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We invite you to [listen to](#) this dynamic conversation with Harold Kotler, Bill Sterling, and moderator Dan Fasciano as they review events from the first quarter of 2026 and discuss market sentiment and portfolio positioning, the macro outlook for growth and inflation, and key themes in rates, credit, and the AI-led investment cycle.

Edited transcript

Dan: Welcome to the First Quarter Client Conference Call for GW&K Investment Management. This call represents the views and opinions of GW&K Investment Management and does not constitute investment advice, nor should it be considered predictive of any future market performance.

To everyone listening in, happy spring from the team at GW&K. My name is Dan Fasciano, Director of Private Wealth. Joining me on today's call is Harold Kotler, the firm's Founder-Chairman and Chief Investment Officer, as well as Bill Sterling, our Global Strategist.

Harold, I'll start with you. In your recent quarterly letter, you talk about the tension and noise in the world today and how easy it's been for that to shape investor behavior. At the same time, you point out that markets have continued to advance, driven by fundamentals rather than sentiment, even when many find that hard to believe. As you reflect on this, what guidance can you give clients and how they should think about positioning their portfolios over the next 12 to 24 months?

Harold: I'll give you a little example. Way back when I was visiting my daughter in San Francisco, and I couldn't get anybody to wait on us because everybody was in the back room buying stocks. I told her it's a sell. So, when everybody is giving themselves high fives, it's time to sell. When everybody disbelieves everything that's going on, it's a buy. The old adage that markets climb walls of worry is absolutely true. And we certainly have that environment today, and most people can't understand why the market is going up because the market's going up.

Dan: It's a good backdrop and you really touch on that in your quarterly piece. I want to shift to Bill to widen the lens a bit purely on fundamentals. Bill, as we're going through 2026, what are the macroeconomic forces you're most focused on? And I guess as a follow up, how does the move in oil prices year to date factor into your thinking around growth and inflation?

Bill: I think we started the year with a very favorable macro setup. We had strong momentum from last year's 2.5% GDP growth, a relatively low unemployment rate, inflation that was easing, an AI-related capital spending boom, and positive fiscal stimulus from last year's Big Beautiful Bill. Then we got into

the conflict with Iran in March, and that so far pushed oil prices up nearly 100%. So that's a significant energy price shock that could at least temporarily push up inflation, and also by acting as a tax on both consumers and businesses, slow growth as well.

But the markets have tended to look at that energy shock as a transitory event that will fade when some kind of deal gets reached and the US stock market's also been supported by strong earnings and the dynamic force of the AI capex boom. But I think it's pretty clear the markets are going to be watching this Middle East situation very carefully since a prolonged closure of the Strait of Hormuz could keep oil prices higher for longer. And that kind of scenario would be especially painful for Europe and Asia, which depend more than the US on oil and natural gas that's sourced from the Gulf. So I think it's a true wild card from a macro perspective, although once again, I think odds are that it's likely to prove to be transitory.

Dan: Throughout all this Harold, you've been steadfast that the market was positioned to extend the rally, and in fact broaden out and include small caps and international. So, I'm curious now, particularly since this really showed itself in 2025 and particularly on the small cap side, continued into 2026. In your mind, what conditions need to remain in place for that to continue?

Harold: I think the most important condition is the AI revolution, and we're in the first inning of something that none of us really can comprehend. And it's going to be pretty dramatic and will create much better earnings, efficiencies, productivity, growth in the economy. And I hate to say it, but wars come and wars go, and I've never seen a war change the direction of the economy. Sometimes unfortunately, it even helps the economy. Look, this war in the Middle East is not sustainable for a long period of time for many reasons. I won't get into them, but it's just not possible. So there has to be some resolution. And at the end of this, we'll be looking at ourselves and realizing that it's the economy, stupid. That's what you have to focus in on. And that's what we do.

Dan: You're doing a really good job bridging geopolitics with an economic backdrop. I also know that you have a fair amount of conversations with the various investment teams and think a lot about the investment landscape. While all that's happening, are there any areas in particular that you think offer better relative value at this stage?

Harold: I think we are in a sweet spot. Interest rates are now yielding a different nice return, taxable and tax exempt. I know most people would love to see bond values go up, but why? Wouldn't you like to keep the interest rates at these levels so we get a nice cash flow on your investment? It's a perfect time. Real returns from zero 4 or 5 years ago to 3% or 4%, or in taxable 6% or 7%. It's wonderful. And I think it applies to the stock market too. Everybody says it's overvalued because of a few stocks that have been driving this market higher, I think for appropriate reasons. But beyond that there's many opportunities and small stocks have reacted very positively and were totally undervalued, as I think

international stocks are undervalued. So to me, I hate to say this, but I don't think you can go wrong investing. The big mistake will be to hold cash and not invest.

