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**HAIDI STROUD-WATTS, BLOOMBERG:**

Joining us now is Robert Mead, who’s PIMCO’s Head of Australia and Co-Head of Asia Pacific Portfolio Management, here in Sydney. Robert, great to have you with us. And as we said, great time to have you on as bonds get interesting and appealing again. But it kind of goes to the sentiment that we just heard from the ECB that it's not going to be a straight road, right? If we get tweaks, if we get a bit of easing, if we get a bit of pulling back.

**ROBERT MEAD, PIMCO:**

Yeah, I think all these signs suggest that we're somewhere near the top of the cycle. When you think about what's already priced into markets, whether it be one, two, occasionally slightly more hikes, depending on the jurisdiction, we're close. And from that point of view, as you mentioned, bonds are now exciting once again. They've become sort of attractive for investors and there's lots of action.

**STROUD-WATTS:**

Where do you see the opportunities then?

**MEAD:**

So anywhere where the central banks are basically close to the endgame or the markets pricing in the endgame. And so almost all of the developed world is now in that zone. So New Zealand is, we think, has been there for a little while and that's why they've been in pause mode. There may be a little more to do but very unlikely. We think Australia is already sort of well into restrictive territory. Probably, PIMCO think that 4.1 is very restrictive. There's lots of changes happening in terms of how quickly that monetary policy will flow through to the real economy. So maybe Australia is also very close. And as we heard in the ECB, one more and then sort of data dependent. And I’d say the same thing for the US.

**SHERY AHN, BLOOMBERG:**

Yeah, tell us a little bit about what happens with the Fed, especially with that hike baked in for next week as well. But policy makers seem to be signaling at least two quarter point hikes for year end.

**MEAD:**

Yeah, so I would agree with you. So July is pretty much baked in. And then from there on we become very data dependent in the US as well. As we saw last week, inflation underwhelmed in terms of what the market was expecting, much more heading towards Fed targets. So yeah, if we continue to get some of those data prints that suggest policy is getting traction, then when we start to reach policy rates in the low to mid-fives, which we’re basically pricing in now, it will start to have real economic impact. And I think we're seeing that more clearly through the data.

**AHN:**

Yeah, we have also seen mortgage delinquency rates going up. Where do you see the casualties of this more restrictive environment?

**MEAD:**

Yeah, it's a great question. When we look across the sort of investable universe for PIMCO, anything- any borrowers that have been able to lock in sort of long term fixed rate funding are very well protected. So the US household would be one of those investment grade corporations that were given this wonderful opportunity to term out their debt at incredibly low interest rates. They're also very well protected. When we look at bank loans, we look at places like the Australian household that's subject to very rapidly changing floating interest rates, they're much more vulnerable. And I think if we do get a sort of miraculous soft landing where unemployment stays low and economies continue to grow even if at slow rates, it just means rates are going to be higher for even longer, which means all of those borrowers that need to reset their cost of borrowing because of the floating rate nature just need to be able to weather a much longer storm. And I don't think enough of them have adjusted to that mindset.

**STROUD-WATTS:**

Do you see Japan doing anything earlier than expected?

**MEAD:**

Well, it's in play. We're still in the camp that it's more a Q3, Q4 style event, but depending on what happens with the yen, depending upon what happens in terms of shorter term inflation outcomes, that could be brought forward a little, but we'd still be in the later 2023 camp.

**STROUD-WATTS:**

Just going back to the RBA, there's a lot of political risk involved at this point, right, especially with the re-appointment. Michele Bullock is an insider. Does it change the calculus of what they do from here?

**MEAD:**

It all changes at the margin, but I think having someone that's been inside the RBA for an extended period, someone that understands sort of the more recent policy actions, sort of a safe pair of hands. That's what bond markets look for. We want certainty and stability, in order to sort of make sure that the policy traction is occurring in a way that the central bank hopes. We'd also say that communication is really key, understanding how bond markets interpret the communication. I think you could argue that was somewhat lacking, but otherwise, I think we've ended up in the right spot in terms of monetary policy settings.

**STROUD-WATTS:**

If the assumption is a soft-ish land in the US, Janet Yellen seems to think it's a Goldilocks scenario. Where do you put the dollar? Is this part of the cycle over? Do you think of the Greenback?

**MEAD:**

Yes, so we would say yes. If we clearly get to the end of a fed hiking cycle, we have a sort of an outlook where other economies around the world would be able to adjust accordingly. We do think the dollar's probably seen its highs. Now, as you said at the very start, look for more volatility, look for more sort of shocks in terms of how, at any turning point, how data can sort of influence markets over very short periods, but the longer-term trajectory would say is for a weaker dollar.

**STROUD-WATTS:**

Robert, great to have you with us. Robert Mead, Head of Australia and Co-Head of Asia Pacific Portfolio Management at PIMCO, here with us.