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**SARA EISEN, CNBC:**

Let's dive deeper into the markets and the economy because it has been a week where all the talk and all the focus has been on the bond market, yields rising substantially, the 10-year-hitting multi-year highs. That's as we continue to see signs of resilience in the economy, suggesting a higher for longer narrative from the Fed is in play. It's an interesting setup for Jackson Hole, the Fed meeting next week where we're going to get more clues from Fed officials on where the economy's headed. Here to weigh in is PIMCO CEO, Manny Roman. PIMCO has roughly 1.8 trillion dollars in assets under management. It's so good to have you here in post-9, Manny.

**MANNY ROMAN, PIMCO:**

Thank you for having me.

**EISEN:**

What a week. So what explains the rise in yields we've seen this week?

**ROMAN:**

Well, I think that, as you said, people say rates are going to be high and they're going to be high for longer. And I think that's now what the market is pricing. I think the market also prices one more raise in rates. And I think people look at the yield curve and say it was very, very inverted. And now it's less inverted. And I think you have sort of a normal behavior of the bond market with a lot of attractive opportunities.

**EISEN:**

So you guys at PIMCO see another rate hike?

**ROMAN:**

We see one more. As the most likely scenario in September. But once again, you have to be very modest about your prediction. And I always say the Fed will be very data dependent. And depending on what we see in the labor market, Chairman Powell will act accordingly.

**EISEN:**

When do you see the first cut?

**ROMAN:**

Not for a while. And I think you have to put yourself into the mind of the Fed. What's the incentive to cut too quickly? Not a lot. And so we think they'll be careful. And that they'll keep rates high for a while.

**EISEN:**

Like the second half of next year or even farther out?

**ROMAN:**

Or even further up. And once again, it will be very data dependent. Of course, if there's a recession, they'll be quicker to act. But I think they have a lot of dry powder, which is a good thing for the Fed.

**CARL QUINTANILLA, CNBC:**

We've had (Richard) Clarida on in the last few weeks. He did suggest that if not a cut in March, maybe a signal that cuts could be imminent is not unthinkable.

**ROMAN:**

Totally. And as you know, Rich is our chief economist. So who am I to disagree with him?

**QUINTANILLA:**

Is the House view within PIMCO, then? Is it wide?

**ROMAN:**

No, I think we very much agree on this. I think what surprised us is that the economy has been quite strong and the labor market remains quite tight. And I think that's something we're going to watch quite carefully over the months to come.

**EISEN:**

Do you guys think we've seen the highs in yields for the cycle?

**ROMAN:**

My crystal ball is a little broken, but we're very close to a high. And I think the way we think about it is that rates are very attractive. What's the exact high in terms of what the ten-year will be? Honestly, we don't know. But over the next 18 months, they should offer excellent value for investors. And I think that's the exciting part when you're sitting where we are in the bond market.

**EISEN:**

Well, that's what I was going to ask. So you said 18 months. There is this narrative going around that we should all just get used to higher rates. And that the abnormality was what we saw in the last, I don't know, 15 years post-financial crisis of super low rates. Do you guys see us getting back down to that kind of regime, or are we stuck up here near 5% in the two-year for a while?

**ROMAN:**

No, our view, and Rich was explaining this last week quite well, is we think that inflation will go back to the high twos. And accordingly, you should see rates come down across the curve. And that's one of the reasons to be excited about bonds. And of course, if there's a recession, it will go faster.

**QUINTANILLA:**

Libby Cantrill does great work on policy. And it's been a summer of discussion about political dysfunction. And who knows what the next year is going to bring on that front. But how do you think that plays out in the rate world as we near an election?