Dan: You just touched on, amongst other things, the credit markets. I mean, you talked about taxable bonds and muni bonds. Bill, we haven't talked a lot about it in past calls, but I want to kind of put you on the spot here. I'm curious about your take on credit markets. Are rates and spreads confirming what the equity markets are telling us, or are they suggesting something different? And I suppose what comes to mind is some of the recent headlines we're seeing about private credit. Any thoughts on those areas?

Bill: I think the short answer to your question is yes. The credit markets are, I think, basically confirming the resilience we've seen in equities. You know, so far this year, public credit markets like investment-grade or high-yield credit have been remarkably resilient. And we've seen credit spreads little changed from the beginning of the year. I think that reflects the economy's resilience and the fact that key measures like corporate debt to GDP are in very good shape.

In addition, I've done some work looking at the net interest burden on corporations, and that's been almost immune to the higher rates the Fed put in place back in 2022 and 2024, since corporations termed out their debt when the rates were very low, and then they benefited from the high rates of interest they've been receiving on their own very ample cash balances.

I think you're right to mention that investors have been concerned about some of the recent headlines regarding private credit. That asset class is up sixfold since 2010 to nearly \$2 trillion dollars. And there have been some concerns about AI disruption affecting the credit worthiness of some private credit portfolios, which tend to be heavily weighted in software. So as a result, we've had investors try to pull their money out of some semi-liquid private credit vehicles and then encounter pretty strict redemption caps that they may not have been expecting.

I don't see this as a systemic risk that will have a big impact on the banking system or on the public credit markets, like investment-grade or high-yield, where investors have most of their exposure. But for investors in private credit, there may be some more stress ahead that will place a premium on understanding how their fund redemption limits work, and also what kind of specific sector exposures are in the funds they own.

All that said, this does not appear to be anything like a repeat of the 2008-type macro stress, since leverage ratios are far lower and 95% of the investors in private credit are institutions who know that they're signed up for long lockups of their capital. So, any kind of systemic run on the private credit bank looks pretty unlikely to me.

Harold: I suspect most of the private credit redemptions are from the private sector and not from institutions or sophisticated investors, and I think they're fighting yesterday's war, and they remember the bank debacles, and it's amazing how people overreact to something that's yesterday's headline. And I'm sure these companies are well insulated and have the capital to meet whatever redemptions are necessary.

Dan: It's great perspective out of both of you. You know, Bill, I'm not going to let you off the hook as it relates to the Fed because there are a few topics we need to touch on there. The first being they did meet this week and left rates unchanged, and it was Jay Powell's last meeting as chair. You know, between that in and of itself and Kevin Warsh coming in as the new chair. What do you see happening at the Fed through the end of this year? And give us some perspective on how that's changed in 2026?

Bill: Sure. Well, you know, Kevin Warsh I think will be inheriting an economy in pretty good shape. Although it'll have sticky inflation that's near 3%, as well as the risk of higher inflation due to the Middle East situation. I think that calls for patience on rate cuts, despite the president's insistence that rates go lower. Warsh did make a strong case for continued Fed independence in his confirmation hearing and that, I think, has reassured Wall Street that he will not just be a puppet of the president. But as much as he may be biased to bring rates down, he'll be just one vote on the board and constrained by the majority view of the committee that patience is needed on the rate cuts.

Chris Waller, who's a highly influential voice on the FOMC and a Trump appointee, recently framed the issue very clearly, and I think he probably spoke for most of the FOMC. He argued that if Hormuz is open soon, the Fed could go back to thinking about cutting rates to support jobs. If not, then it might need to keep a more restrictive rate structure in place for longer, and that would be to prevent higher inflation expectations from becoming locked in to consumer and business behavior.

So I think for the time being, markets expect the fed funds rate to stay steady for the rest of this year, albeit with a slight bias towards another cut. And the sooner Hormuz is reopened, the more likely we could expect to see one or two rate cuts, which is what markets expected prior to the Iran conflict. I'd also note that markets are factoring in three rate hikes this year in Europe and two in Japan. But those expectations could get pared back pretty quickly I think if the Middle East situations resolved.

