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Technology Supercycle Will Have Long-Term Effects

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I'm delighted to be joined by Anne Walsh, CIO at Guggenheim Investments. It's all about the Fed this week. Markets are pricing in an 80% chance of a cut. Is it a done deal?

Anne Walsh: Well, Francine, it's great to be with you. It is really baked in at this point in time. The markets have given the Fed opportunity to go ahead and cut that 25 basis points. We had been predicting it for quite some time that we were going to see 75 basis points of cuts this fall, with what we're going to get and I think for all the right reasons. The Fed--notwithstanding the hawkish tenor that's coming out from some Fed officials—is really trying to get to a neutral rate of interest rates at the fed funds. Our view is that is about 3%, which means they have the room to cut this week and they have the room to cut some in 2026 as well to get to neutral.

How much does it depend on who becomes Fed Chair?

Anne Walsh: Well, I think considering all the candidates for Fed Chair at this point in time are all pretty dovish, I think that it really is going to be part of the trajectory and the Fed chair, when they come in or when they're named to come in, I think that's still going to drive that trajectory down to that neutral rate of interest. Question is, do we go through that? In other words, do we go to 2.75 on the neutral rate? Right now, we're saying 3%.

And overall, what kind of U.S. economy do we have now?

Anne Walsh: We've been in a bifurcated economy for the last two years, at least. And that is, small businesses, low-end consumers, have been struggling as interest rates rose, inflation rose, and the cost of living offset their ability to gain additional income benefits. The larger part of the economy, those companies that have access to capital, as well as high-end consumers, have not actually suffered because of the wealth effect that's come from the stock market appreciation and value appreciation of real estate and other assets. As a result of this, the cuts in interest rates, well they

won't have a meaningful impact in terms of the broader economy, I think unless we were to get to stimulative levels of interest rates, which is not what we're predicting. But it will help that part of the economy that's interest sensitive a bit. And I think that's what we can all look forward to in terms of helping that part of the economy. And then it stabilizes. So essentially what we're looking at is an economy in some level of equilibrium. We're projecting a 2% approximately GDP growth level in 2026. That's a long-term average. You know, 2% real GDP in the U.S. is really a long-term trend line. And as a result, that, again, should stabilize, get us to an equilibrium state, a 3% neutral rate on fed funds. And it looks like a pretty good potential year for 2026 from that perspective.

What about inflation? The market has largely looked through a lot of tariffs and trade. Does it come back with a vengeance in 2026?

Anne Walsh: So inflation's interesting. I think generally speaking we can see that some inflation levels are going down. In particular one, of the elements of inflation which is rents and owner equivalent rent, particularly in CPI has been stubbornly high. It's starting to finally decline. The headwinds of course still continue to be cost of insurance and other costs to the consumer. But it's a big component of CPI and so it's going to be a very substantial tailwind. Having said that, let's go old school for a minute. Money supply is actually rising in the U.S and that is a stimulative effect. It also has an inflationary effect. Very few people talk about it. And additionally, the Fed has determined that they've stopped quantitative tightening and in fact may be starting to reincrease the balance sheet, which also has a stimulative effect. So they're going to have to watch inflation, less so from a tariff perspective, but more so from these sort of old school monetary policy actions. That's something we're going to watch.

Do you worry about AI valuations in 2026?

Anne Walsh: I'm not necessarily worried about valuations just in the short term. I tend to think of this being a very substantial macro phenomenon that's going on in the backdrop, if you will, like a technology supercycle. And as a result it's going to have a very long-term effect. Historically, technology is overpriced in the short run and overpriced—excuse me—it's going to be overpriced in the short run and underpriced in the long run. And as a result, the valuations will take a long time to play out. Short run we're in a bit of a reflationary world, but not like 4%. I mean, just like around a 3% risk, only because there's a big buildout that has to happen to get us to the infrastructure that we need in order to support this technology supercycle.

How problematic is it that there's a time lag of the deployment of capital for everything and the fact that you don't get returns for a lot longer?

Anne Walsh: Well, and I think that there's sort of two chapters to this, maybe multiple chapters, but at least in terms of, you know, a very high level. You have the immediate investment that's

going on in the infrastructure of the data centers, the chips. But you have the investment that's going to be taking place in the broader economy in order to make use cases work for artificial intelligence in this technology buildout. And by the way, I don't want to limit it just to artificial intelligence. Robotics, communications, there's a whole lot of dynamism that is happening in technology right now. All of that will play out over the course of time. And as those use cases and as those use uptakes occur, then I think we'll start to see the productivity gains that will offset those costs in the longer run. So I think there's a real benefit here, and I worry a little bit less about the short run and I also very much dispute the belief that this is a dotcom bubble valuation risk. I don't see it as that. We have real earnings in this cycle relative to the late 1990s. And I think fundamentally we've got a better narrative here than we did then.

How do you construct the ideal portfolio when there are a number of worries about geopolitics in Europe and China?

Anne Walsh: Well, I think if investors waited then they might miss opportunities too. I believe in a diversified portfolio: it mitigates risk, but it also allows for the opportunities and not just in Europe and here, but also in Asia. For example, Japan still has got a pretty good story happening there. So moving away from the U.S.-centric and U.S.-only investing, I think that's prudent at this point. And I do think particularly the regulatory story in Europe is going to take a while to evolve, but it will, and defense investments continuing. And so there are geopolitical dynamics that are positives for equity investors.

There's a lot of news with Japan and bonds were really on the move last week and we have this Bloomberg scoop about the next rate move in Europe being up. Do you play it from a currency or bond level or do you go into equities?

Anne Walsh: I think you probably go into equities in Japan and in the EU area relative to bonds at this point in time. There's a lot of noise in particularly, out the yield curve, in whether or not we have inflation, whether or not we're going to see rate hikes. I don't really see much movement. I'm in the camp of being a little skeptical. Bank of Japan will raise rates a bit more, but I'm not sure that the headwinds that they have relative to demographics and other really long-term macro trends work to raise rates too much. I would say the same thing for different reasons here in Europe because the story of stagnation is still looming. And rate hikes, sure, you could talk about the "could happen". I'm in the camp of being a bit more skeptical.

How do you tell your investors to play with Bitcoin and gold?

Anne Walsh: Bitcoin is interesting. I tend to think of it as a proxy for risk appetite as much as anything. And the fact that it's sold off of its highs quite considerably tells me that there is nervousness. Market sentiment is edgy at this point in time, and there is a risk that some investors

start to really pull back. So I think that's what that's telling us relative to gold, which is still an alternative to other dollar-based investments from non-U.S. investors in particular who are looking to diversify away from U.S. Treasuries, which I think is also keeping the long end of the U.S. Treasury curve sort of in a range. On the ten-year, for example, we're between mid-threes and mid-fours. We're going to stay there. We're entering year four of that trading range. I think that continues. Gold is an investment alternative and I think precious metals, whether it's gold or silver, still have room to run as a result of being an alternative investment choice. Not necessarily just a measure as it historically has been of inflation risk.

Is there anything that you think is mispriced at the moment?

Anne Walsh: I think there are areas of value that investors can take advantage of. I think infrastructure, there's a huge need for infrastructure. It's not just technology infrastructure, but it's across the board energy and, transportation and the like in the U.S. and in other parts of the globe. The buildout that needs to happen is important. Real estate in some areas is undervalued. So hard assets offer a lot of value. And believe it or not, in the U.S. you know, investment-grade fixed income actually offers a nice nominal return for investors. It's not a bad place to be. Like I said, it's sort of stuck in a trading range that's fairly stable.

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