



Gabelli's Marangi Expects Market Is About To Widen Its Opportunity Set

Friday, June 16, 2023

Chuck Jaffe, in this episode of The NAVigator podcast interviewed Chris Marangi, co-chief investment officer for value at the Gabelli Funds. Read the Q&A below as Chris says 'the new normal' is one where inflation is higher than the Federal Reserve's target of 2 percent and growth is below trend, but it is creating an opportunity for active management to shine and find the opportunities that exist beyond the seven stocks that have been carrying the market to gains this year. He particularly likes the live-entertainment and sports-related businesses, and dislikes the path for banks where higher interest rates and a potential recession are pressuring balance sheets



and the fallout from the spring's headline-making bank collapses is not yet played out.

Chris Marangi

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CHUCK JAFFE: Chris Marangi, co-chief investment officer for value at the Gabelli Funds is here, and we're talking about whether the market's rally can last and what's likely next now on The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's

going to point you in the right direction. And today it is pointing us in the direction of veteran money manager Chris Marangi, co-chief investment officer for value at the Gabelli Funds. So from a closed-end fund perspective, the Gabelli Multimedia Trust, the Gabelli Global Small and Mid Cap Value Trust, the Gabelli Equity Trust which I probably should have mentioned first, Gabelli Dividend & Income Trust and more, and you can learn about all of them at Gabelli.com. And if you want to learn more about closed-end fund investing generally, plus business-development companies and interval funds, go to AICAlliance.org, the website for the Active Investment Company Alliance. Chris Marangi, welcome to The NAVigator.

CHRIS MARANGI: It's great to be here, Chuck. Thanks for having me.

CHUCK JAFFE: You know, I listed a number of funds, and yet we've been in a market that has been dominated by so few stocks that it's kind of like, okay, if you don't have those eight, what are you doing? But closed-end funds present a really unique opportunity because of course people are able to buy discounts and position well, et cetera. So as you're looking at this market, we've just seen a few maybe green shoots that things are broadening out a little bit, do you think that we're going to wind up seeing a broadening market? Are we positioned for those patient investors to finally get paid off for their patience?

CHRIS MARANGI: Yeah, we're starting to see that. As you mentioned, it's been a very narrow market dominated by seven or so stocks, a lot of them with the same driver of artificial intelligence, and obviously growth around the world. We've come through some unprecedented times obviously, the market a year ago was focused almost exclusively on inflation, then we moved to the interest rate response, and now I think we're more focused on growth. Can the Fed land a soft landing? And the answer I think is probably increasingly yes, we are seeing growth soften significantly but I think any chance of recession is probably delayed, and we're seeing some of the cyclical stocks, some of the smaller cap stocks that haven't gotten a lift year to date start to participate in a rally as investment managers frankly sometimes panic to get involved.

CHUCK JAFFE: In terms of getting involved, you talked about AI, and one of the funds that you're involved with is Gabelli Multimedia. Help us understand a little something about some of these companies, because we hear Nvidia talked about as an AI company, but some folks would say it's a gaming company or it's a chip company that does AI, and others would say it's an AI company that does chips and gaming. The AI industry is not a lot of companies, and

most of those companies started someplace else, and often towards the multimedia side of things. So is this revolution an investable revolution? I mean, are we looking at a lot of companies that are getting the AI label for not really being AI companies?

CHRIS MARANGI: Yeah, I think part of the reason companies like Nvidia are up so much is because there are so few opportunities to invest in AI. Personally I think AI, generative AI in particular, is going to be transformative to the way we live and work, but it's not clear at this point who the winners and losers are. It is even less clear as to how to invest behind those themes. So most investors, I think a few, Nvidia correctly, and probably Microsoft, as clear winners, then you've got a bunch of companies in the middle, there's some pluses and minuses for Google and Meta and Amazon. Beyond that, most of the companies that are involved in AI are pretty small and undiscovered. So we're going to be looking for the companies that are participating in the future, but we're also looking at businesses whose operations are going to be transformed by AI for better or for worse. Who could be more productive and reduce costs? Who can serve their customers better? And we're sort of at the beginning of that process, and by the way, trying to use AI ourselves in our own investment research process.