**ROMAN:**

There will be volatility. And I think that as one of the mantras that I've learned a long time ago from Bob Mnuchin, volatility is your friend because it gives you more opportunity. You also have a situation in the banking system where no one quite knows how much capital banks need. And you will see a seller of assets, which should be good in terms of purchasing a large portfolio of bonds from various regional banks and people who need to free up capital. And so I think you're going to see this dynamic going on for the next 12 months. And you'll also see foreign buyers coming back as the exchange rate stabilizes and the cost of hedging goes down. And I think that's one of the things that maybe people don't realize is that the very big pool of money outside the US hasn't quite come back to the US bond market, but they will. And it's really about the net yield for them once you hedge the currency.

**EISEN:**

Well, that would be good news because we're selling a lot of bonds. And there are some questions now about issuance and whether there will be demand from places like China and Japan to buy all those bonds and other investors.

**ROMAN:**

You're right about this. And I think there is plenty of demand and then it's a matter of finding the right price and finding the right opportunity. But I would really think about the amount of money that could move very, very quickly at the right price to buy bonds. And I think we'll see that over the months to come.

**QUINTANILLA:**

Interesting. Meaning if there is a decline in yields to come, it could happen quickly. Not a slow degradation.

**ROMAN:**

Quite quickly. And I think the right thing to think about is the expected return of a bond portfolio, which yields something like six and a half to seven percent. Once you put corporate bonds, once you put mortgages, and it's quite attractive by any historical standard. If you think of a world where stock delivers five to seven percent over the long run, all of a sudden fixed income does look quite attractive compared to this given the fact that it's the lower part of the capital structure.

**EISEN:**

So what has that meant for your business? Have you seen the inflows?

**ROMAN:**

It's been a good eight months. And of course, if we write and we see many more people coming back to fixed income, it'll be quite good for us. And it'll be more importantly good for investors as they will see significant returns on their portfolios.

**QUINTANILLA:**

What do you think about those who argue we’re in the early innings of a new default cycle and this maturity wall will come eventually for corporates if rates stay in this neighborhood? Is that dangerous?

**ROMAN:**

I think you can always see a moderate default cycle. And if we have a recession, I'm sure you will see elevated defaults, maybe more in certain industries. But the reality is that it's hard to imagine, given how strong the economy is, a hard recession. I think the most likely scenario, and that's what Rich was saying last week, is you'll see a couple of quarters of a mild recession that will technically be a recession, but we may not feel it as much as we felt it, let's say, in other large recessions. I'm thinking 1991, I can date myself in 1991.

**EISEN:**

It'll just feel better. So within fixed income and with these high rates, where do you guys see the most opportunity? Is it in corporate?

**ROMAN:**

There are a lot. The mortgage market looks quite attractive. Some of the investment grade looks really attractive. I think you can look at it and say the private markets where you have yields above 10%, look quite attractive. There's a very big market not in mutual funds, but in private funds, that looks quite attractive. And at some point in time, real estate is going to be also quite attractive. And PIMCO has a big real estate arm.

**EISEN:**

Commercial real estate?

**ROMAN:**

Multi-family and at some point in time, commercial real estate. And it's going to be a long cycle. But I think you want to think about this, and you also want to think about real estate lending as a way to get into this business at the right price and with the right asset.

**QUINTANILLA:**

China, are you on the lookout for some kind of Lehman moment? Are we back to watching Evergrande and Country Garden the first thing we do when we wake up?

**ROMAN:**

It's very hard to tell. The one thing that I think we see from data is that China is in deflation and that the economy is quite slow. It's very hard to figure out what's happening to the real estate market, but it's weak. How weak it is and what happened in terms of technical default, we don't know.

**QUINTANILLA:**

Is it a risk factor for U.S. assets, China growth?

**ROMAN:**

It is. If Chinese growth is even weaker than what we think it is, at some point in time, it would slow down the economy quite a bit and be a factor for a recession. And I think that makes sense. And I think if we see that, that may very well be the fact. But it's not the most likely scenario. The thing which is really surprising is I think the economy is doing better than most of us thought nine months ago. And the U.S. consumer is quite strong and it's so far performing quite well.

**EISEN:**

What about Europe? I'm wondering what some of the bond market opportunities look like there. They've also seen a March higher in yield, a little behind us on the tightening front and facing weaker economic fundamentals.

