Anne Walsh on CNBC

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CNBC: Our next guest says fixed income is her strongest conviction call, also bullish on tech, AI, and private credit. Joining us here at post nine is Guggenheim Partners Investment Management CIO Anne Walsh. Welcome. It's good to have you. So let's talk about fixed income and these yields. Do you think… what do you think happens next?

Anne Walsh: So, I think where we are right now is, I think the markets at the high rate, the high end of the yield range, our yield range runs about mid- to high 3s on the 10-year to mid-to high 4s, call it 4.75. We're obviously getting pretty darn close to that. But I think that's a sign that we pretty much reached the top of the range, the range we've been in has been since right around 2022, when raids started to really climb. As a result, I think that we're probably reaching a bit of the oversold position, but there's still tail risk that could drive yields higher.

CNBC: Why do you think it's captive, what do you say, 4.75? Why do you think that's the high end? Why can't it burst through there?

Anne Walsh: Well, I think it can, but I think the markets will start to suffer. I think the cost to borrowers, the effect on stocks, it puts a real dampening effect on the markets and the economy.

CNBC: Where do you come up with that sort of level based on the economic conditions where we are right now? Because so far it feels like the economy's been pretty resilient to it.

Anne Walsh: The economy has been resilient, and in fact, we're seeing that in terms of the fundamentals on earnings, very strong, and I think you can continue to see that. We also have quite a bit of fiscal support. The One Big Beautiful Bill has had a positive impact on consumers, with the tax refunds, capex expensing, so there's strong positives that have also helped give tailwinds to the economy. So the fundamental picture is relatively benign, particularly at the aggregate level, and that gives us some optimism, at least for the first half of the year.

CNBC: First half of this year, which is almost there.

Anne Walsh: Yeah, so as we kind of come into the third quarter, and obviously, you know, the Iran conflict now runs 12th week, I think is going on a lot longer than most market participants expected. And frankly, it's, in terms of our base case, we're starting to feel a little extended on our base case with regard to the effect and the timeline. And, you know, I think is going to continue at this point.

CNBC: So you do think if we had West Texas at $100 for maybe a few, three more months, maybe a 10 percent pullback, would that be in the realm of the reasonable?

Anne Walsh: It certainly would, but I would tell you that the buy-the-dip mentality remains strong, and there's still, you know, $8 trillion sitting in cash that can come into the markets pretty rapidly if we see, again, fundamentals remain strong or relatively strong with earnings. What I'm really concerned, though, is about the amount of fiscal spending that's going to be coming in, particularly as, you know, we end up having to spend more for defense, and, you know, we've seen a $1.5 trillion proposal, it's got be financed somehow, and that financing isn't going to come from just GDP growth. It's going to have to come from borrowing. And that's still going to have pressure on the yields, and it's really a great story at this point in time.

CNBC: Would you say on the oversold notion, does that extend to gilts or JGBs?

Anne Walsh: Well, I think you have different political stories in those environments. So we have, you know, global geopolitics, we have sovereigns that are running into some real financial, you know, challenges themselves. They're borrowing. So yeah, we've got a sovereign and, you know, internationally and a raid problem. Again, that's why fundamentals still are strong in terms of we talk about a little bit of private credit and AI. And these are very good areas to think about with regard to investing.

CNBC: When you say you like private credit right now, what does that mean? You like the buying the equities of the managers or what?

Anne Walsh: So I actually like private credit. And I think that I'm very constructive on the space. I know there's been headline issues, and I would say that all of the backdrop we have right now creates a level of volatility. I think it really makes a difference who, you know, who's your manager, and to make sure that the investor protections are being managed properly and that investors are very thoughtful with regard to risk. Tail risk is elevated as a result of where we are in all of these, you know, external and multivariate risks that are happening. So you have to be thoughtful, but I'm constructive on the sector.

CNBC: I want to ask you about the new Fed chair. The president said, we're going to let him do what he wants to do, but there is this notion that he's going to have to say something on Friday that eventually rates will be lower. And does that steepen the curve even more than we already have it?

Anne Walsh: Well, here's what I would say. We've seen some flattening in the curve because of this expectation that Treasury is going to have to issue a lot more. And they're going to likely issue Treasurys in the short run, short end of the curve. Now, I wouldn't want to be, you know, the new Fed chair, you know, Warsh, coming in. This is a very, very difficult time. The cross currents are very

extreme. And frankly, the Fed has limited tools to deal with, supply shock-driven economic impacts, i.e. inflation. And what their tools really do are slow down the economy. Well, I don't think Kevin Warsh wants to slow the economy, I think he wants to slow inflation. And so it really is a very challenging time to be a Fed chair, and frankly, a voting member. I would say that my advice, if I'm going to give it, is not to raise rates. At this point in time, I think that would be a policy mistake. However, I can see an extended pause.

CNBC: So you guys don't have a cut baked in anymore? I think you did right?

Anne Walsh: We still have one late in the year, and maybe it gets pushed out, depending on how long the Iran conflict goes for. I mean, this is a, this is a level of inflation that, you know, if this, if we continue to see elevated oil prices, it's going to start to seep through the system in a meaningful way. It's already started, but it's going to be much more meaningful. And then the impact could be much more challenging.

CNBC: If it's over in a few weeks…

Anne Walsh: Then that's different, and we kind of go back to our base case, which the base case is, is that we return to $80 barrel oil by, you know, third quarter into the fourth quarter. We don't believe we're going to go all the way back to $60 in the short run because frankly, the supply chain impact is pretty significant, and the rebuild is going to take a bit of time. Plus, we had a bit of glut

before the Iran conflict started. So $80, then we can start to see inflation return to its disinflationary trend, we think, and all it returns to some level of normalcy. And then we'd see a pretty positive impact on equities.

CNBC: Sure. But you do think June is going to be a key month in terms of resolution, one way or the other.

Anne Walsh: Exactly. Yes. I think it's really, really significant because what's going to start to happen if we don't have a resolution here in the, you know, in the second quarter, then I think what we're going to start to see is supply chain disruption in other raw materials, whether it's fertilizer for agriculture, helium for semis, whatever the case may be, and that's going to start to become more of a challenge, and rationing behavior, simply because the availability of oil, as long as the Strait remains closed, that's going to start to really draw down other economies, particularly outside the U.S., that rely on import oil.

CNBC: Well, there's a good headline making the rounds right now. Trump says the U.S. is in final stages of talks with Iran, citing a full report, stocks at the highs of the day, and oil, again, here we go, down almost 5 percent. Anne, thank you. Good to get your take as always.

Anne Walsh: Thank you.

CNBC: Anne Walsh from Guggenheim.