Guggenheim Investments

10 Macro Themes for 2025

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Macro Themes is a quarterly publication from our Macroeconomic Research and Market Strategy Group that updates our baseline economic outlook and spotlights key areas of research. At the beginning of each year, we take the opportunity to present themes for the year ahead. In the following pages, we share our top 10 macro themes for 2025.

1. Popular Discontent Will Disrupt Global Policy, Elevate Volatility
2. A Shifting Geopolitical Landscape Will Realign the Global Economy
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8. Investor Demand and Strong Fundamentals to Contain Spread Widening
9. Fiscal Consolidation Will Take on New Urgency
10. Attractive Opportunities for Active Fixed-Income Management

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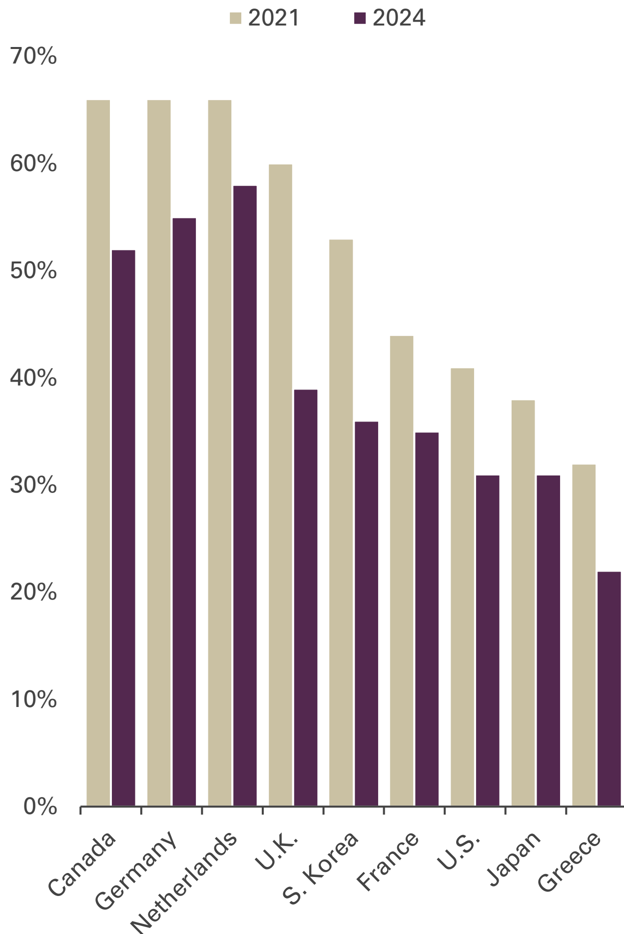
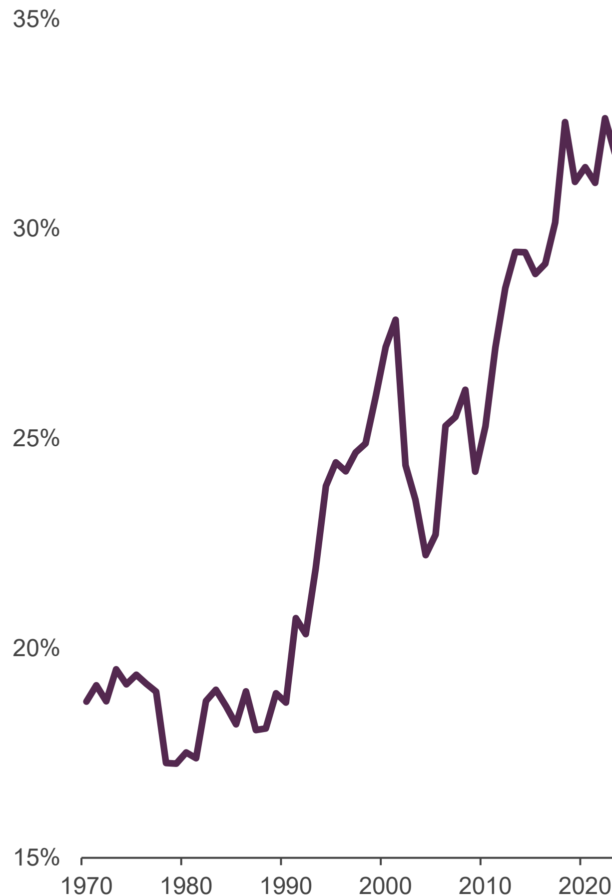
Popular Discontent Will Disrupt Global Policy, Elevate Volatility

Voter Satisfaction With Governments Has Fallen
% satisfied with democracy in their country (Pew)



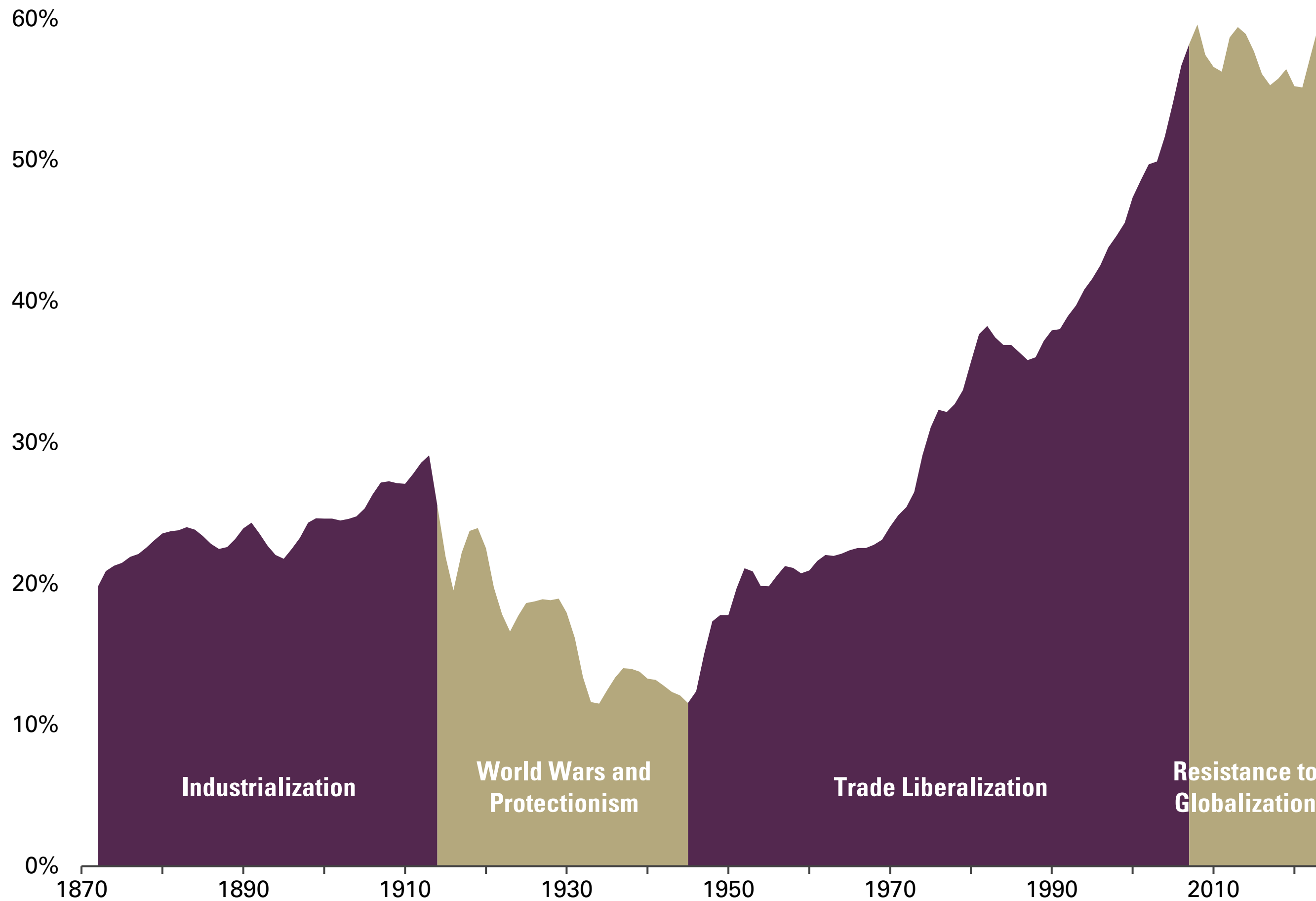
Centrist Parties Are Losing Influence
Far left + far right party seats in government*



