GUGGENHEIM INVESTMENTS

Anne Walsh Commentary on CNBC Power Lunch

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Brian Sullivan: We are lucky to have Anne on for the hour, and welcome. Good to see you.

Anne Walsh: Thank you, very. Happy to be here.

Brian Sullivan: So I know, listen, Kelly and I will be in D.C. tomorrow. We're going to do a two hours live Fed because of Kevin Warsh's first meeting. I understand most people, probably yourself included, do not expect an interest rate change, but the drama is not about that. What specifically are you going to be most closely watching around the new Kevin Warsh Fed?

Anne Walsh: Sure. So, you're right. I don't see any kind of Fed action with regard to rates. However, I anticipate hearing from, you know, the new Chair Warsh, about how he's going to think about policy going forward and implementation of policy, in particular, around the balance sheet. He had been critical of the use of the balance sheet, maybe I could call it the excessive use of the balance sheet in past cycles. And I think it'll be interesting to hear from him whether or not he's really going to begin to take action with regard to that. Instead of reacting to inflation with only

rate talk, maybe there could be balance sheet conversation as well. So, I think that's going to be something I'm definitely [watching for].

Brian Sullivan: When you say balance sheet, we always talk about the interest rate, the fed funds rate, but there's the other side, which is what they call QE, quantitative easing, or QT, quantitative tightening. Tightening would be when they were selling assets, and it kind of constricts the market a bit. Do you think that Kevin Warsh will be in favor of a form of QT tightening?

Anne Walsh: Well, what I think is really interesting is in the face of the what I'd call reflationary pressures that we've experienced, the Fed had continued to purchase assets onto the balance sheet. And I think it'll be really interesting to see how the Fed's going to go about this going forward. I actually do think that the quantitative tightening works differently than rates, and certainly the interest rate-sensitive part of the economy right now, whether that's banks or homebuilders, have been very much affected by the rate hike conversations, and of course the yield curve shape has been affected as well, much more flattening. And I think, frankly, the use of the balance sheet could help to balance the economy without overtightening, where you might see that effect from rates.

Kelly Evans: And you can still see this effect, even if you put back up the intraday charts today, where we have this headline, I think, from the Wall Street Journal, that the U.S. Iran deal would

allow Iran to immediately sell their oil. And you see the selloff in oil, you see Treasury yields falling. I mean, we're still very much beholden to just making sure we can wrap that up and put it behind us and maybe getting a glimpse of what, that's why people are starting to talk… I know your, was your forecast for 2 rate cuts this year, if I remember? That might still turn out to be okay.

Anne Walsh: Well, certainly right now, we've had to, you know, reflect on the fact that inflation has occurred, and it's in the system, and so we've softened our position to maybe one rate cut towards the end of the year. But a lot of factors have had to play out in the last number of months, obviously, the Iran conflict; obviously, the price of oil spiking and its effect in other areas. We saw CPI and PPI really rise much more than projected. And all of that's going into, frankly, the Fed's thought process is at this point in time, and the market's reaction to those. And for right now, I think that the good news is that they grew in a trading range on the 10-year. The rate curve itself is flatter than we would have expected. But by the time we get to the second half of the year, some of all of this should have worked its way through the system, assuming the Iran conflict really is resolved.

Brian Sullivan: Can you define resolved? Because obviously the last two days, the market has been very bullish, and oil has been very bearish. Oil prices have gone down. Stocks have gone up for the most part. People are optimistic, hopeful, something happens really, truly, meaningfully, with

peace here. But there's a variety of outcomes. And I want to make that clear. You know, we can't know for sure what's going to happen. So how do you manage through that, which, it's still fair to say, it's less uncertain than it was, but there's still a lot of uncertainty around how this all plays out. Is that fair?

Anne Walsh: Absolutely. And frankly, from a geopolitical perspective, we could find ourselves on Friday having a signed agreement, but then it could unravel before all the terms are worked out, before the uranium that has been discussed is identified and transported or sequestered. So there's all sorts of things that actually could happen. Tail risk remains high in this particular environment. And so we have to be thoughtful. So I'm constructive on the outcome but I'm also cautious with regard to how long it will take. And then also how long the Strait of Hormuz is going to take to reopen fully, and for the oil to flow.

