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Private Credit Has More Room to Expand

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Stocks are lower today after the S&P and Nasdaq both hit record highs earlier in the session. Here with where to invest right now, Anne Walsh, CIO of Guggenheim. Welcome. Good to see you.

Anne Walsh: Nice to see you, Scott.

How, broadly, do you feel about the markets right now? Well, what's your current view? We're at record highs. We'll just call it that.

Anne Walsh: Right, so it seems that valuations appear stretched. And I think there is a lot of reason to be thoughtful with regard to equities. But I would say that when I look at the comparisons between now and say, the dotcom era.

Just pick, say that, well, everybody's weighing in. So let's get your view I suppose.

Anne Walsh: So I think where we are right now is we're, we're a little bubbly but not bubbling at this point in time. We're certainly not at the point in time where we saw the valuations at that time. We have room to run. I think that the fundamentals are very different now and they appear very strong to me, relatively speaking, in terms of artificial intelligence and other build outs that are happening in CapEx and dare I say, the benefits of the tax policy with expensing of CapEx and other elements. I think that's going to be very strong, you know, for the future for stocks.

Some have said, you know, the key difference or at least one from that period of time is that the money being spent today is from the biggest companies with the biggest and best balance sheets. You see it the same way? Does that alleviate some of the risk that might otherwise exist?

Anne Walsh: Well, I think we have a tale of two economies and a tale of two markets. So that is true, that the largest companies with the most access to capital, those that are able to make those kinds of investments, those are going to be driving quite a bit of the market activity, and it's very

strong. There's also the smaller businesses, maybe the small caps, which have been slower to react.

I mean, if you look at the performance of the Mag seven relative to say, the 493 other stocks, it's not quite the same story. But I think the fundamentals, the tailwinds are there to help both markets and, you know, both parts of the market. But at the same time, I think it's going to, it's going to be more supportive of the larger companies.

You make the argument that markets have fully priced in the outlook for interest rates. What is your outlook for interest rates?

Anne Walsh: So where we find ourselves today, you know, the fed finally cut the 25 basis points after having been on pause for so long. We anticipate that there's probably two more cuts this year. And maybe we're a little bit more aggressive than some of our peers in believing that there's still two more cuts. Certainly with the shutdown, everybody's kind of looking around, hoping to find some real data points that we can rely on.

But I think that the market indications are there. I think the market's willing to accept that. I think the, the other element is that the employment numbers, while, we didn't get an employment number because of the shutdown, I think they are showing that we are slowing down, and the fed has real reason to go ahead and continue to cut.

We also think that they'll cut into 2026 as well. So the trajectory is for continued lower fed funds rate into 2026 and a move towards what I would call the neutral rate being lower perhaps, than some of our peers.

How do we balance, a weakening labor market? I mentioned to my prior guest that Carlyle came out with their own study, and they estimate that just 17,000 jobs were created last month, among the weakest results since the economy emerged from the recession in 2020. So I balance that versus, well, it just means the fed is going to cut more, which people then say, well, don't fight the fed. So how do I think about both of those?

Anne Walsh: Well, I think that the employment numbers are evidencing the slowdown in the U.S. economy. And by the way, sort of following on some globally as well. And so when we looked at earlier in the year, tariffs and the concern that tariffs would be highly inflationary, at the time, I thought I took the perspective that I thought they were more recessionary than inflationary, that they had a slowing impact on the economy.

I think that's what we've seen. I think we're coming into a more of an equilibrium. At the time, we were also rather, a strong GDP. And I think that what we're seeing is that this is sort of normalizing the economy into what I would call sub 2 percent growth going forward. But very much a steady

state economy for the future, which again and again gives the fed the opportunity to continue to lower rates. And I think a good story.

You probably think way more about credit opportunities than you do equities. Where are the best opportunities today? Rates are down a little bit. Are there still as great opportunities out there in credit?

Anne Walsh: Absolutely. The same tailwinds that help equities, help credit even more. And so we see a lot of good value in credit, whether that's corporate credit, structured credit, any kind of a spread sector today is adding value to a portfolio; frankly, were at nominal yields that historically remain very attractive. And we have real rates of interest both, in terms of actual Treasurys and also, of course, especially in spreads.

You have a view of, of private credit, as its own sort of fast growing asset class. There's like \$2 trillion in and of itself. It's like mushroomed so fast. A couple of bankruptcies in the last few weeks to a month have raised concerns that, okay, maybe we're finally seeing some cracks that people have warned about would happen if certain things turn bad or the economy went more south from here. Do you have a view?

Anne Walsh: I think private credit is a very large market and growing, with the growth of private equity, with the growth of the opportunity set in credit generally, I think credit private credit has a lot more room to expand. It's also a catch all term, and it can mean anything from different kinds of structured lending also all the way to individual corporate credit lending. A few bankruptcies does not a trend make, in my view. And I believe that the underwriting opportunities, the covenant protection in private credit remains very, very healthy. And I think the opportunity is there. We just are hearing the question of whether the, the fed officials believe that there is any kind of systemic risk. I think the answer is no.

No, I mean, I would only come back and say, I mean, you know, they had oversight in the like, Silicon Valley Bank too, you know, out in San Francisco. They didn't exactly see that coming either. And I know there are those who are listening to this snickering, thinking themselves like, yeah, like the Fed's going to going to catch that before it becomes a problem.

Anne Walsh: Well, I would contrast that because that was a rate story. The truth of the matter is, Silicon Valley Bank was overexposed to very long duration assets with a short liability balance sheet. And so the problem is that they got caught in a very unfortunate interest rate increase and yield curve steepening story line, not necessarily a credit story.

Oh, no, no, I'm not, I don't, I don't bring it up to, it's definitely not an apples to apples thing. I just bring it up as if we're relying on the fed to catch the problem, before it becomes the problem, maybe we're all going to have a problem.

Anne Walsh: Yeah, and I don't really think it is at this particular moment. I think the fact that private credit lacks transparency, and an institutional focus makes a lot of investors curious or worried about the sector and I think a little bit unnecessarily so. And I think the point what I was making about the fed not being necessarily concerned about it being systemic is a one or two, you know, downturn story or an individual idiosyncratic transactional story like that I think doesn't spread. And so it doesn't become systemic at that point in time. I think it's highly contained and very limited in one or two names.

Okay.

I think private credit is a great story for the future.

All right. It's great to get your views, Anne, thanks.

Anne Walsh: Thank you.