- Voters around the world delivered a strong mandate for change in 2024, with incumbent political parties being tossed out in record numbers. The result is a shifting global policy environment that is likely to elevate market volatility and create opportunities for investment.
- Voter satisfaction with governments has been falling for years. Unpopular government policies during the pandemic appeared to accelerate this decline. Increasing reliance on social media also fueled polarization, contributing to dissatisfaction.
- In democracies globally, this discontent led to election outcomes where parties on both the left and the right gained influence. Newly installed governments are likely to focus more on the domestic concerns of voters and less on international cooperation.
- Polarized politics and transitioning governments will create significant policy swings in 2025, resulting in heightened market volatility as investors respond to incoming information.
- But new policies will also generate trading opportunities, as the shifting environment creates winners and losers on the company, industry, and country levels.

Source: Guggenheim Investments, Pew Research, ParlGov. *Political left/right dimension based on criteria established in various academic studies; simple mean of observations from Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, Turkey, and U.K.

A Shifting Geopolitical Landscape Will Realign the Global Economy

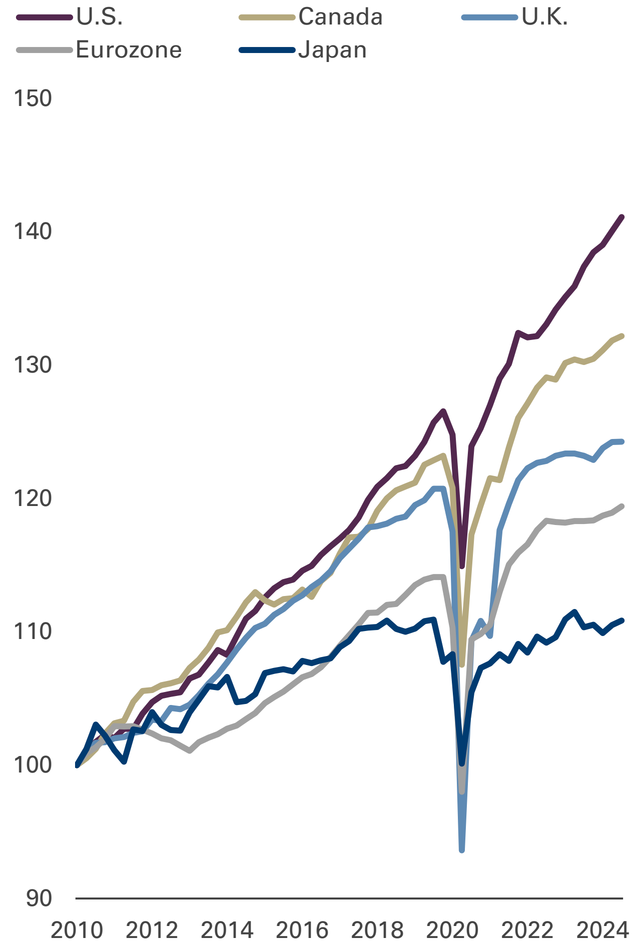


Source: Guggenheim Investments, Our World in Data, Klasing and Milionis (2014), Penn World Table, World Bank. Data as of 12.31.2023.

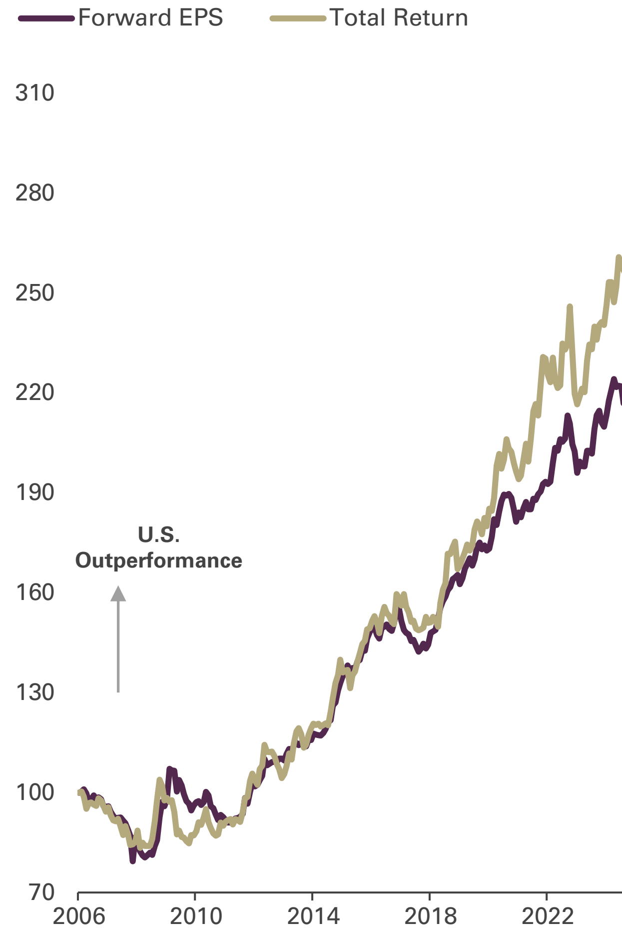
- After decades of rising global trade, financial, and technological integration, greater fragmentation in the geopolitical landscape will shift alliances and alter trading relationships in 2025.
- Rising discontent with globalization and economic challenges are encouraging major powers to focus on domestic agendas. Geopolitical tensions and supply chain disruptions in recent years also elevated national security concerns relative to economic efficiency considerations.
- Broad-based protectionism would be a risk to global growth. However, targeted tariff negotiations—which we view as more likely—could enhance trade terms for the United States and secure strategic imports. Investors can profit by identifying sectors that stand to benefit from new policies.
- Shifting global relationships lift the potential for geopolitical tensions. More contentious and protectionist economic policy and less predictable foreign policy could create conflict, potentially resulting in shocks to global financial markets.
- The United States has been more resilient than most other countries to global shocks, owing largely to its limited export intensity and energy independence. Still, should shocks emerge that markedly shift the global outlook, U.S. growth will not be immune.

