Market Review

The third quarter of 2019 ushered in the first U.S. rate cuts since 2008, with the Federal Reserve (Fed) explicitly stating that its focus is now on sustaining the economic expansion. This not-so-subtle shift implies that policymakers will do whatever it takes to ensure that the expansion continues. Although there has been considerable dissent among Fed policymakers about whether monetary easing is warranted at this stage, Chair Powell seems to have the full support of Vice Chair Clarida and New York Fed President Williams, adding credibility to Powell’s focus on supporting growth.

The Federal Open Market Committee (FOMC) delivered two rate cuts of 25 basis points (bps) each in the third quarter. These cuts were positioned as an effort to guard against downside risks and came even as unemployment sits at a 50-year low and inflation is moving back toward the Fed’s 2 percent target. The market seems convinced that the Fed’s commitment will not waver, with futures putting the fed funds rate another 65 basis points lower by December 2020. But the FOMC has been reluctant to commit to more downsize risks and came even as unemployment sits at a 50-year low and inflation is moving back toward the Fed’s 2 percent target. The market seems convinced that the Fed’s commitment will not waver, with futures putting the fed funds rate another 65 basis points lower by December 2020. But the FOMC has been reluctant to commit to more
Market Review (Continued)

... easing, so it is still unclear whether the Fed will deliver the aggressive and preemptive policy action that may be needed to prolong the current expansion.

Recent economic data have been mixed, and with monetary and trade policy in flux, uncertainty about the economic outlook is higher than usual. On the positive side, we saw a pickup in the housing market as measured by housing starts and home sales. Additionally, the unemployment rate fell to a new cycle low of 3.5 percent in September, despite a continued moderation in payroll gains.

On the negative side, the ISM manufacturing index and most major subcomponents fell below 50 in August and plunged further in September to 47.8, the weakest reading since June 2009. The ISM non-manufacturing index also came in well below expectations at 52.6 last month, the lowest since August 2016. The non-manufacturing survey’s employment component is now barely above 50 while the manufacturing employment sub-index stands at 46.3, well into contraction territory. Combined, the outlook for output and hiring has dimmed, potentially signaling trouble ahead for the labor market and consumers.

Much of the weakness in manufacturing data is owed to the ongoing trade dispute between the United States and China. A second-order effect of this trade dispute is its impact on consumer sentiment. Sentiment surveys show that fewer consumers believe now is a good time to buy homes, vehicles, and household durables, and headline consumer confidence measures have fallen over the past year. In addition to trade policy, we believe political concerns also weigh on sentiment, and both are set to ramp up further. Additional U.S. tariffs on China are due to take effect on Dec. 15, and the U.S. House of Representatives is pressing forward with its impeachment inquiry into President Trump. If both issues are resolved favorably, consumer spending is likely to power ahead with help from still-solid income growth, a year-to-date rally in the equity market, and lower borrowing costs. Alternatively, if these continue to weigh on sentiment, and the equity market fails to rally in the fourth quarter when seasonal trends are favorable, it will be a sign of more trouble brewing.

Our recession forecasting tools indicate that the economy remains in a vulnerable place. Our U.S. Recession Dashboard continues to point to a recession beginning sometime in the first half of 2020. Our Recession Probability Model indicates a 50 percent chance that a recession will come before mid-2020, and a 70 percent chance that it will arrive by the first half of 2020. Our Recession Probability Model indicates a 50 percent chance that a recession will come before mid-2020, and a 70 percent chance that it will arrive by mid-2021. Avoiding a recession now may take more policy action than has been delivered so far.

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Summary:

- The third quarter of 2019 ushered in the first U.S. rate cuts since 2008, with the Fed explicitly stating that its focus is now on sustaining the economic expansion. These cuts were positioned as an effort to guard against downside risks and came even as unemployment sits at a 50-year low and inflation is moving back toward the Fed’s 2 percent target.

- The FOMC has been reluctant to commit to more easing, so it is still unclear whether the Fed will deliver the aggressive and preemptive policy action that may be needed to prolong the current expansion.

Commentary continued on page 3.
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Performance Review

The fund finished the second quarter up 0.68 percent, while the benchmark (Bloomberg Barclays U.S. Aggregate 1-3 Year Bond Index) returned 0.70 percent. The fund performed in line with the benchmark as interest rates fell over the quarter with the backdrop of heightened US-China trade uncertainty and Federal Reserve easing.

Strategy and Positioning

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Over the quarter all credit sectors contributed to total return with no negative performers. Within our credit exposure we continue to favor structured credit over corporate credit given generally a compelling spread pickup to similarly rated corporates while providing defensive positioning in the event of another December-like swoon.

Collateralized loan obligations (CLOs), which constituted 14 percent of the fund over the quarter, contributed to performance as income outpaced minor spread widening. We continue to favor senior CLOs with short spread durations, as they offer a compelling spread pickup to similarly rated corporates while providing defensive positioning in the event of another December-like swoon.

Non-agency residential mortgage-backed securities (RMBS) were also positive contributors as lower rates and improving credit fundamentals drove higher prepayments for discounted dollar price holdings.

Shorter maturity investment grade corporate bonds, which constituted 18 percent of the fund over the quarter, added to performance driven by carry.

Below investment grade credit remains near lows of the fund since inception. Late-cycle signals suggest that the risk-reward of owning credit are broadly skewed toward the negative.
One basis point is equal to 0.01%.

**Risk Considerations** This Guggenheim Limited Duration Fund may not be suitable for all investors. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing the value of the Fund’s holdings and share price to decline. • Investors in asset-backed securities, including 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. • High yield unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. • When market conditions are deemed appropriate, the fund will leverage to the full extent permitted by its investment policies and restrictions and applicable law. Leveraging will exaggerate the effect on net asset value of any increase or decrease in the market value of the fund’s portfolio. • The fund may invest in derivative instruments, which may be more volatile and less liquid, increasing the risk of loss when compared to traditional securities. Certain of the derivative instruments are also subject to the risks of counterparty default and adverse tax treatment. • Instruments and strategies (such as borrowing transactions and reverse repurchase agreements) may provide leveraged exposure to a particular investment, which will magnify any gains or losses on those investments. • Investments in syndicated bank loans generally offer a floating interest rate and involve special types of risks. • The fund’s investments in municipal securities can be affected by events that affect the municipal bond market. • The fund’s investments in real estate securities subject the fund to the same risks as direct investments in real estate, which is particularly sensitive to economic downturns. • The fund’s investments in restricted securities may involve financial and liquidity risk. • You may have a gain or loss when you sell your shares. • It is important to note that the fund is not guaranteed by the U.S. government. • Please read the prospectus for more detailed information regarding these and other risks.

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**Index Definitions**

**Bloomberg Barclays U.S. Aggregate Bond 1-3 Year Total Return Index** measures the performance of publicly issued investment grade corporate, U.S. Treasury and government agency securities with remaining maturities of one to three years.

The referenced fund is offered in multiple share classes. Please read the prospectus for information on fees, expenses and holding periods that may apply to each class.

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Read the fund’s prospectus and summary prospectus (if available) carefully before investing. It contains the fund’s investment objectives, risks, charges, expenses, and other information, which should be considered carefully before investing. Obtain a prospectus and summary prospectus (if available) at GuggenheimInvestments.com.

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