



Sit's Doty Sees Opportunities In The Next Fed 'Mess'

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Bryce Doty, senior portfolio manager at Sit Investment Associates. Bryce says that "every time a new Fed chair comes in, they do something dumb," and with Jerome Powell on his way out as the chairman of the Federal Reserve, he expects some chaos that will create opportunities, potentially as soon as the next chairman of the central bank is announced. "The interpretation, and mis-interpretation, of what's going to happen is going to be crazy," Doty says, but that "complete mess" should create opportunity that turns out well for investors who ride it out and who "don't expect logic and reason to rule the day, at least for a quarter or two." Doty also talks about where he is moving money during tax-loss selling season and the changing discount picture as the market has returned to record highs.

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CHUCK JAFFE: Bryce Doty, senior portfolio manager at Sit Investment Associates is back, the last time he was here, he talked about how closed-end fund investors should be trading up for funds that were moving. Well, now it's tax-loss selling season and we want to know if he's still trading up now, this is The NAVigator. Welcome to 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 representing the full spectrum of the closed-end fund business,

from investors and users to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today, Bryce Doty, senior portfolio manager at Sit Investment Associates is back, his team manages \$12 billion in assets, including \$2 billion in closed-end fund of funds for separate accounts, to get more information on the firm and what they do, go to SitInvest.com. And if you want to learn more generally about closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Bryce Doty, great to have you back on The NAVigator.

BRYCE DOTY: Thanks for having me back, Chuck.

CHUCK JAFFE: As I said, the last time you were here, you were talking about folks needing to trade up, get rid of some things that weren't moving and maybe hold their nose to go to some things where you thought there were real opportunities. Well, now we're at the time of year when folks might really want to do that because they're looking at tax-loss selling, kind of the bastion of what backstops a lot of closed-end fund investing, but we're also in a situation where discounts have changed dramatically. So how much are you moving now and what are you moving towards?

BRYCE DOTY: Well, as we get to Thanksgiving, we always like to have a little cash built up, a little dry powder, because it's gift giving time and you want to be ready for the gifts that are coming with tax-loss selling, and we'll take just about anything at this point because the dislocations usually correct themselves after people pass the 30-day wash rule and they buy the shares back in January or February higher than where they sold them in December. Again, you've got to plug your nose a little bit and look for these opportunities, and be ready to strike when they present themselves.

CHUCK JAFFE: When you were here last, you were talking about the movement that we had seen in net asset values for muni funds, but you were also looking towards things like high-yield. Where are you looking now? What are the categories that stand out to you?

BRYCE DOTY: Yeah, the high-yield category went from being kind of mildly interesting to really interesting after some of the discounts just blew out with the bad news over First Brands and some other major defaults in the private debt realm. There were funds that people really didn't know what their exposure was, and so a fair number of the BDCs and the high-yield funds experienced a lot of dislocation, so went from just being mildly interesting

in high yield to really hunting for treasures at deep discounts. They've narrowed back some, but I think they're still very attractive. If you see the Fed continuing to cut rates and reduce their cost of borrowing, I think that's really going to help out. The biggest factor in 2026 that's being underappreciated is the massive re-regulation of banks, and I call it normalization of regulation. These banks are now going to be able to really compete for, the debt that private debt has been taking, they filled the void when banks had to back away because of the really heavy handed regulation, well, that's going to reverse. The demand for these loans, a lot of 'em in high-yield funds are really going to appreciate because of this.

CHUCK JAFFE: When you last were here it was the end of April, and of course the beginning of April was the Liberation Day and the tariff tantrum that we saw the market go through, and at that time you said that, look, for all that turmoil we were still going to see fixed-income closed-end funds return double digits, but it was just going to be different, like the way the market would move and everything else would be different. How different has this year turned out from what you were expecting at that pressure point?

BRYCE DOTY: You know, that's a great question. The muni funds with their long duration didn't really participate until later in the year, you had shorter funds that did really well. There wasn't the recession that everyone thought would come about during Liberation Day, so it was a very delayed reaction to getting to the double digit returns. You were earning a really nice yield along the way, but you had to suffer through three or four bumpy months before it all came together and really started to show some positive movement upward on the NAV, and it was really sparked by the Fed beginning to cut again, but it just took longer than it would have normally been the case if you didn't have to go through the Liberation Day issues. It turns out that's actually lowered trade barriers around the world, but at the time the perception was it would do the opposite.

CHUCK JAFFE: Let's talk a little bit about the action that you have seen in discounts, because we are at the holiday shopping season, the tax-loss selling season as well, everybody likes a good bargain. Where are you finding the bargains now and how much has bargain hunting changed just as we get the set up to the end of the year?