U.S. Economy Will Outperform, as Other Economies Face Headwinds

Real GDP in U.S. Dollars
Q1 2010 = 100



MSCI U.S. vs MSCI World Excluding U.S.
Re-indexed, with 2006 = 100

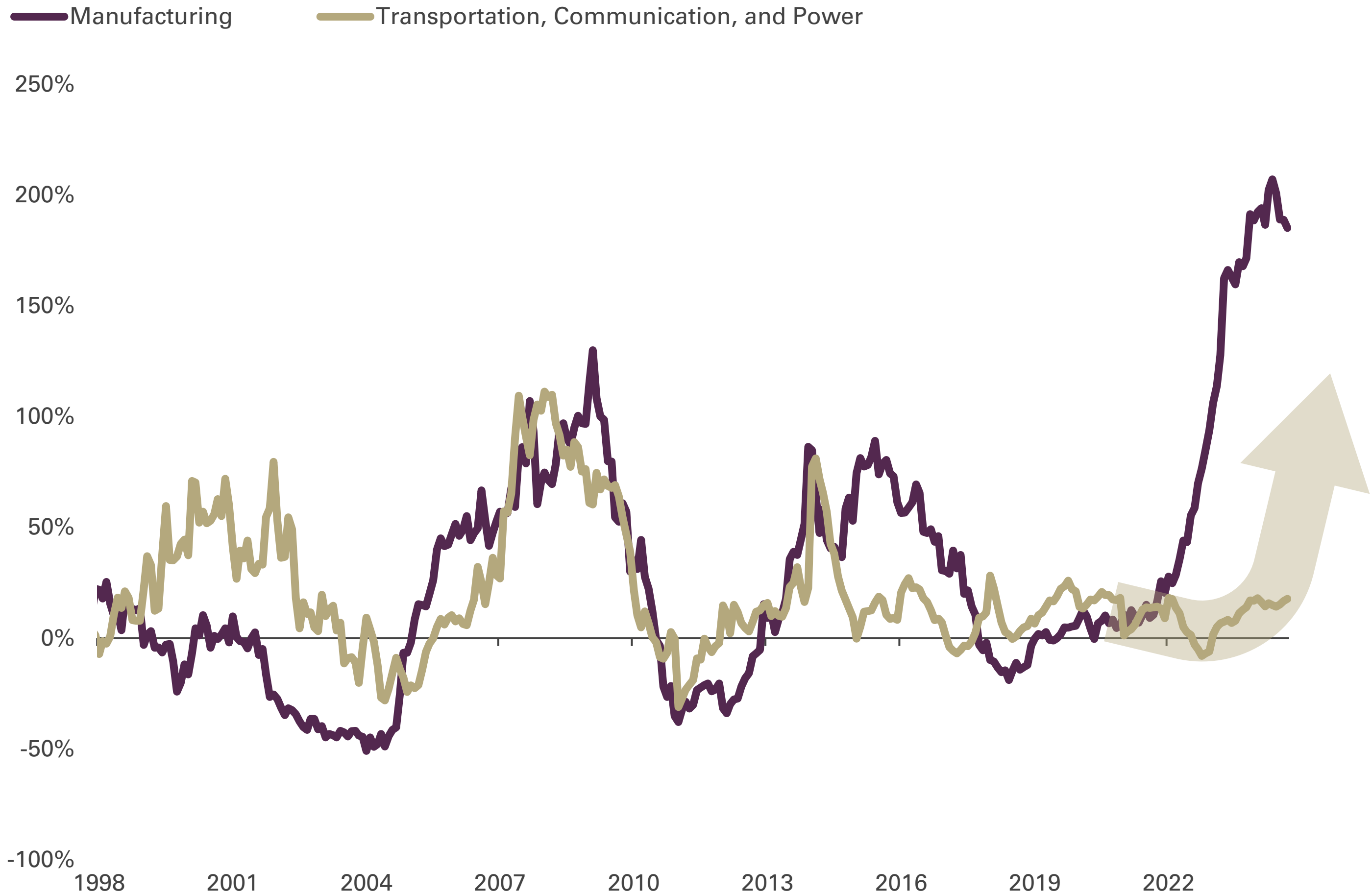


- Since the onset of the COVID pandemic, the U.S. economy has outperformed other advanced economies. Strong underlying fundamentals should continue to bolster relative U.S. performance in 2025, even if global growth falters.
- In recent years, robust consumer spending and investment, fueled in part by fiscal expansion, supported U.S. growth. At the same time, Europe faced headwinds from high energy costs and a global manufacturing slump, and China struggled under a property downturn.
- The U.S. economy is entering 2025 with momentum. Wealthy U.S. households and large businesses have strong fundamentals, and the labor market, while cooler than in 2023, is still solid. U.S. AI investment has also outpaced other countries, supporting asset performance and lifting longer term productivity estimates.
- Slower global growth in 2025 could ultimately weigh on U.S. growth, but even in a downturn, the U.S. should fare better than others.

Source: Guggenheim Investments, Bloomberg, World Bank. Data as of 9.30.2024 for real GDP and 12.31.2024 for yields. EPS = earnings per share.

Reshoring, AI, and Power Needs Will Fuel Strong U.S. Investment

Three-Year Growth Rate of Construction Put in Place by Structure Type
Manufacturing vs Total of Transportation, Communication, and Power

