Different equity strategies may make sense at different times during the economic cycle. Understanding the movements of the economic cycle can help you have timely conversations with your clients on how they may want to position their equity allocations. Given the strong equity market returns since 2009, as we move into the late phase of the economic cycle, it may be a good time to revisit current equity positions and explore more defensively positioned strategies.

The Economic Cycle: A Review

The economic cycle describes the natural ups and downs in business activity over time. A cycle is made up of four phases: recovery, mid-cycle expansion, late-cycle expansion and recession. The broadest indicator of the cycle is gross domestic product (GDP). The unemployment rate, Fed policy, consumer confidence and leading economic indicators (which include average hours worked, manufactured good orders and building permits) can illuminate where various components of the economy may be within a given cycle. The graphic below shows the typical economic cycle, along with the economic trend commonly associated with each respective phase. The blue U.S. dot represents where Guggenheim believes the U.S. economy is now positioned.

Typical Economic Cycle

<table>
<thead>
<tr>
<th>GDP Growth</th>
<th>Recovery</th>
<th>Mid-Cycle</th>
<th>Late Cycle</th>
<th>Recessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerates</td>
<td>Moderates</td>
<td>Slows</td>
<td>Negative</td>
<td></td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>Elevated</td>
<td>Falls</td>
<td>Bottoms</td>
<td>Rises</td>
</tr>
<tr>
<td>Consumer Confidence</td>
<td>Bottoms</td>
<td>Rises</td>
<td>Peaks</td>
<td>Collapses</td>
</tr>
<tr>
<td>Leading Economic Index</td>
<td>Elevated</td>
<td>Moderate</td>
<td>Weak</td>
<td>Negative</td>
</tr>
</tbody>
</table>

Leading Economic Index (LEI) is an index published monthly by The Conference Board used to predict the direction of global economic movements in future months. The index is composed of 10 economic components whose changes tend to precede changes in the overall economy.

1 Source: Guggenheim, January 2020. This is a hypothetical illustration of a typical business cycle. There is not always a chronological progression in this order, and there have been cycles when the economy has skipped a phase or retraced an earlier one. 2 The performance of economically sensitive assets such as stocks tends to be the strongest during the early phase of the economic cycle, when growth is rising at an accelerating rate, then moderates through the other phases until returns generally decline during the recession. In contrast, more defensive assets such as Treasury bonds typically experience the opposite pattern, enjoying their highest returns relative to stocks during a recession, and their worst performance during the early cycle.
Since 2009 through December 2019, U.S. equity markets have experienced historically significant average annual returns of 17.88% versus their historical average of 10.59%. However, Guggenheim believes the economic cycle is moving into the later-innings. The transition to a late cycle market may be an opportune time to move into more defensively positioned strategies in periods of rising market volatility.

**Themes That Align with Late Cycle Conditions**

Below are some areas of the market that we believe may benefit in a late stage expansion, along with aligned Guggenheim UIT portfolios.

### Quality/Strong Balance Sheets

High quality companies, generally defined as those with strong balance sheets, dependable earnings, and the overall size to help withstand market downturns, offer the potential to demonstrate performance leadership in periods of rising market volatility.

- **US Capital Strength Portfolio**
  
  The Trust seeks to provide efficient exposure to high quality companies believed to be well-capitalized, that employ less leverage than their peers and that generate strong cash flow.

- **US Low Volatility Strategy Portfolio**
  
  The Trust is designed to provide access to a diversified portfolio of 30 companies, as of the security selection date, that have been identified as stable, well-established, and profitable companies to demonstrate lower relative volatility. Historically, low volatility stocks, as represented by the S&P 500® Low Volatility Index, have delivered competitive returns with the potential to mitigate risk when compared to the S&P 500® Index.

- **Core Four 60/40 Retirement Portfolio**
  
  This asset allocation portfolio represents an approximately 60/40 blend of fixed-income ETFs and high quality and dividend grower stocks. The portfolio is professionally selected by Guggenheim to seek higher-yielding income, dividend growth, principal stability, and capital appreciation potential in a single easy-to-implement investment.

### Defensive Sectors

These sectors offer services that consumers need regardless of where we are in the business cycle and are more insulated from the economic cycle.

- **Health Care Portfolio**
  
  Over a five-year period, the health care sector has outperformed the S&P 500® Index as a whole. Guggenheim believes growth prospects remain attractive.

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Investing in defensive stocks or defensive sectors neither assures a profit nor protects against a loss in declining markets.

Key Points

- Since 2009 through December 2019, U.S. equity markets have experienced historically significant average annual returns of 17.88% versus their historical average of 10.59%.

- Guggenheim believes the U.S. has entered the late expansion phase of the business cycle, which could mean increased market volatility.

- Now may be an opportune time to consider moving into more defensively positioned strategies, such as high quality, dividend growers or defensive sectors.

Dividend Growers/Payers

Companies that have historically shown a consistent track record of raising dividends tend to outperform the broader market over longer periods of time with less risk. In fact, over the past 20 years, dividends have accounted for approximately 45% of the market's total return.

- Dow Jones Value Dividend Focus Portfolio

  The portfolio seeks to deliver total return through both capital appreciation and current dividend income by investing in a portfolio of 50 mid- and large-cap value stocks that, as of the security selection date, have been identified as strong, stable and growing—which may provide a buffer against market volatility in a well-balanced portfolio.

- Dividend Strength Portfolio

  A portfolio of mostly large-cap companies with strong balance sheets which have increased their dividends year-over-year as of the security selection date. The selected stocks have, on average, increased their dividends more than 12 percent each year over 10 years as of the security selection date.

