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Successful Investing Means Looking Through the Noise

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What's your view on current markets?

Anne Walsh: So we've certainly seen a tremendous amount of volatility. We're going to see more. We'll know later on today tonight really what's going to happen, at least we think we will in Iran. But when we started out the year, we started out the year with a base case of elevated geopolitical issues and concerns, volatility, and we certainly have seen that from the beginning of the year all the way through now. I think this plays off of and is just a part of an extended chapter of what was going on last year. We had Liberation Day. We've had a tremendous amount of volatility. And so that was in our base case. Tales are wider, the tail risk is wider right now, as a result of all of this. But as an investor, I really think it's our job to look through the noise, to try and find the signal and signals in terms of where we are.

The reason I ask is, you know, for a very long time, probably last 30 years, anytime there's been a war or a skirmish in the Middle East, there's been a relatively quick, almost V shaped recovery. That's what we've seen. And the question, of course, is, is it always going to be that way, or is this time different? Anne Walsh: Well, two things. One, markets have priced in risk much faster than the last number of years. And so, the time spent at the low level and their time spent before recovery has gotten much, much, much more compressed. And so as a result, you see that V shaped recovery as the base case. The buy the dip mentality is very strong. The difference in this

time is the magnitude, particularly of the oil price shock. But what's really interesting here is what we haven't seen is we haven't seen the VIX react as much as we would have otherwise expected. And in fact, relative to oil price volatility, it's been relatively, I would say, muted.

What is that telling you to do?

Anne Walsh: So, as an investor in this particular environment, we're trying to look at the fundamentals. What are the fundamentals? Well, earnings are coming up, and earnings are expected to be mid-teens, maybe even a little bit higher than that. I guess that's, I recognize that's rear view mirror, but at the same time, that is a tailwind that we had coming into this story. The question is, what's the Fed going to do? We're going to look at that. We going to think about that as investors. We're going to say, okay, right now, our base case remains that they are more biased still towards easy, but obviously, again, the risk is high, they're going to want to remain on hold because of the inflation risk component of all of this. And that as long as or if the Iran conflict extends beyond our base case, which is, say, three months of elevated oil prices, well, then we're going to have to definitely reassess, and then...

The conception is, you have to make the bet. I mean, and the question is, what is the bet right now?

Anne Walsh: So our bet is that right now, we remain in, for fixed income we remain in a trading range on the 10-year, and that hasn't really moved. We're still in sort of mid to high 3s to mid-ish to high 4s. And so we continue to see value and fixed income in this environment. Again, the VIX has remained relatively, relative to what it could be, reasonable. And what we've seen is P/Es have dropped, obviously, in terms of this price action, so we're going to look to see where our value could be. Dividend earning companies, I think, still continue to offer investors value. I still believe that we're going to see as long as investor, market, and consumer sentiment remain about where we are, the buy the dip mentality will remain. But again, tail risks are high. We have to be positioned to be thoughtful with regards to that.

What do you make a whole private credit situation right now?

Anne Walsh: So, my view on private credit is, it's a nearly $2 trillion market. Not all private credit is the same. It's the same as credit markets globally, which are very broad and very diverse. There are pockets of real risk, certainly, software companies, which had way too much leverage, and not nearly enough earnings, and then, of course, you introduce AI into that, and the concerns with regard to future earnings, you have a recipe for problems.

But if you were an investor in a private credit fund today, it seems to me, like, it's a completely reasonable thing to try to get your money out, and to the extent that these firms would pay you 100 cents on the dollar at a time when the rest of the market is clearly discounting the actual marks. You should take it, I would imagine. I don't understand why a new investor would put money to work now in one of these funds unless you could buy it in some kind of discount...

Anne Walsh: Well, it also depends on who is the fund manager, what their history is, how they're positioned, are they diversified? Are they beholden to a particular private equity sponsor? Are they too aligned with just providing financing without really the fundamentals being part of their investment equation? There's a lot that goes into the decision about how to invest in private credit. I personally believe that private credit is still a good place to put money, because it's a very large and diverse market and it will continue to be one. But it does matter, you have to be selective, you have to be thoughtful, about who you invest with.

Who would you invest with?

Anne Walsh: Well, I'd invest with Guggenheim, obviously, because we have been investing in private credit for, you know, close to 20 years at this point in time. This is not a new venture for us. And so we have to be really thoughtful in terms of our fundamental credit analysis, and that's what we've done.

Anne it's good to see you. We'll see what happens later today. See how well we are tomorrow.

Anne Walsh: Thank you.

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