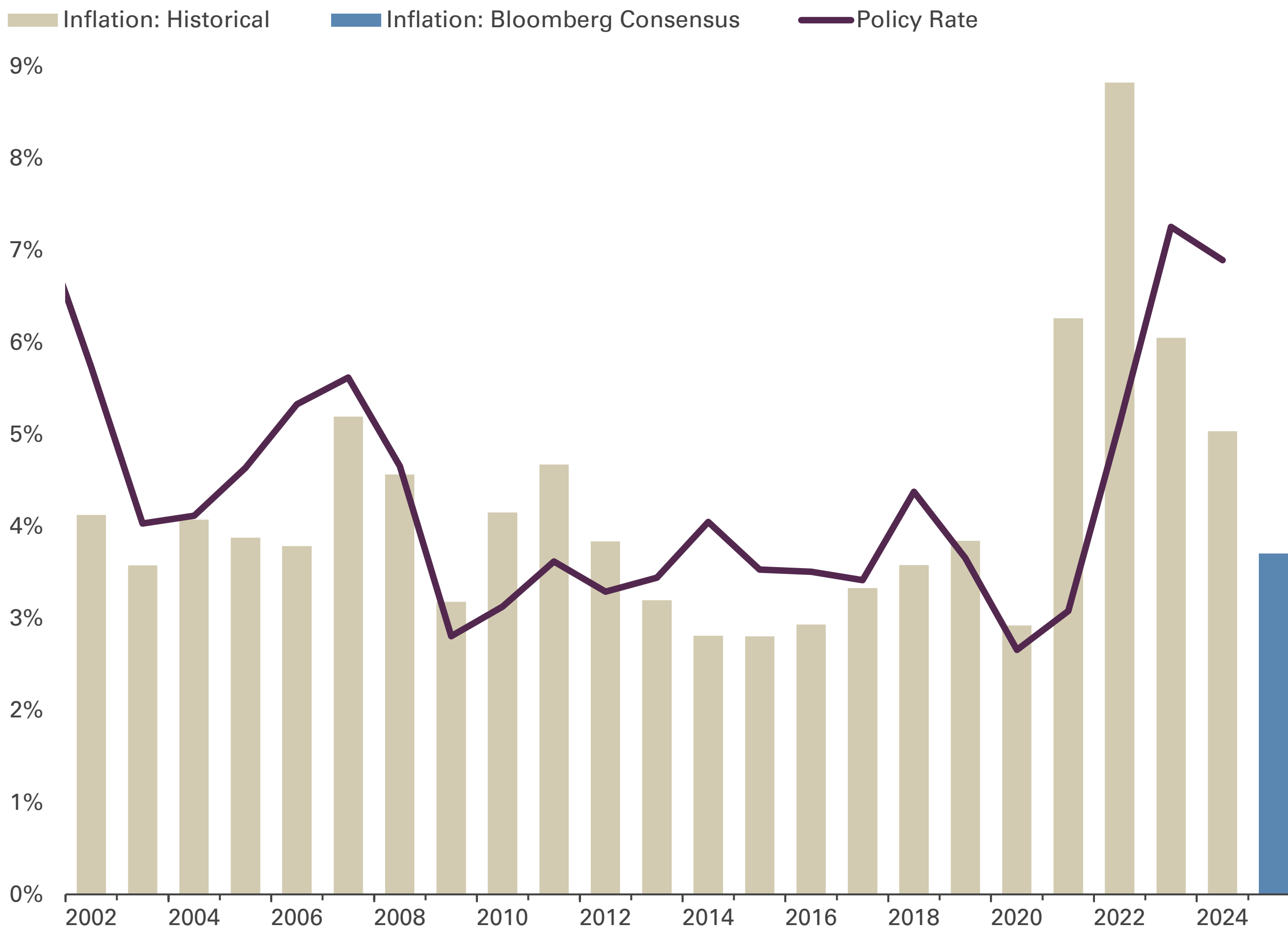


- GDP growth got an important boost from construction of nonresidential structures in 2024, fueled by fiscal incentives and AI investment. As this growth moderates, we expect follow-on investments in equipment and power infrastructure to rise, supporting GDP growth in 2025.
- Manufacturing construction tripled in 2024 compared to three years ago. Data center construction is running at a $30 billion annualized pace and likely to remain elevated. We are entering the phase where construction gradually reaches completion, but improvements in transportation, communication, and power sectors are still needed to complete projects.
- Power demand, in particular, is increasing faster than anticipated, largely due to energy-intensive data centers and semiconductor manufacturing. This may require over a trillion dollars in investment by 2030 to meet growing demand. But the sector has faced meaningful challenges from regulatory hurdles, review backlogs, and limited grid capacity. Deregulation and “all energy” policies could ease some of these bottlenecks.
- These trends create opportunities for infrastructure-related investments, which we see offering attractive yield, stable income, and uncorrelated performance with other assets.

Source: Guggenheim Investments, Haver Analytics, Census Bureau. Data as of 10.31.2024.

Global Disinflation Will Allow Central Banks to Ease Further

World CPI Inflation and Central Bank Policy Rates (Weighted by Purchasing Power Parity GDP)

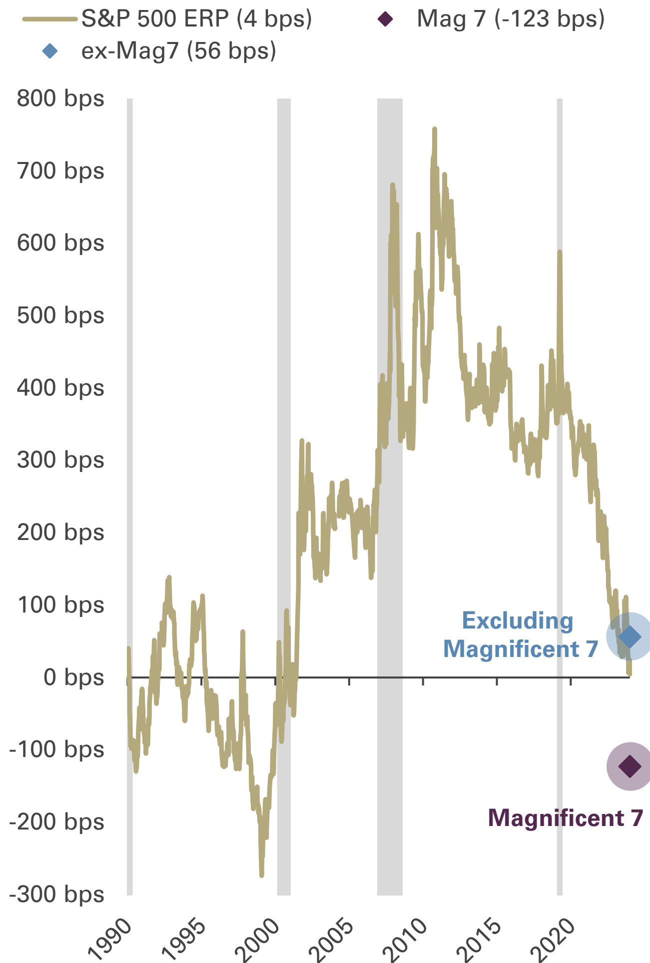


Source: Guggenheim Investments, International Monetary Fund, Dallas Fed. Data as of 10.22.2024 for inflation estimates, 11.30.2024 for policy rate, 1.3.2025 for 2025 consensus inflation.