CHUCK JAFFE: Explain how, just a little bit, because as we talk about this, this is about the way management goes, and at Gabelli you're all about active management, so how does machine learning and using AI fit in with active management.

CHRIS MARANGI: Candidly we're probably not going to be leaders here, we're still pen and paper on a lot of things. We have an investment philosophy and process that's been refined over 40 years that we've been in business started by Mario Gabelli of course, and we're still applying those same principles and doing a lot of the old fashion gumshoe work, going out, meeting management, talking to companies, going to trade shows, reading the trade mags, all those kinds of things. But we've obviously evolved over time, whether it's adopting things like the spreadsheet in the eighties or the internet in the nineties, we're experimenting and we're using AI to help us search and gather and array data that we use in our process, but we're not replacing the human by any stretch.

CHUCK JAFFE: Taking that just a step further, obviously investors are trying to figure out what is the right thing to do and what is the right courage of conviction? When you start to bring

other things into the process does that ultimately make you question what you do or does that support what you do?

CHRIS MARANGI: No, I think there's always going to be a place for human understanding, human interaction, we call it our compounded accumulated knowledge. Following managers, management teams for decades and understanding the culture of companies, harder for machine learning to gather that data and to express that same data. You need a human to do that and that's what we're doing, and that's where we think, in part at least, our edge is.

CHUCK JAFFE: Let's get back to the broad market that we've been talking about, and you said you like the likelihood that the Fed can pull off a soft landing. A soft landing, well, we can have a mild recession without really having a market downturn, we can have a downturn without having a recession as well. Do you believe in this that a soft landing functionally in these market conditions is one in which we're going to wind up really having the market not so much notice?

CHRIS MARANGI: Yeah, I think that's right. The new normal, if we can call it that, is probably one where inflation is higher than the Fed's target of 2%, growth is probably below trend as well, people have described that as stagflationary, and obviously that has some very negative connotations who were around in the 1970s, but that's probably the kind of economy we'll be in for the short term. And the market broadly can do okay in that environment, but again I think that it's perhaps an opportunity for active management to shine, to really find the pockets of opportunity that do exist out there beyond those seven stocks that we talked about.

CHUCK JAFFE: So let's talk a little bit in the limited time we have left about some of the pockets of opportunity. What are the areas that you are most positive about right now? What are the areas that, yeah, you just can't go there?

CHRIS MARANGI: One of the themes that we've liked for years, even prior to Covid, has been live entertainment and sports. The whole notion of experiences, not things, that's secular, generational, and that's continued, that's been fed by people being pent up for years with Covid, and there are a limited number of ways to express that view. We've got a few, including in sports, our clients are very large shareholders of Liberty Braves which owns the Atlanta Braves baseball club and Madison Square Garden Sports which owns the Knicks and the Rangers, those are three of the publicly traded sports franchises in the US. There are a

bunch of obviously soccer teams, mostly in Europe, and then you've got things like concerts, Live Nation, Madison Square Garden Entertainment. The concert business is on fire, if you've tried to buy a concert ticket recently, there's still a strong demand for those experiences for going out. So that's an area that we like very much and are investing behind. In terms of areas that we're a little less sure about, obviously there are commoditized industries in general that we've stayed away from for a long time, and we've always de-emphasized the banking business, the basic banking business as being somewhat commoditized and I'm not sure we're done with the fallout from what we saw a few months ago. Rates are going to be higher, it's going to continue to pressure bank balance sheets, it's going to continue to pressure funding costs for banks which will pressure their net interest margins. You pile a recession of some sort on top of that and delinquencies in mortgages and commercial real estate, I think the path for banks is going to be a little tougher going forward so we're generally not spending a lot of time on them.

CHUCK JAFFE: Chris, this has been great. Thanks so much for taking the time to join me, I hope we can get a chance to do it again down the line.

CHRIS MARANGI: Chuck, it was great to be here, thank you.

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Recorded on June 15, 2023

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