Market Review
The high yield bond market delivered solid third quarter performance (+1.33 percent) supported by Federal Reserve easing and progress on U.S.-China trade discussions. Across ratings, CCCs continued to underperform higher-quality bonds, suggesting investor resistance to owning lower-quality bonds at this stage of the business cycle. Top-performing sectors were Financials (+2.98 percent) and Communications (+2.35 percent), which were partially offset by underperformance in Energy (-4.38 percent) and Basic Industry (+1.25 percent). The commodity-sensitive subsectors within Energy were pressured, with Exploration & Production (-5.72 percent) and Oil Field Services (-10.72 percent) underperforming Midstream (+0.84 percent).

High yield new issuance volume in the third quarter totaled $69 billion, up 59% compared to the third quarter last year. The majority of new issuance was driven by refinancing activity.

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as borrowers looked to lock in lower interest rates as the 10-year Treasury yields fell 34 basis points in the quarter. The high yield market experienced inflows into the asset class of about $3.1 billion in the quarter and $15.1 billion for the year driven primarily by ETFs. This increased demand for larger, more liquid capital structures, which contributed to better performance in these assets relative to the broader market.

Fundamentals in the corporate sector are supportive of high yield bonds, with a better than expected start to the third quarter earnings season. In addition, the trailing 12-month default rate in the BAML High-Yield Index increased to 1.67 percent, but remains below the historical average near 4 percent. Notably, the default rate excluding energy remains steady at less than 1 percent. At the end of the quarter, the average high yield corporate bond yield was 5.87 percent, down 0.19 percent since the second quarter.

Performance

High yield bonds, as represented by the Bloomberg Barclays U.S. Corporate High Yield Index, returned 1.33 percent in the third quarter, bringing YTD return to 11.41 percent. Bank loans, while a smaller component of the fund, returned 1.11 percent in the third quarter, as represented by the Credit Suisse Leveraged Loan Index.

Guggenheim High Yield Fund Institutional share class returned 0.92 percent net of fees in the third quarter. The Fund’s slight underperformance over the period was predominantly related to the bank loan exposure, whose returns lagged the high yield benchmark coupled with softer performance from the Fund’s B-rated credit exposures. This was offset by strong credit selection, particularly in the energy sector. The Fund is invested in more defensive energy credits, with a focus on midstream companies that are less susceptible to volatility in underlying commodity prices.

Strategy

Following the Federal Reserve’s dovish pivot, the Federal Open Market Committee (FOMC) delivered two rate cuts of 25 basis points each. The commentary and actions by Fed policymakers indicate that they are determined to keep the expansion going. Recent economic data do not suggest the United States will experience an imminent economic slowdown with our internal projections estimating full-year 2019 real gross domestic product growth of about 2 percent.

The current low-default environment supports near-term value in high yield corporate bonds. The increased demand for the more liquid parts of the bond universe has created attractive relative value opportunities in middle market bonds compared to larger capital structures. The Fund is positioned conservatively in terms of duration, with higher exposure to short-dated bonds and overweight to floating rate securities (bank loans), which decreases volatility as well as diversifies sources of return. Overall, we remain focused on credit selection, which we believe will become increasingly important to returns in the event of market volatility.
Risk Considerations This fund may not be suitable for all investors. • The fund’s market value will change in response to interest rate changes and market conditions among other factors. In general, bond prices rise when interest rates fall and vice versa. • The fund’s exposure to high yield securities may subject the fund to greater volatility. • The fund’s use of leverage, through borrowings or instruments such as derivatives, may cause the fund to be more volatile than if it had not been leveraged. • 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. • The fund may invest in foreign securities which carry additional risks when compared to U.S. securities, due to the impact of diplomatic, political or economic developments in the country in question (investments in emerging markets securities are generally subject to an even greater level of risks). • Investments in syndicated bank loans generally offer a floating interest rate and involve special types of risks. • The fund’s investments in other investment vehicles subject the fund to those risks and expenses affecting the investment vehicle. • 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.

Definitions Basis Point—one basis point equals 0.01%. The Bloomberg Barclays U.S. Corporate High Yield Index measures the market for USD-denominated non-investment grade, fixed rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Baa/BB+/BB+ or below. The index excludes emerging market debt. The referenced index is unmanaged and not available for direct investment. Index performance does not reflect transaction costs, fees, or expenses. The ICE® BofAML® U.S. High Yield Master II Index tracks the performance of globally issued, U.S. dollar-denominated high-yield bonds.

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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