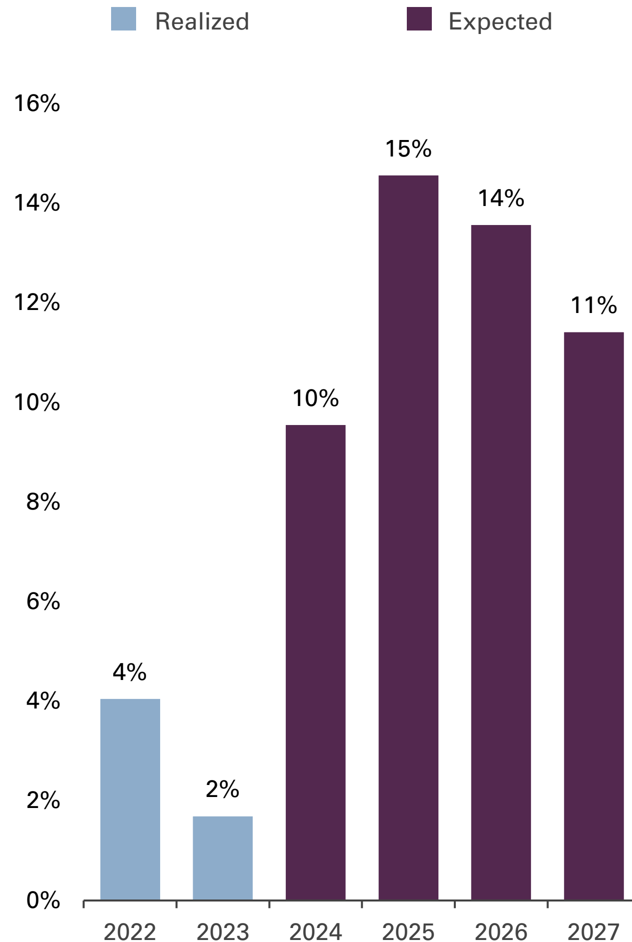
- Inflation around the world has cooled considerably from its peak and should moderate further in 2025, allowing central banks to ease restrictive policy.
- In the United States, much of the remaining heat is in lagging categories like rents and insurance, and in non-market categories like financial services. Fundamentals point to further disinflation in 2025, particularly a cooler labor market and strong productivity growth.
- Internationally, economic growth remains lackluster in major economies like China and the eurozone, while commodity prices are benign. Both factors point to more downside for inflation this year.
- With this backdrop of lower inflation, global central banks have room to reduce rates further, helping to alleviate pressure on rate-sensitive sectors and provide some cushion to economic growth.
- While U.S. tariff policy could interrupt the disinflationary trend, we expect tariffs will be targeted and used as negotiating tools, and any impacts may be partially offset by factors like dollar appreciation and slower growth.
- Even with inflation falling, investors should not expect a return to a pre-pandemic environment when inflation ran consistently below target. Secular forces like rising investment mean that even with near-term disinflation, the economy is broadly in a reflationary environment.

Runup in Equities Will Show Signs of Fatigue

S&P 500 Equity Risk Premium
Trailing earnings yield minus 10-Yr Treasury yield



S&P 500 Earnings Growth
Actual and Average Analyst Expectations

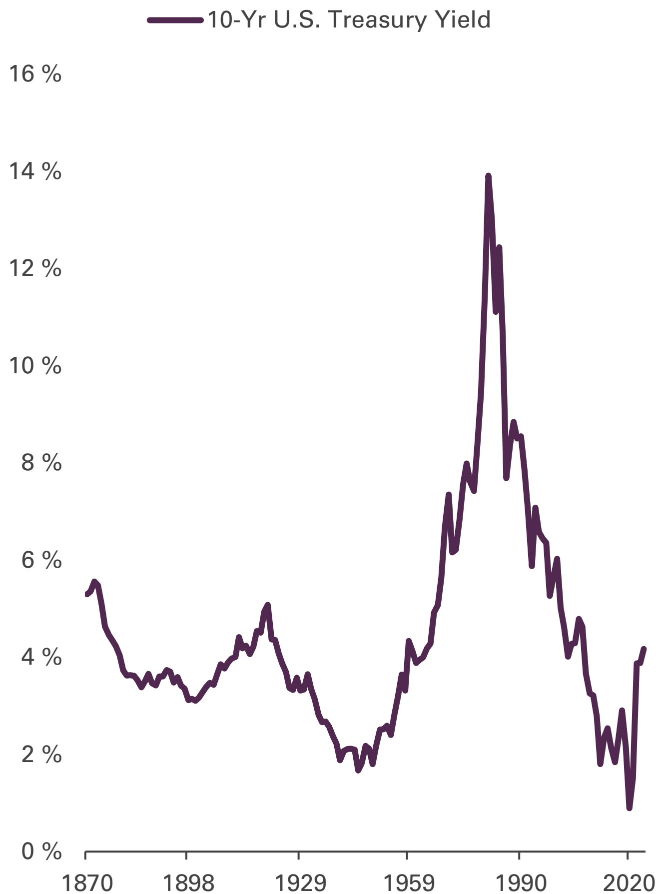


- U.S. equities soared in 2024, reflecting positive news about the U.S. economy and AI advancements. However, this runup has left valuations elevated, with little cushion to protect against downside risks.
- The S&P 500 equity risk premium suggests investors are now accepting almost no compensation over risk free rates for taking the additional risk of equity investment. Elevated valuations leave little room to absorb earnings disappointments or external shocks.
- Analyst expectations for corporate earnings growth in coming years also appear lofty at 15 percent for 2025 and 14 percent for 2026. With margins already elevated relative to the past decade, it may be difficult for companies to meet these expectations, particularly in an environment of slowing global growth.
- Companies with the largest capitalization, in particular, have valuations that rely heavily on expectations for exceptional earnings growth and may be subject to disappointment if AI adoption advances more slowly than expected or competition from abroad heats up.
- Given this backdrop, we view the runup in equity valuations as showing signs of fatigue, and see attractive risk-adjusted returns in U.S. fixed income.

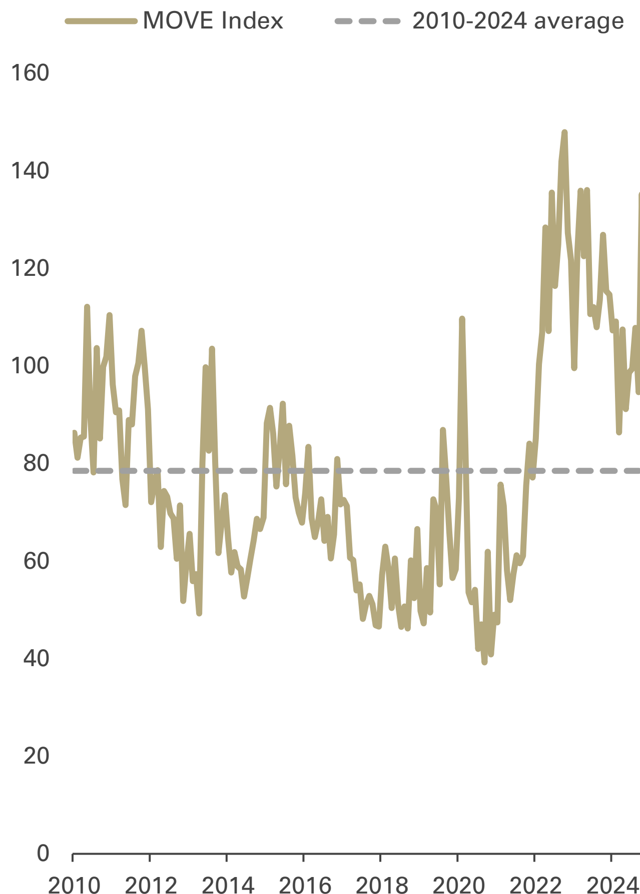
Source: Guggenheim Investments, Bloomberg, Factset. Data as of 01.15.2025.

