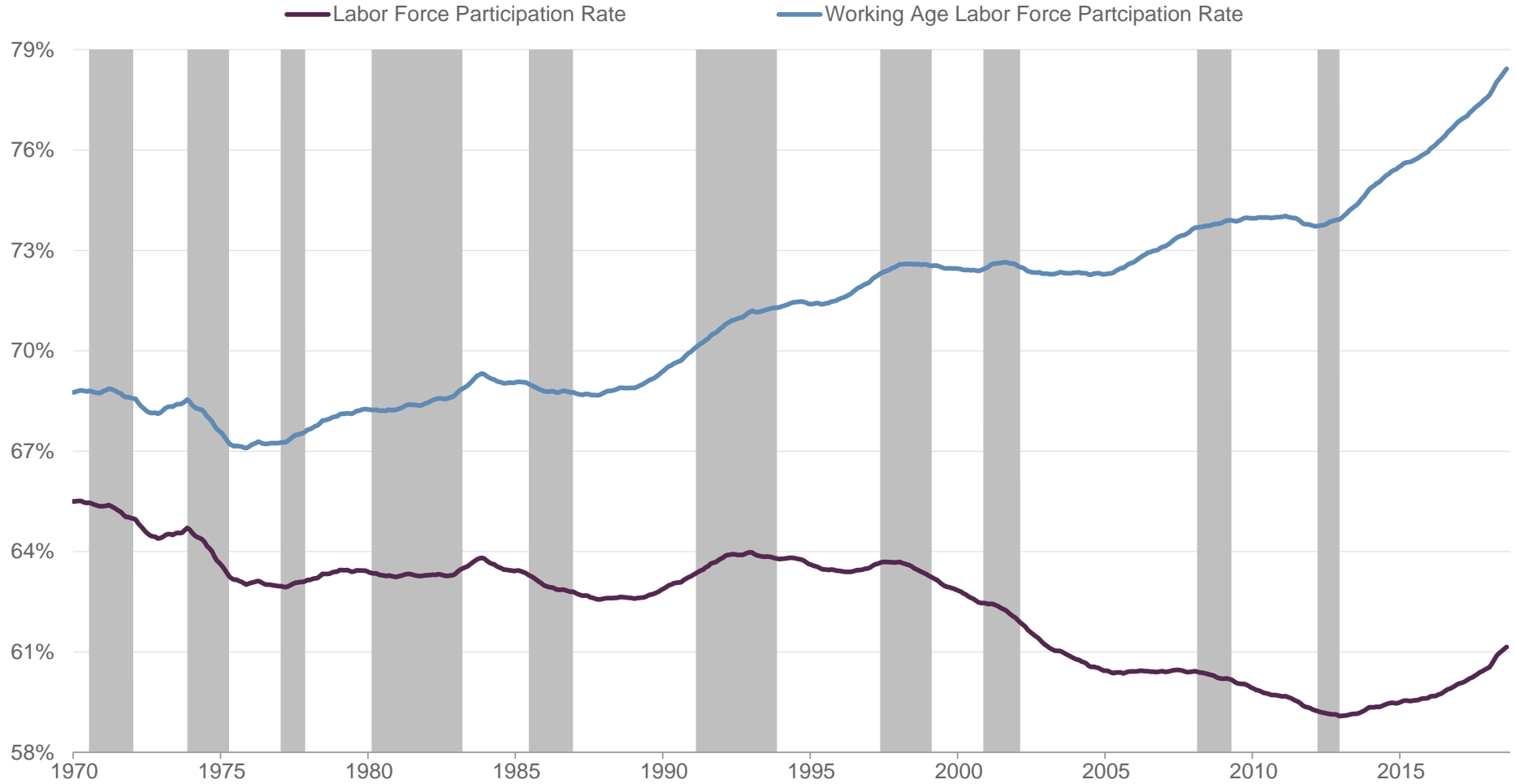
Working Age Population (1980 = 100)



Source: Haver Analytics, United Nations, Guggenheim Investments. Actual data as of 2015.

