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**ROMAINE BOSTICK, BLOOMBERG:**

Joining us right now to help kick us off to The Close is Sonali Pier. She's Portfolio Manager for High Yield and Multi-Sector Credit over at PIMCO joining us in the studio here in New York. Great to see you Sonali.

**SONALI PIER, PIMCO:**

Thanks for having me.

**BOSTICK:**

Let's actually start off with- I mean we did start to see a little bit of; I guess attention if you will. I don't know if it's appetite for junk bonds and even for some other I guess slightly riskier investment grade debt over the last few days, even the last few weeks. And some of that seemed to be tied to this idea of that soft landing or a more Goldilocks type of scenario.

**PIER:**

Yeah certainly you know we have seen riskier parts of the market do quite well so far this year. You know that said, I would say that there are there is some tail risk there whether it's a potential for recession probabilities picking up or in areas where we see low multiple businesses low margins which are difficult to pass through then the inflationary effects we're seeing on to the consumer.

**BOSTICK:**

Is the concern right now strictly about economic conditions? Is it still maybe focus on the Fed or is there some sort of amalgamation of things that investors are looking at?

**PIER:**

Yeah you know we think the bulk of the Fed move is now behind us. We may have another 25 bp rate hike in September, but the bulk of the move is behind us and so now we're looking at you know at these valuations the absolute yield is producing a fair amount of income and that's what's been attractive to investors, despite the fact that the spreads levels themselves are less inspiring at today's levels.

**KATIE GREIFELD, BLOOMBERG:**

“Less inspiring at today's levels”, I think that's a really important point that even though maybe you might not see a lot of compression from here, you mentioned the total return. Is that the part of the cycle that we're in now, where basically you're just clipping coupons?

**PIER:**

Yeah that's exactly it, right? That with the starting valuations, we can afford to have a little bit of spread widening and still see positive returns. In fact, you know given where equities are today and where fixed income is today there's an opportunity for investors to de-risk at the- given potential for a call it a recession, but one that's maybe shallow and lingering; rotating into bonds where you can get long-term equity-like returns in the bond market today, which is quite different.

**GREIFELD:**

And I want to wrap in the Fed to this conversation, because I think it's pretty well agreed at this point that the Fed is close to done on the rate hiking cycle but if we see higher for longer yields if those really do materialize, how does that filter through the high yield universe? There was an interesting note from Torsten Slok at Apollo earlier this week, talking about the pernicious effects. It sounded pretty scary, but how are you viewing that overall?

**PIER:**

Absolutely, so higher rates means it becomes more difficult for companies to meet their rising interest expense. We are seeing some companies have a lot of discipline today and are in the secondary market actually repurchasing some bonds at a discount to help reduce the total debt stock so that when they come to refinance at higher interest rates it's a little bit less expensive all-in. That said, you know especially in the floating rate markets like bank loans, private credit, rising interest expense, especially for the lower quality cohort is certainly a concern.

**BOSTICK:**

I am curious as to whether we've made too much about the competition between different asset classes over this more recent cycle. The idea of course everyone was in cash and a short duration of fixed income and they were saying “okay it's better to be there on a risk adjusted basis versus equities”. Now you're starting to see your rotation into other parts of fixed income. Is that competition there or is it just more, I guess an increase in allocations, increase in the size of those allocations, I should say?

**PIER:**

Yeah certainly, you know as we mentioned you know the potential for the long-term returns that you would get in the stock market now that you can get in the bond market but in terms of cash versus being invested, you know I think the idea is to lock in those higher level of yields and get out of cash but be invested in in the bond market. In terms of which asset class, you know I would say that often a multi-sector mandate allows for the flexibility and the liquidity to be managed by the portfolio manager to be able to take advantage of tactical opportunities as they come whether it's an overshoot due to ratings dislocation, or liquidity crunches–

**BOSTICK:**

Are there any sectors of- right now that you would stay away from?

**PIER:**

You know that we have some concerns in areas like retail automotive where- wireline businesses, where you know some of this has had pressure on from a secular basis and some of it's coming to a head today and some of it will be over time. But those are a few sectors that were particularly cautious on.

**GREIFELD:**

And just to go back to what we were talking about, sort of at the beginning of this conversation the fact that you do have high yield outperforming. If you take a look at the fun flows, specifically ETF flows that's what I watch as a proxy here. It feels like this has been a very under-loved rally that you just haven't seen the appetite maybe from more tourist investors to come into the high yield space. Do you see that dynamic changing in the future?

**PIER:**

You know I think for that to change we would need to be pretty certain about a soft landing, right? I think at this stage with the amount of uncertainty out there, you know somewhat of an up-and-quality bias does make sense and to dip further down you would want to do so with covenants, with some protection you know really kind of underwriting the company itself that it has potential for spread tightening due to a catalyst.

**BOSTICK:**

Sonali, great conversation, great to see you here in New York. Sonali Pier, helping to kick us off to The Close, Portfolio Manager for High Yield and Multi-Sector Credit over at PIMCO.