U.S. Yields Will Remain in a Higher, More Normal Range

150 Years of Long-Term Rates
10-Year U.S. Treasury Yield



Implied Interest Rate Volatility since 2010
MOVE Index; Average Since 2010

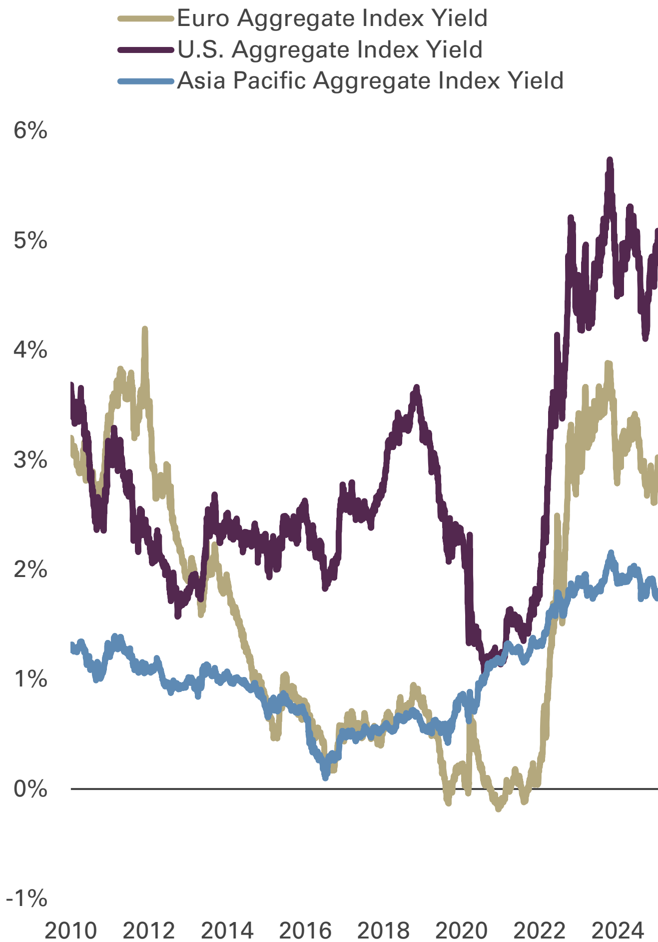


- After over a decade during which U.S. 10-year yields stayed mostly below 3 percent, yields have risen and are trading in a higher range. With strong long-term U.S. fundamentals and stable inflation expectations, we see yields broadly remaining in this new range.
- Deleveraging after the Global Financial Crisis combined with below-mandate inflation weighed on the neutral fed funds rate and Treasury yields. The recent rise in yields reflects reflation and a return to more normal expectations for long-term growth.
- Looking over a long history, recent yields appear more typical than the prior decade. And, with inflation expectations anchored, yields seem unlikely to rise markedly further.
- Our base case is for the 10-year yield to trade in a range of 3.75–4.75 percent, reflecting gradual easing by the Fed and a modest rise in term premiums to make room for more government debt.
- Volatility is likely to remain higher than the suppressed levels observed during the decade following the GFC. We anticipate considerable noise as policies of a new administration take hold, but view larger yield swings as opportunities to tactically add or decrease duration exposure.

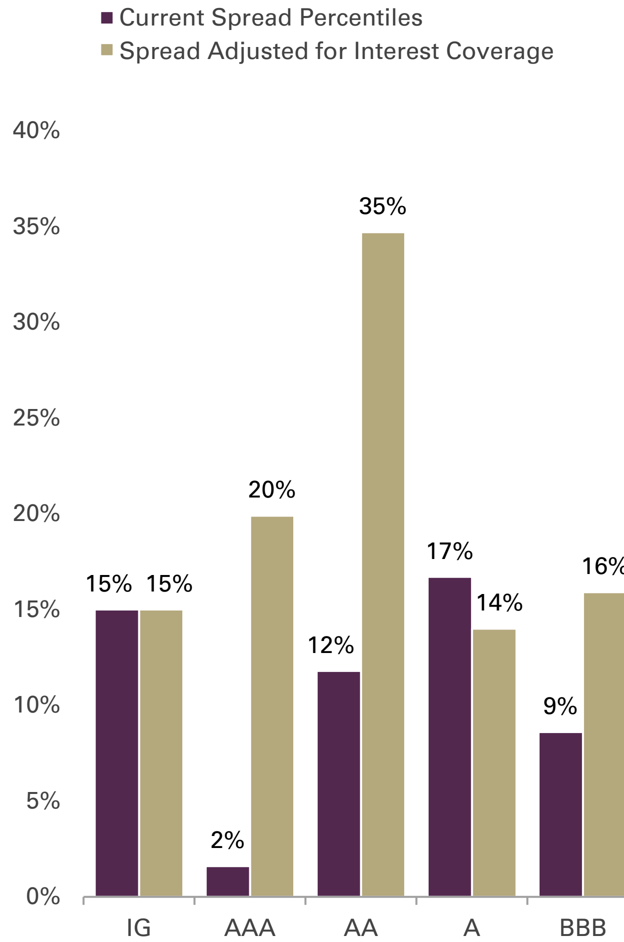
Note: Stable Rate Periods are broadly defined as 10 or more years of interest rates staying within a range of 100 bps.
Source: Guggenheim Investments, Bloomberg, Robert Shiller, Òscar Jordà, Moritz Schularick, and Alan M. Taylor. “Macrofinancial History and the New Business Cycle Facts” (2017), Lawrence H. Officer, "What Was the Interest Rate Then?" MeasuringWorth (2024).

Investor Demand and Strong Fundamentals to Contain Spread Widening

Fixed-Income Aggregate Index Yield to Maturity
U.S., Euro Area, and Asia Pacific



Investment-Grade Corporate Spread Percentiles
Current OAS and Spread to Interest Coverage