BRYCE DOTY: The bargain hunting's been a little bit random, it's inconsistent from one day to the next, even from one hour to the next, but we usually invest in bond funds, but we've also been looking for opportunities in equity funds because they've run up so much more,

they're actually having a lot more volatility than we would have expected. Now there, everyone has so many gains, they don't want to sell it, but they're also like, how much further can this go? So surprisingly, we're actually seeing some opportunities on equity funds in addition to the bond funds. The muni bond funds is probably where, from now to year end, we'll see the most amount of opportunity, or at least that's our expectation.

CHUCK JAFFE: And the reason for that specifically, again, it's that tax-loss selling where it's going to drive prices down and you're going to take advantage of that? Or is there something else with the change of rates that we just saw that's going to drive that too?

BRYCE DOTY: They're intertwined. So because they haven't participated as much, the longer duration isn't really getting that kick that the five-year and shorter bonds are getting from the Fed cuts. Along with what you just said, those investors are the most tax-sensitive, that's why they're in those tax-exempt funds to begin with, and so those two factors combined are why we think you're going to get some of the best opportunities.

CHUCK JAFFE: We got a rate cut this year, but if you're looking at what the Fed is forecasting for the future, only one cut for '26 and one cut for '27. Now that's not what certain people who maybe control who the next Fed chairman might want to see happen, but how much do you look and go, okay, we now have some comfort in where rates are, and do you worry about what would happen if the Fed gets more aggressive with a new chairman and you wind up seeing rates get cut? We wouldn't want to see what somebody might consider a policy mistake, and at the same time, if you saw one, does that create opportunities? For you, are you watching interest rates going, if I can forecast, then it's okay, and if they get goofy, that's going to be opportunity?

BRYCE DOTY: Oh, it's going to be a mess. We're looking forward to it, it's going to be awesome. Every time a new Fed chair comes in, they do something dumb, they mess it up. Bernanke, he basically was one of the three major factors to create the Great Financial Crisis. When the Great Greenspan came in, in his first year he caused the '87 stock market crash and that influenced him forever. You've got to suffer till they get their feet on the ground, and so what we expect is once it all shakes up, the Fed's going to get the 3% neutral rate and relax, but the interpretation and the misinterpretation of what's going to happen is going to be crazy. Because Powell's done in May, and as soon as the new Fed chair is announced, no one's going to pay attention to Powell anymore, so Powell could do a couple things. Powell could cut

before the new Fed chair comes in and steal the show, so this new Fed chair, where clearly Trump is going to be pressuring and only putting someone in that will cut rates, well, if Powell cuts rates ahead of time, well, now the market's going to be like, "No, no, no, he's going to go too far." Whereas you might have Powell say, "I'm just going to sit on my hands and forget about it, and the new person can come in and do that." That might actually be a little less disruptive, because think about it, if Powell takes rates to 3%, and the new person comes in feeling pressure they have to go lower, people are going to say, "That's way too far." Yields will go up, the 30-year will go up, so it's going to be complete mess, and usually with that kind of dislocation we come out okay by the end of the year. We just have to caution our clients, "Don't expect logic and reason to rule the day for at least a quarter or two."

CHUCK JAFFE: And last time you were here, where we were not discussing those circumstances, we were talking about what might be described as hold-your-nose investing. You were saying, "There's some things you have to do where you're going to hold your nose." So as you look forward to 2026, is 2026 going to be a year where you can make good returns, but, oh, by the way, you're going to have to get through the stink and hold your nose to do it?

BRYCE DOTY: The first half, for sure. Oh, my gosh, yeah, hang onto your hat. The second half I think is going to be pretty rational and somewhat normal, if that's even possible these days, the economy will stabilize. As long as there's no further change to tariffs, companies can really adapt, you know? They can start planning again, things can get back on track, but for the next two quarters people are going to have one opinion or the other, and that's what makes markets, a divergence of opinions. Definitely a little bit of a hold-the-nose kind of environment for the next two quarters.

CHUCK JAFFE: Well, Bryce Doty, I can promise you, many things can stink but none of them are getting a chance to chat with you, thank you so much coming back to The NAVigator. Happy holidays, safe travels, we'll talk to you again in 2026.

BRYCE DOTY: Same to you. Thanks again, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. Yup, I'm Chuck Jaffe, you can check out my show for yourself on your favorite podcast app or by going to MoneyLifeShow.com. Now if you want to get more information on closed-end funds, interval funds, and business-development companies, to learn more about closed-end funds, interval funds, and business-development

companies, go to AICalliance.org, it's the website for the Active Investment Company Alliance. Thanks to my guest Bryce Doty, senior portfolio manager at Sit Investment Associates, his team there manages \$12 billion in assets, including \$2 billion in closed-end fund of funds for separate accounts, get more information at SITInvest.com. The NAVigator podcast has something new for you every Friday, make sure you don't miss an episode ever by subscribing or following along on your favorite podcast app, and if you liked this podcast, leave us a review and tell your friends, because that stuff really helps. We'll be back next week with more closed-end fund fun. Until then, happy investing, everybody!

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