Higher Participation Is Offsetting Shrinking Working Age Population

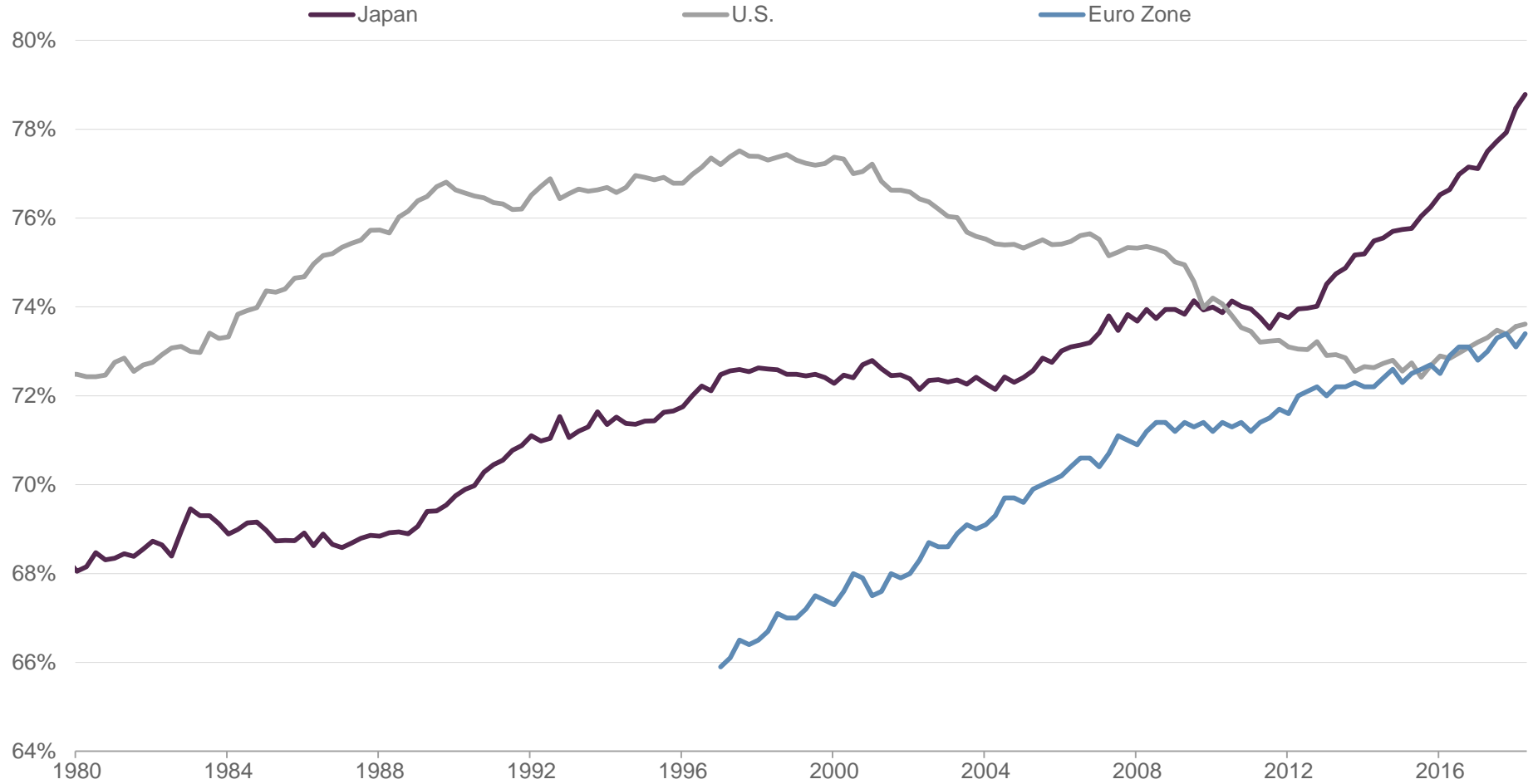
Labor Force Participation Rate



Source: Haver Analytics, Guggenheim Investments. Data as of 08/30/2018

But Japan's Labor Force Participation Already Well Above Other Economies

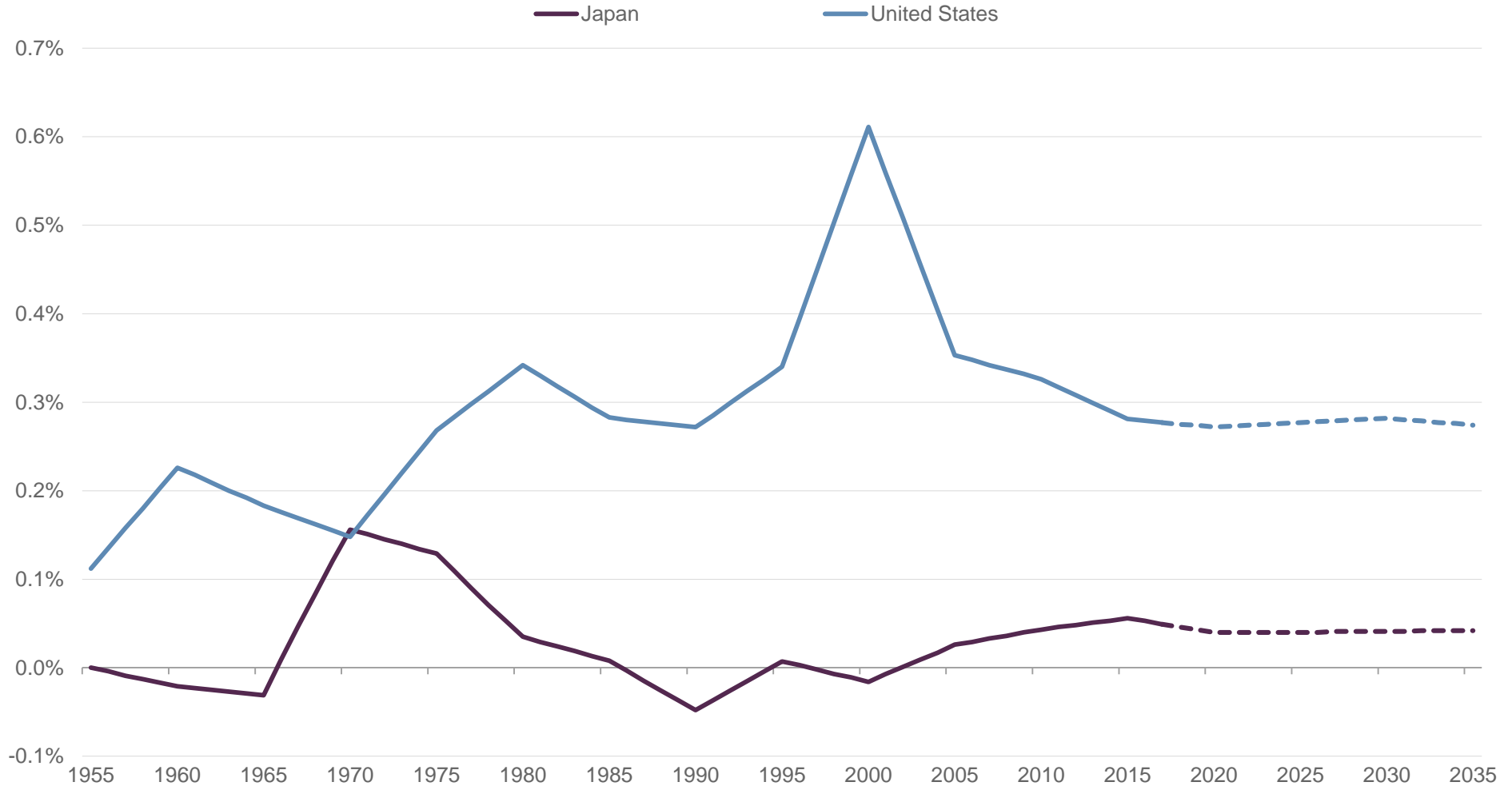
Working Age Labor Force Participation Rate



Source: Haver Analytics, Guggenheim Investments. Data as of 06/30/2018

More Foreign Workers Could Help Boost Potential Growth in Japan

Net Migration, % of Population



Source: Haver Analytics, Guggenheim Investments. Actual data as of 2015.

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