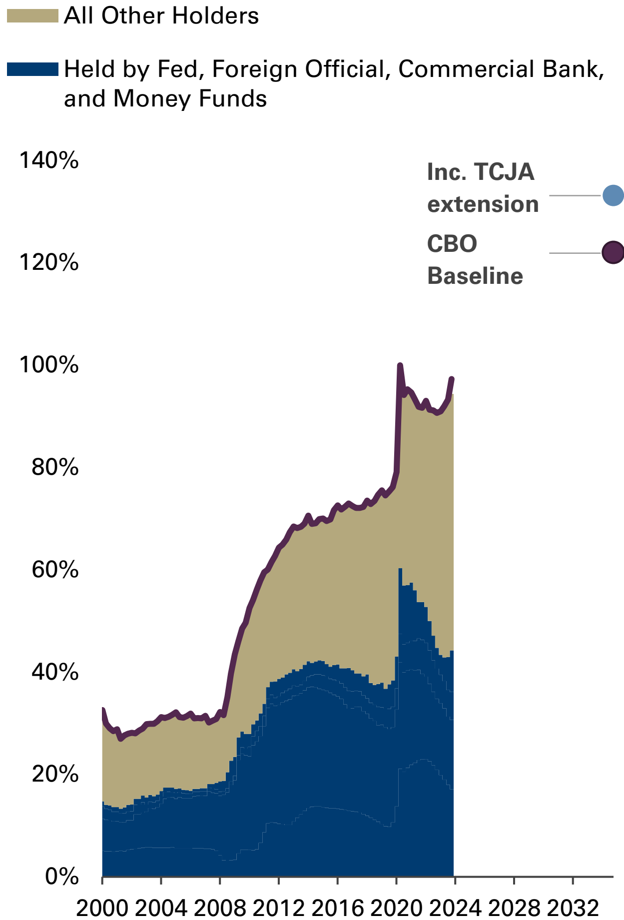


- After a year of positive U.S. risk asset performance, credit spreads are near all-time tights. Although we view modest decompression as possible in 2025, widening is likely to be contained by robust investor demand and strong fundamentals.
- Investors continue to favor U.S. fixed income because of its attractive yields relative to other advanced economies. The Bloomberg U.S. Aggregate Bond Index yield is 5.1 percent, which is 2 percentage points higher than in Europe and over 3 percentage points higher than in Asia.
- U.S. corporate fundamentals still look solid, supported by steady economic growth and positive earnings growth. Leverage ratios have declined substantially since the pandemic peak and interest coverage for most corporate rating sectors is at or above historical average levels. These dynamics should help anchor spreads in a range.
- For active investors, excess returns are available in less competitive fixed-income sectors, like structured products. Careful credit selection can also maximize value in corporate credit, and protect against downside risk.
- While there is potential for more notable spread widening if investor risk appetite wanes or the outlook deteriorates, high all-in yields provide considerable cushion against negative returns.

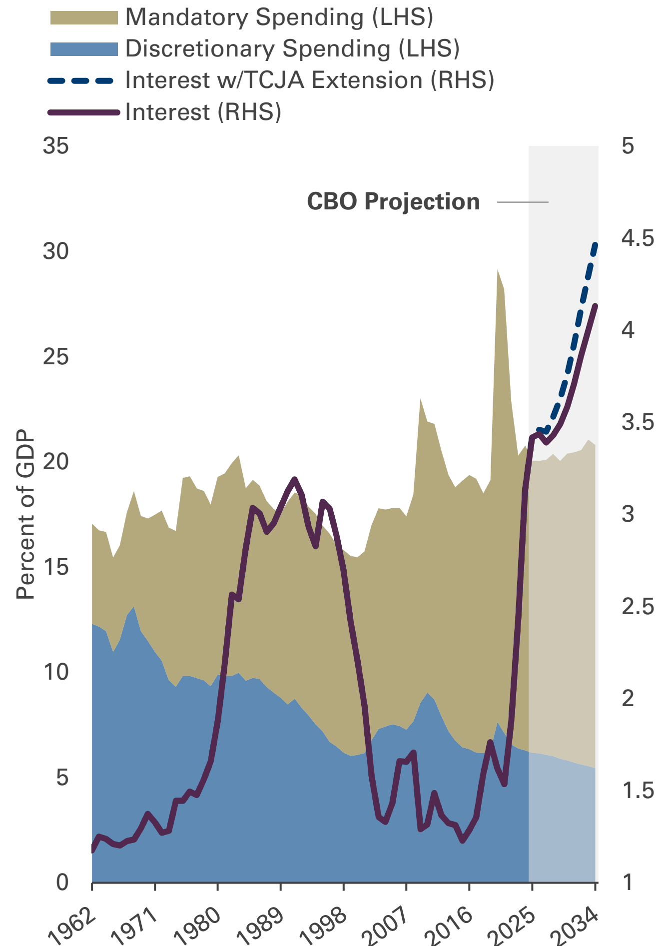
Source: Guggenheim Investments, Bloomberg, S&P Global Ratings. Data as of 01.10.2025 for yield. IG spread-to-coverage ratio is based on 12.31.2024 spreads and Q3 2024 fundamentals, using the reciprocal of interest coverage.

