Anne Walsh on Bloomberg TV from the Milken Global Conference

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Katie Greifeld: So let's start right there on that conversation Romaine and I were having. I mean, you think about these equity markets: March was a hairy month, but then you saw what happened in April, and you think about where we are when it comes to the bond market. Has it really retraced that sell off? You think about where we are when it comes to oil. We're at very, very high levels relative to where we were a few months ago. Are you surprised by where we stand when it comes to U.S. public equities?

Anne Walsh: So, I think that equity's price in news, good or bad, rather rapidly. But what we're seeing, and if we go all the way back to the financial crisis, we go back to COVID, we're seeing the Liberation Day last year, we're seeing the snapbacks happen faster. The volatility is happening rapidly and the recovery is happening with amazing speed. And that's really become a pattern for the equity market because of this pricing end. And right now, the equity markets have priced looking through the Iran conflict to its conclusion. And I think that's what's driving the equity markets, along with, dare I say, fundamentals. The storyline's pretty strong in U.S. economy remains resilient and positive.

Katie Greifeld: Absolutely, and it's worth noting, I mean, you think about the latest round of earnings that we got through. We got a lot of the Magnificent 7 out of the way. Certainly this, you know, opportunity to focus on the fundamentals of corporate America might help explain what we're seeing in the S&P 500, but even still, if we were to stay around these levels, when it comes to Brent, when it comes to WTI, I mean, how much longer can this sort of dynamic last where you have pretty high oil and you have an equity market that is paying attention to a totally different story?

Anne Walsh: So there's a few things here. So first of all, the downside risk, the extended Iran conflict, really isn't priced in at this point in time. So there is some room for volatility in the future. Our base case is is that we stay elevated on oil prices. Let's say around $100 a barrel for, we'll call it three months. And during that period of time, we sort of slowly then, towards the end, tail back down, not to pre Iran conflict prices. We don't really see a round trip to $60. It's going to take a little bit of time to unsnarl the supply chain disruption that came from having the Strait closed. And so as a result, you know, we're going to see maybe $80, which is about where the future suggests by the end of the year, oil prices will go. In that environment, you know, that, the markets can operate,

fixed income can operate too, and we'll talk a little bit maybe about where the fixed-income markets are. But that's where equities have priced in. Again, looking past the conflict to fundamentals, and the ability of the economy to recover, remain resilient, even in spite of elevated oil prices.

Romain Bostick: Well, let's talk about fixed income. I mean, spreads are so tight, despite, I think, everything that's happened. So, I mean, you still have some resiliency. They're same way you see inequity markets. So, I am curious, do you expect at all any sort of widening of those spreads as this conflict continues for a longer period of time or kind of, do we kind of stay where we are?

Anne Walsh: So, I think fixed income is now more of a rates story than it is the spread story, outside of technology. And what we're seeing is concern about inflation and Fed policy, and by the way, central policy, central bank policy around the globe, and what's happening there. And the concern about whether they need to actually begin to act, who dare I say, raise rates. And our view is that we still expect one rate cut later this year. But obviously, the markets have priced that out. And we have, you know, assuming all that goes well, a new Fed chair in Warsh. And so, I think we're going to see a change in the way the Fed manages interest rates, going forward and [how it] thinks about inflation fighting, using different tools or using the same tools differently, if you will. And so as a result, I think it's more of a rates story. What else is also happening is because of the everyday conflict and other physical spending that's happening, we're going to see more Treasurys get issued. And so, as a result, we're seeing sort of a lift to rates because of the supply, demand, dare I say, imbalance, way more supply coming relative to the demand, and that's lifting rates. That, however, isn't affecting spreads. So the spread story is one where the fundamentals, the same market conditions that are driving, dare I say somewhat optimistically, driving rates, and it's going to be driving stocks, are also driving the spread story relative to rates.

Romaine Bostick: You mentioned how the Fed is going to maybe think a little bit different about inflation fighting, but there's also been a lot of talk based on what Kevin Warsh said publicly, just about thinking about what inflation is altogether, at least in the context of monetary policy. When you think about whether it's, you know, productivity enhancements, and other things coming into the economy, is there a case to be made, that maybe the way we look at inflation at its current levels is, I don't want to say wrong, but maybe it's not the right way to think about it?

Anne Walsh: I think the issue is, do the tools that currently are the tools that are available to the Fed and to central banks, are they the right tools to fight this type of inflation? So if the inflation is one that's caused by supply chain snarls, I mean, to be real, there's a whole lot of oil available. You know, many, many, you know, billions of barrels. But getting it out of the ground and getting it to where it needs to be deployed are two different matters. And so as a result, is the Fed the right, using the right tools, or do they even have them available to type that kind of inflation? I think the market is pricing in what I would call the pig through the python problem. So if it all goes according to plan or expectations right now, what we're going to see is we're going to see inflation bulge, and then return down to at least some level that is closer to the Fed target. Do I see 2

percent, which is the Fed's target number anytime soon? No. And in fact, we have to look at the bigger picture, which is, are we getting a bit of a reflationary world anyway? All this building for AI, all this need for capital, these are different types of drivers than necessarily the Fed's situated to take care of. And so, I think that's one of the reasons that Warsh is really interested in and has written a lot about how do we really address these tactically, and what tools does the Fed have available to it, to address them?

Katie Greifeld: So, I mean, how does that change your thinking about how you're viewing when U.S. government bonds as an investor? Because, you know, you mentioned a whole lot of elements here, which sounds like it leads to maybe a structurally higher, long end of the Treasury curve. Does that change any assumptions that you have about, you know, what role that plays when you're putting together a portfolio?

Anne Walsh: So interestingly enough, what we've seen is we've seen a flattening of the yield curve. And I think what we're going to see is a lot more issuance in the short end. So perhaps what we're going to see is this flatter yield curve becomes a bit more of a phenomenon relative to the, frankly, even our prediction that we were going to see a steeper yield curve. In the beginning of the year, that certainly made a lot of sense. Given where we are now, the flatter curve probably is the story. Oddly enough, also, what we've seen is the 10-year remains anchored. It has been anchored, running between high 3s and high 4s for a long time now, since 2022, really. And so, as long as we're within that space, investors can actually tactically move duration, which is what we've done, as interest rates move up to, say, 4.5 level on the 10-year or maybe a little bit more. That's the time to extend duration. Frankly, the economy, and tech, and other market stock market, for example, really don't perform well when the 10-year goes north of 4.5 percent, so keeping it in that range, I think, makes a lot of sense, and I suspect that Fed policy, and more likely, Treasury policy, will have, you know, a goal to keep the 10-year within that trading range.

Romaine Bostick: What do they call the Treasury policy, I mean, how do you rate it so far? I mean, I know there's a lot we don't know, but at least from what we can see, it does appear that Bessant has done a relatively good job so far of trying to thread this needle.

Anne Walsh: Actually, I mean, I think he actually has done a very good job, considering there's been so much headline news, there's been a lot of deficit spending. You know, and they have to signal, the Treasury has to signal when they're issuing and how much. And I think it's been very transparent. And I think, in fact, the Treasury's secretary has done a great job.