Brian Sullivan: Are the markets, and you can also do equities… I mean, obviously, Guggenheim is known in large part for fixed income, but as we said, and you've got some new ETFs we'll talk about in a minute on the credit side, but you've got real estate, you've got equities, you've got a lot of things. Is the market being a little too exuberant here?

Anne Walsh: I think we're bubbly, if not in a bubble, we're certainly feeling very bubble-ish right now, and I think that the market is very euphoric. And whenever I see this kind of euphoria in the

marketplace, I tend to get a little bit cautious. We're certainly seeing with the SpaceX launch, dare I say the IPO, that frankly, it's really quite evident that there is a lot of market exuberance around tech, and that's going to continue. And the AI story is real, and the technology supercycle that we're in is real, but on the other hand, is it really worth 85x earnings at this phase of the cycle?

Kelly Evans: It's 85 times revenue, I mean, excuse me, yeah, even more. So speaking of SpaceX, its market cap was briefly, it might still be at this level above Microsoft and Amazon 2. 8? Was that the was it 2.8 earlier today? The numbers are rising so quickly. I can barely keep track. It's up about 50, 60 percent since Friday. So I guess that kind of fits in with a little bit of what you're talking. I mean, it's one of the only things, the Dow's up, there's a broadening trade, the rest of the Nasdaq is more uninspiring, and then you've got SpaceX.

Anne Walsh: Well, I think what you have is a stratification. We have a concentration in the stock market right now in tech, 40 percent. in the tech story, and I think that when you get to these kinds of levels, you have to be a little bit thoughtful with regard to how to play the market. I tend to have a strong preference for diversification, not just inequities, but across the various uh, parts of different markets, fixed incomes well as equities, to diversify, and to be really balanced in portfolios. And I also really like to look for income. And so when I'm looking at equity stories

where they don't have income, I start to say, okay, let's focus on the equity market where there's income.

Brian Sullivan: So could I just follow up on that? I know you're not an individual, you're not a SpaceX analyst. We understand that, Anne. But SpaceX, I think, I think to your point, I'm not going to speak for you, but I think it's indicative of this market where it's SpaceX is now bigger than Amazon. It's bigger than Microsoft or close to it. Does it tell, and maybe it is worth it. I have no idea. But does that tell you something about how people are thinking about the market? Does it represent something bigger?

Anne Walsh: Well, I think what it does is, it really is a measure of sentiment. Prior periods, not too long ago, I would have said Bitcoin was the proxy for risk on. And we've seen the selloff in Bitcoin. And so I actually don't think that that's necessarily representative. Well maybe now it's moved into SpaceX. It's the same investor.

Brian Sullivan: SpaceX is the new Bitcoin?

Anne Walsh: I think it's the new proxy for risk on and for risk appetite, and for the entire euphoria around tech and AI, at least for the time being. I think it's very representative.

Brian Sullivan: [Does the projected Social Security financing shortfall] factor into your thinking? Those kind of projections?

Anne Walsh: I think projections with regard to the Social Security funding air quotes is indicative of the fact that that the federal government has a problem has a spending problem. And we have a spending problem in the cost of interest, and the cost of, you know, whether it's Social Security benefits or other benefits, and what we have is, and this is where the bond vigilantes come in, if we actually see bond vigilantes again, is the realization that we just are spending too much.

Brian Sullivan: Well, haven't we, respectfully, I know we got to go, haven't we seen the bond vigilantes already? Because we were talking about to rate cuts before the Iran War conflict, whatever began. Now we're at 4.43 in the 10-year. The bond market pulled a Fleetwood Mac and it went its own way.

Anne Walsh: Well, we're in a trading range, and we have been for about three years now in the 10-year, and I don't really think there's anything that I see on the horizon that's going to take us out of that, in particular, as long as the fiscal spending is being supported by the short end and by issuance in the short end, by the Treasury. And so, what we see is a flattening yield curve, but that's going to keep the long end anchored in this environment. And so I don't really see how the vigilantes are going to play this that hard relative to where we are today.