Fiscal Consolidation Will Take on New Urgency

U.S. Federal Debt to GDP by Investor Type
CBO and U.S. Financial Accounts



Federal Outlays as a Share of GDP
CBO Historical Data and Projections

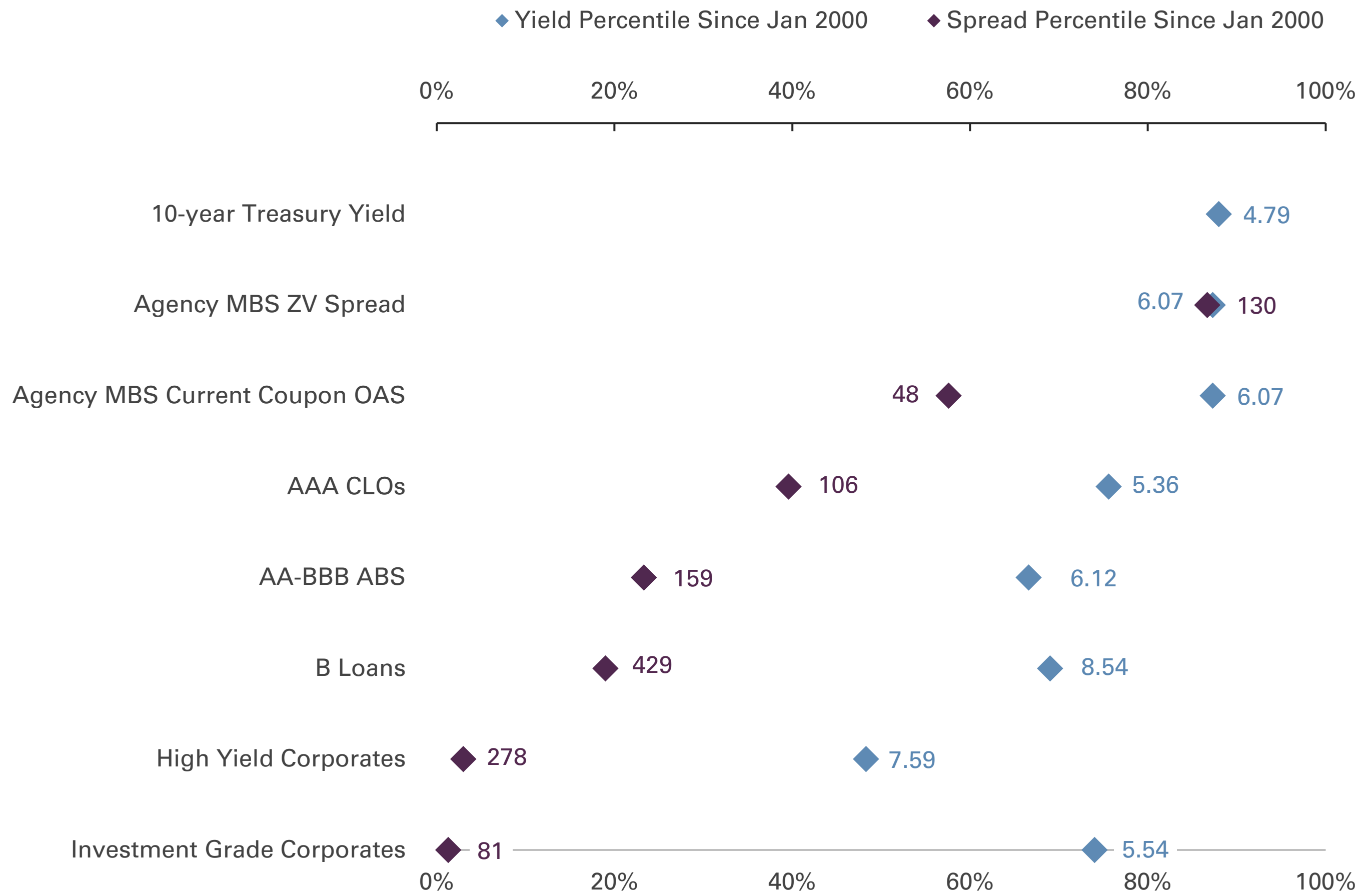


- The fiscal trajectory for the U.S. is unsustainable, and budget adjustments will need to be a priority for the incoming administration. Our base case is for Treasury term premiums to widen modestly, but there is risk of a more pronounced move if confidence in fiscal responsibility is challenged.
- Federal debt to GDP is projected to reach 122 percent by 2034, higher than at any point in U.S. history. Interest expense could climb to almost 4.5 percent of GDP if the Tax Cuts and Jobs Act (TCJA) is extended.
- The new administration could create a credible long-term plan for fiscal adjustment, but the choices will be difficult. Abrupt spending cuts would disrupt US growth. Gradual adjustments would ease the transition, but may require changes to mandatory programs or higher taxes, which are politically challenging.
- The U.S. has more capacity to sustain high debt levels than almost any other country due to its deep markets and reserve currency status. However, price sensitive investors have absorbed a larger share of debt in recent years.
- We expect investors to demand modestly higher yield premiums in response to growing issuance, and see a small risk of a sharper move.

Source: Guggenheim Investments, CBO Historical and 10-year Projection July 2024, CBO Alternative Assumptions May 2024, Federal Reserve Z-1 Financial Accounts. The SOMA Holdings database contains data on the Federal Reserve's domestic securities holdings from 2003 to the present.

Attractive Opportunities for Active Fixed-Income Management

Fixed-Income Spread and Yield Percentiles (Based on Data Since January 2000)
Select Fixed-Income Sectors, Sorted from Cheapest to Richest on a Historical Basis



- With strong U.S. fundamentals and attractive all-in yields, we view actively managed U.S. fixed income as an attractive destination for investors this year, and an essential element of diversified portfolios.
- Elevated U.S. yields currently provide strong income opportunity, and in many sectors are well above their historical medians. With inflation under greater control and central banks easing, we view yields as likely to stay in a range or trend modestly lower.
- Managers with expertise in fixed-income segments beyond the indexed universe can find stable excess returns, even in an environment where overall spreads are tight relative to history. In our view, agency MBS and structured credit still offer compelling value. Real asset lending can also provide stable, uncorrelated returns.
- In a shifting global policy landscape, heightened volatility and uncertainty may also provide attractive entry points in fixed income over the course of the year. Deep credit analysis will help identify new opportunities as the policy environment shifts, and protect against downside risk.
- All told, it's a good time to be an active fixed-income investor.

Source: Guggenheim Investments, Credit Suisse, Bloomberg, ICE BofA, JP Morgan, Palmer Square. Data as of 01/13/2025. History based on monthly data since January 2000. Index Legend: Treasury yield and MBS data based on Bloomberg data. AAA CLOs based on the Palmer Square CLO Index. Prior to 2012, historical CLO spreads were provided by Bank of America Research and yields are approximated by Guggenheim by adding spreads to 3m Libor. AA-BBB ABS is the ICE BofA ABS Master AA-BBB Index, B Loans based on the UBS S&P Leveraged Loan Index, high yield corporates is the Bloomberg U.S. High Yield Index and investment-grade corporates is the Bloomberg U.S. Corporate Index.

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Investing involves risk, including the possible loss of principal. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. 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.

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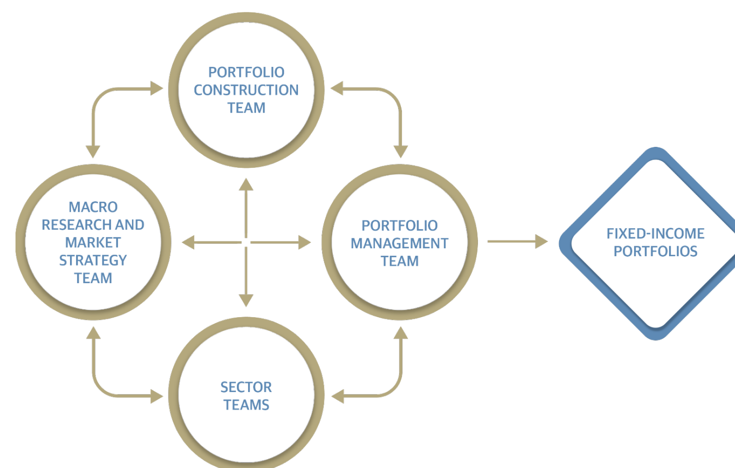
Guggenheim's Investment Process

Guggenheim's fixed-income portfolios are managed by a systematic, disciplined investment process designed to mitigate behavioral biases and lead to better decision-making. Our investment process is structured to allow our best research and ideas across specialized teams to be brought together and expressed in actively managed portfolios. We disaggregated fixed-income investment management into four primary and independent functions—Macroeconomic Research, Sector Teams, Portfolio Construction, and Portfolio Management—that work together to deliver a predictable, scalable, and repeatable process. Our pursuit of compelling risk-adjusted return opportunities typically results in asset allocations that differ significantly from broadly followed benchmarks.



Guggenheim Investments

Guggenheim Investments is the global asset management and investment advisory division of Guggenheim Partners, with more than $249 billion[1] in total assets across fixed income, equity, and alternative strategies. We focus on the return and risk needs of insurance companies, corporate and public pension funds, sovereign wealth funds, endowments and foundations, consultants, wealth managers, and high-net-worth investors. Our 235+ investment professionals perform rigorous research to understand market trends and identify undervalued opportunities in areas that are often complex and underfollowed. This approach to investment management has enabled us to deliver innovative strategies providing diversification opportunities and attractive long-term results.

Guggenheim Partners

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1. Guggenheim Investments assets under management as of 9.30.2024 and include leverage of $14.8bn. 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 Partners Europe Limited, Guggenheim Partners Japan Limited, and GS GAMMA Advisors, LLC.