**ROMAN:**

Much weaker. As a Frenchman, I'm always bearish on Europe and I hope you'll forgive me for this. But on a relative value basis, the U.S. looks much more attractive than Europe. And I think that the problem with Europe is you need to have a business model in terms of the competitiveness of the European zone in terms of how to compete against Asia on one hand and the U.S. And of course, the one thing that is affecting Europe is the war in Ukraine and the high commodity prices and how this is all going to unfold with very little progress to speak of over the past 18 months. And of course, at the expense of many lives lost.

**QUINTANILLA:**

It’s kind of unfair to compare because they do have that, right in their backyard. Although we had Larry Fink on a few weeks ago. One of the points he made was that in the U.S. we have these loud, uncomfortable discussions about policy and the future of the country, but we talk it out and something happens as opposed to Europe where tasks go undone, right? For long periods of time.

**ROMAN:**

That's right. And I think also very fragmented Europe where, for 30 years, you had a very strong link between Germany and France and this link is becoming much more difficult to maneuver in terms of having a pan-European policy in terms of getting the right goals into the economy.

**EISEN:**

Do you guys see many more rate hikes there, especially from places like the U.K.?

**ROMAN:**

You'll see a few more. The U.K. has its own particular problems. The inflation numbers in the U.K. looked better than what we expected, but we think the economy will be challenged. And, as a strange thing to say, we're having our first forum at PIMCO outside Newport Beach. We're doing it in London in September, so I think we're quite excited about what we're going to see there. And we're all going to Europe and every single investment professional is going there to sort of see Europe on the ground.

**EISEN:**

Do they want US assets?

**ROMAN:**

No, we want to have an internal debate about where the economy is going in Europe. But we usually have it every quarter in Newport Beach. For the first time we’re having it in Europe. And we are excited about it.

**QUINTANILLA:**

That takes me to our last question, I guess, as we're running out of time. But what's hiring like in PIMCO? Are you in aggressive headcount reduction mode? Increasing?

**ROMAN:**

Neither. It's extremely boring. We're flat. But I think the one thing we’re incredibly excited about is technology and what artificial intelligence is going to do in terms of productivity and what it will do over the next five years to our organization. And there is every reason to be excited about this. And I think that's something we're investing quite a bit about. We have a partnership with OpenAI. And it will hopefully give better tools to our clients, make us maybe better investors and certainly make us more productive. And I think we should embrace this with an enormous amount of humble pie in terms of what may or may not happen over the next five

years.

**EISEN:**

I'm curious what that partnership looks like with OpenAI and bond trading.

**ROMAN:**

We care deeply about trying to analyze a lot of data very quickly and being able to synthesize numbers and words very, very simply. And the ability to crunch all of these things is actually incredibly powerful. It's the semantic of generative AI and something which makes us better at our job than you would otherwise be.

**QUINTANILLA:**

And is that about the client interface? Is it about actual trading? Is it about back-office productivity?

**ROMAN:**

I think all of the above. I think you're absolutely right. It's all of the above. And I think you'll see that's one of the reasons to be positive about economic growth. I think it's going to make a lot of people like us more productive in terms of what we do. But it's also the ability, for example, to record every single conversation and sort of be able to see trends in various disparate forms of news, whether it's sound like we're talking right now, to video, to written material —

**EISEN:**

Analysis.

**ROMAN:**

Exactly.

**QUINTANILLA:**

Where the whole organization is up to speed on everything that's been talked about.

**ROMAN:**

We're trying with a lot of room for improvement and it's a long process. But I think we're quite excited about it.

**EISEN:**

Well, that's why a lot of people think that there will be fewer Wall Street analysts because it's easier to just make those models with AI.

**ROMAN:**

I think you will see AI being a tremendous tool to make analysis and I think that's right.

**EISEN:**

Alright, Manny, thank you. We got a lot done there. Manny Roman, the CEO of PIMCO.