- S&P Dividend Aristocrats Select 25 Strategy Portfolio

  The Trust consists of a diversified portfolio of 25 companies in the S&P 500® Index that, as of the security selection date, have consistently increased dividends every year for 25 years. With a track record of at least 25 years of consistent dividend growth for its holdings, this Trust may provide an element of income and financial stability in a time of market uncertainty. The selected stocks have, on average, increased their dividends over 10% each year over 25 years.

Investing in defensive stocks or defensive sectors neither assures a profit nor protects against a loss in declining markets.


This information is as of 1/7/2020 unless otherwise noted, and is subject to change. Past performance is no guarantee of future returns. UITs are sold by prospectus only. This communication shall not constitute an offer to sell or a solicitation of an offer to buy; nor shall there be any sale of these securities in any state where the offer, solicitation, or sale is not permitted.

Risk Considerations As with all investments, you may lose some or all of your investment in these trusts. No assurance can be given that the trust’s investment objectives will be achieved. The trusts also might not perform as well as you expect. This can happen for reasons such as these: • Securities prices can be volatile. • Share prices or dividend rates on the securities in the Trust may decline during the life of the Trust. • Securities selected according to these strategies may not perform as intended. The Trusts are exposed to additional risk due to their policy of investing in accordance with an investment strategy. Although the Trust’s investment strategy is designed to achieve the Trust’s investment objective, the strategy may not prove to be successful. The investment decisions may not produce the intended results and there is no guarantee that the investment objective will be achieved. • Certain of these Trusts may be concentrated in the consumer products sector. The factors that impact the consumer products sector will likely have a greater effect on the Trusts than if they were more broadly diversified. General risks of companies in the consumer products sector include cyclicality of revenues and earnings, economic recession, currency fluctuations, changing consumer tastes, extensive competition, product liability litigation, and increased government regulation. A weak economy and its effect on consumer spending would adversely affect companies in the consumer products sector. • Certain of these Trusts may invest significantly in the industrials sector; the factors that impact the industrials sector will likely have a greater effect on these Trusts than on a more broadly diversified trust. Adverse developments in this sector may significantly affect the strategies may not perform as intended. The Trusts are exposed to additional risk due to rising costs of medical products, devices and services; an increased emphasis on outpatient services; pricing pressure; extensive government regulations; restrictions on government reimbursement for medical expenses; industry innovation; changes in technologies and litigation. • Certain of the Trusts invest significantly in the securities of pharmaceutical companies. The factors that impact the pharmaceuticals industry will likely have a greater effect on this Trust than on a more broadly diversified trust. Companies in the pharmaceuticals industry can be affected by government approval of products and services, government regulation, reimbursement rates and patent expirations and protection, intense competition, dependency on a limited number of products, obsolescence of products and product liability claims. • Certain ETFs held by the Trust include securities issued by companies headquartered or incorporated in countries considered to be emerging markets. Emerging markets are generally defined as countries with low per capital income in the initial stages of their industrialization cycles. Risks of investing in emerging or developing countries include the possibility of investment and trading limitations, liquidity concerns, delays and disruptions in settlement transactions, political uncertainties and dependence on international trade and development assistance. Companies headquartered in emerging market countries may be exposed to greater volatility and market risk. • Certain of the Trusts hold ETFs, which are subject to various risks, including management’s ability to meet the fund’s investment objective. Shares of ETFs may trade at a discount from their net asset value in the secondary market. This risk is separate and distinct from the risk that the net asset value of the ETF shares may decrease. You will bear not only your share of your trust’s expenses, but also the expenses of the underlying ETFs. By investing in ETFs, the Trust incurs greater expenses than you would incur if you invested directly in the ETFs. • Certain of the Trusts hold ETFs, which are subject to annual fees and expenses, including a management fee. Unitholders of the Trust will bear these fees in addition to the fees and expenses of the Trust. • The Trust is subject to an ETF’s index correlation risk. • The value of the fixed-income securities in the ETFs will generally fall if interest rates, in general, rise. The Trust may be subject to greater risk of rising interest rates than would normally be the case due to the current period of historically low rates. • An ETF or an issuer of securities held by an ETF may worsen, resulting in a reduction in the value of your units. This may occur at any point in time, including during the primary offering period. • Economic conditions may lead to limited liquidity and greater volatility. • Certain of the Trusts hold ETFs that may invest in securities that are rated below investment-grade and are considered to be “junk” securities. Below investment-grade obligations are considered to be speculative and are subject to greater market and credit risks, and accordingly, the risk of non-payment or default is higher than with investment-grade securities.

In addition, such securities may be more sensitive to interest rate changes and more likely to receive early returns of principal in falling rate environments. • Certain of the Trusts hold ETFs which may invest in securities that are rated as investment-grade by only one rating agency. As a result, such split-rated securities may have more speculative characteristics and are subject to a greater risk of default than securities rated as investment-grade by more than one rating agency. • Inflation may lead to a decrease in the value of assets or income from investments. Please see each trust’s respective prospectus for more complete risk information.

Unit Investment Trusts are fixed, not actively managed, and should be considered as part of a long-term strategy. Investors should consider their ability to invest in successive portfolios, if available, at the applicable sales charge. UITs are subject to annual fund operating expenses in addition to the sales charge. Investors should consult an attorney or tax advisor regarding tax consequences associated with an investment from one series to the next, if available, and with the purchase or sale of units. Guggenheim Funds Distributors, LLC does not offer tax advice.

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Guggenheim Investments

Positioning Portfolios for a Late Cycle Economy