Harold: I would argue the market doesn't care anymore — that the focus on lower interest rates is off the table, I agree, for this year at least, and the economy seems to be doing okay, and people have adjusted to whatever interest rates exist. And as I say, I think it's the best thing for bond investors that they keep interest rates right here so you have the ability to continue to invest with these nice yields. So I don't see it as a negative at all. I just think it's where we are and too much conversation is about interest rates. I really wish we'd all focus on what the economy is doing with interest rates where they are.

Dan: Well, I'm glad you put that out there because I'm not going to let you off the hook on part of that, and that's really pressing you a little bit to look forward. You've been consistent that your view on the US is that we're in a durable growth phase, Harold. As you look ahead, and maybe drawing on some of your experiences in your career, what indicators would you be watching for most closely to give you the sign that there's some excesses built into the system, or that we're going to get some kind of pause in this?

Harold: Look, I wish I was smart enough to express what the AI revolution really means for businesses. I know intuitively that none of us really understand the incredible variation and change that's about to happen over the next one, three, five years. And I think it's going to be dramatic. I've actually wrote that I think this AI revolution will equal the wheel as an invention in time. It's going to change the way we do business — our profit margins, the way we hire people, it's what people do for a living. And no, there won't be huge unemployment because people are put out of work. There'll be changes and adjustments, which is the case when cycles change and occur. But we have to get away from worrying about so many things that we worry about and accept and look at what's really happening in the world and really applaud the amazing technology that's in front of us. Oh my God, what a time to be involved in this wonderful society and economy!

Dan: You've touched on sentiment in general, and I want to bring that back to you, Bill, for a couple of questions here. You know, we've seen fair spending, but it's been accompanied by softer consumer sentiment. Can you reconcile that for us, and does it suggest anything for the sustainability of demand?

Bill: On the retail sales side, we saw an annual rate of growth in the first quarter, nearly 10%. But a lot of that was accounted for by higher spending on gas at the pump, which doesn't necessarily cheer people up when they think about their spending habits and at the same time, despite that spending being robust, one major consumer sentiment, the University of Michigan sentiment indicator, hit a 74-year-record-low recently. I'd have to say, though, that that survey hasn't done a good job of tracking actual spending in recent years, so it's better to watch what people do than what they tell surveyors. And I'd also chalk up that negativity bias in the survey to the social media algorithms that dictate the type of news people consume. For what it's worth, weak consumer sentiment data also has historically been a pretty good contrary indicator for the stock market. That is when sentiment is gloomy stocks have delivered better than average returns over the next year or so, and vice versa. So when Harold says people should tune out the negativity, there's real evidence for that when it comes to this sentiment stuff.

Dan: I didn't let Harold off the hook, so I'm not going to let you off the hook either. And my closing part of this question for you is if there are one or two factors that could possibly change your mind, Bill looking out over the next 6 or 12 months, what might they be?

Bill: I'd start with the obvious, which is that I think a super spike in oil to \$150 or higher, could derail the global economy and push inflation significantly higher, at least for some period of time. And that means that markets are likely to remain pretty sensitive to how long and how severe that disruption to oil supply is going to be.

But the other major factor, touching on what Harold had to say earlier, will be watching closely the durability of that AI capex boom, which has become a major driver for the economy and certainly for the US stock market. I still think we're in relatively early innings of, and I agree 100% with Harold on this, what is likely to be a major force fueling economic growth and higher productivity. But if you look at the history of capex booms for other major technologies like railroads, electricity, telecom, or the internet, there have been some bumps along the way if capex dollars don't deliver the hope for a return on investment on schedule. But I think regarding that type of uncertainty, the best protection for investors is basically relatively broad diversification across companies and sectors and that's precisely what our portfolio managers aim to provide.

Harold: I couldn't agree more. The point is — I'm not saying that we won't have scares and missteps, of course. So what? Diversify, stay in the game, invest. But I think the tendency in this political environment is to run for the hills. And that's what I'm arguing against. Use the same discipline you've used your whole life and don't let this particular environment change the way you behave.

Dan: That's a great way to land the plane on this call. I appreciate that. You know, Harold, Bill, I want to thank you both for sharing your thoughts. I think for, I know for myself and for many people that tune in, getting you both in the same room at the same time quarterly is a highlight for me. And as always, should anyone listening in have any follow up questions, please do get in touch with your GW&K advisor. To all our clients and friends, please enjoy your transition to the spring and we look forward to reconvening in July.

Disclosure

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