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**DANI BURGER, BLOOMBERG:**

Our next guest says the central bank is approaching cruising altitude and he thinks policy rates might come later than future markets are currently pricing. Joining us now is Konstantin Veit, Portfolio Manager at PIMCO. Konstantin, thanks so much for joining us this morning. Look is the market then overlooking if we're going to get cuts potentially at a different time than what the market is pricing? Are we overlooking this economy and the resilience of it? Are we too confident on Europe?

**KONSTANTIN VEIT, PIMCO:**

Yeah, good morning to you. What Lagarde said on Sunday was pretty similar to what she said at a press conference: that they're data dependent and take it from there. So they might do a little bit more but I think it's more interesting whether the cuts that are priced in will materialize. And here although the soft landing is currently priced in the data and it might materialize, but I think there's a risk that inflation remains more stickier than expected and the cuts don't materialize and if growth is holding up reasonably well, there's even the chance that they have to resume the hiking cycle which would not be particularly pleasant for equity and credit markets. So I think that's a risk. We are certainly also focused on not our baseline but a risk.

**BURGER:**

Well we have an ECB now; and let's be clear, a Fed too, many central banks who have really emphasized that they're not forward guiding anymore and this rate hiking cycle forward guidance has been really strong either outward forward guidance or calling up some friends at certain papers in the case of Powell saying what they're going to do. What does it mean for you to manage risk at a moment where we're no longer getting such strong guiding from central banks anymore?

**VEIT:**

Yes so the ECB has typically been guiding towards the next meeting so they've essentially pre-announced what they're going to do at the next meeting. They said stop now, and for us, the focus is clearly on quality both when it comes to interest rate risk but also when it comes to credit risks in the portfolio. What it means for interest rate risk, is that we are focused on the short to medium part of the yield curve and when it comes to credit risk given the risk we discussed earlier, we still think it's worth being concentrated in the higher quality segments of the credit markets.

**BURGER:**

I was going to say if you're expecting inflation to be stickier than many in this market do, and if at the moment again high yield bonds are pretty sanguine, what will this default cycle look like? Are we going to be caught out on a more vicious default cycle again, if prices and the cost of capital is going to remain elevated?

**VEIT:**

The baseline again is for a kind of soft-tish landing for us as well so the market has a soft landing we are more in the soft-tish landing camp, but I think given the risk that you can easily get a hard landing as well in case growth doesn't slow down, employment remains very strong then central banks might be forced to do more, which obviously has implications for the low quality segments the more interest rate sensitive segments of the market. So that's why we want to be a little bit more careful in these areas.

**BURGER:**

Okay okay I got you there Konstantin, that makes sense. But before this most recent ECB decision sources had told Bloomberg that the ECB saw their greatest challenge as communication. I mean they've ditched forward guidance so perhaps that changes things for them. We've had a whole lot of ECB speak since the meeting, some of it saying we're not going to talk about September, some people saying we don't want to hike we'll hike afterwards. How would you rate the ECB's communication since the interest rate decision? Is this their biggest problem?

**VEIT:**

I don't think so. I think the ECB has actually done a reasonably good job when it comes to communication, certainly relative to other central banks for example. But I think it's also somewhat natural that the closer you get to peak policy rates the more divergence in views you have there so it wouldn't overinterpret it and I think overall the ECB is right not to pre-announce anything given the huge uncertainties out there, given that they're probably close to terminal rates. So I think I don't see a big communication problem at the ECB to be completely honest.

**BURGER:**

What does it mean for volatility though? Is every single data point- are you going to gear up for more volatility in this market if it is one of data dependence or is it only certain points of data you're really concerned about?

**VEIT:**

I think that's that's right so for a very long period of time the central banks have been in the business of suppressing volatility that was the forward guidance we discussed earlier, and now given that this is done and it's kind of radical data dependence, then obviously the market is very much focused on on the data and you can get more volatility there. So that's certainly an area you have to focus on a lot. Data matters much more than they have been in the past.

**BURGER:**

Do you want to hold out for any China support of this market? The market's happy this morning, just basically in the Asia trade over what we heard in terms of more stimulus again it's not concentrated yet, it's not just giving checks out to consumers but do you expect to see any pickup in Europe from stimulus in China? Are you waiting for something that looks more like shock and awe?

**VEIT:**

I don't have any particular insights when it comes to the policy makers reaction function in China, but I would expect that we get a little bit more support over time. Clearly the data is not great and is falling behind expectations but we wouldn't expect something major but more something more like a piecemeal approach to stimulus in China. So we wouldn't expect more support but probably nothing particularly big.

**BURGER:**

Okay Konstantin, thank you so much for your time this morning. We really appreciate it. Konstantin Veit, Portfolio Manager at PIMCO, enjoy the rest of your week now coming up.