Brian Sullivan: All those super complex inflation models that you run at Guggenheim...

Anne Walsh: Yes, and also our stress cases with regard to how markets are going to react. Quite clearly, we've come through and hopefully are behind, the high price of oil is now behind us. That will help with the inflation story, it will help with the Fed being able to look through this past, immediate inflation burst, and to really, really make decisions based on expectations of inflation relative to what is now rear view mirror inflation. And that will make a big difference also for how stocks perform and how the bond market reacts.

Kelly Evans: Good, but it's good news.

Anne Walsh: It's good news.

Kelly Evans: It's much better than you were fearing.

Anne Walsh: Well, our base case had us, you know, peaking out around just around or above $100 a barrel, staying there for a while, and then seeing $80 a barrel. What we've seen is a much faster return to the lower price. And to your comment about that we can actually ship oil faster than I think the market's actually predicting, that will actually be a really good thing, particularly for other parts of the world outside the U.S., Asia, where they're having to ration oil, and I think the return to normalcy is such a strong positive, and those headwinds will now turn into, you know, neutral or even tailwind events.

Brian Sullivan: Let's get some final thoughts from today's guest host, Anne Walsh of Guggenheim. All right, so, and we've obviously got the Fed meeting and the press conference tomorrow. We know that's going be top of mind, so it's not going be on your other three things to watch. You guys just did launch a couple of new ETFs. They're not stock ETFs, they're described as sort of ultra short type credit, short-term credit type ETFs. What are they, and why is now the time? Because some people might say, man, there's lot of ETFs out there.

Anne Walsh: Well, there certainly are a lot of ETFs, but a lot of them are stock ETFs, and in particular, some of the concerns that I have are that they're levered, maybe double levered or triple levered on individual names. Instead of that, and thinking about diversification, we really wanted to offer income-oriented ETFs that really capitalize on our management scale, particularly in structure credit, and in short-direction credit, which I think are a real complement to portfolios that are looking for a way to be thoughtful and balanced in a time when, frankly, the stock market is looking highly concentrated, and very euphoric.

Brian Sullivan: Those are your other two points and we'll get to those in a second. But is structured credit, is that, are those bad words now?

Anne Walsh: Not at all. And, in fact, we're taking the cash flows of basic industry and businesses, whether it's aircraft, transportation, equipment, you know, fast food restaurants, and the like, and

packaging it into a way that investors can access, which is, by the way, a very institutional-only asset sector, and giving the opportunity for investors for the first time to access Guggenheim's knowledge in this area through a product that is commingled and accessible.

Kelly Evans: I'm just curious about your thoughts on private credit. I mean, people will want to know about the underlying, the safety of the underlying, the selection processes, especially the time when credits in the news, not necessarily for the best reasons.

Anne Walsh: Well, the nice thing about this ETF in particular, which is GISC, the ticker, is that these are liquid, and they're not private credit transactions. So, as a result, we're taking advantage of the credit cycle, the tailwinds that are part of the underpinning of the U.S. economy right now, that is the fundamentals that are good, and being able to invest in a way that's appropriate for a ballast, if you will, in a portfolio.

Kelly Evans: And just quickly, on the ultra-short, would that be for people who are looking for a cash like equivalent?

Anne Walsh: Sure, there's $8 trillion sitting in the sidelines in cash right now. This was a way to allocate but pick up some additional spread. And I think it's very timely at this point in time for investors.

Brian Sullivan: We got a minute left in the show. I'm at the point of my cycle, where I'm getting in taxis. Yes, I ride taxis, and the drivers are asking about, you know, am I making 20 percent on Nvidia, and that makes me nervous.

Kelly Evans: Are people a little... Nvidia is the one that you're...

Brian Sullivan: I'm just using that as a euphemism that are people to euphoric right now.

Anne Walsh: Well, I think Rockefeller was famous to say, you know, the secret to his wealth was he sold early, and the reason he did was because he was getting stock tips for shoeshine boys back in the '20s. And I think we could be similarly situated when, anecdotally, people want to get in, they're afraid they have FOMO. They're afraid to miss out on stock market moves. So I think these particular ETFs and being thoughtful in your portfolio allocation is important.