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**DAVID INGLES, BLOOMBERG:**

Let's bring in our first guest this hour, Jerome Schneider Head of Short-Term Portfolio Management and Funding at PIMCO. He helps oversee three hundred billion of short-term money. Jerome, you and your three hundred billion how are you guys thinking about Jackson Hole, over the weekend.

**JEROME SCHNEIDER, PIMCO:**

Yeah good morning to you. I think one thing just to set the table at the outset, is to understand that markets shouldn't be expecting to be moving in a straight line and we've clearly witnessed it throughout the course of this week, but it's also within the data itself. You know over overnight we've seen obviously weakness in Europe with the European data, but if you actually look back to the US while there is a relief if you will, the inflation data is is sort of coming off the boiling point, there is still concerns about the wage side of the equation, and more importantly even if you get into the minutia where global or rather where GDP in the US is tracking, its tracking at an elevated level here in the third and third quarter with it projecting even by the Fed’s own assessments in Atlanta of being somewhat north of 5%. And so when you have these conflicting elements within the marketplace, we have to understand that the market isn't necessarily going to move in that straight line. Investors should be prepared for that volatility. Much of the three hundred billion that we are managing at PIMCO, is looking for those opportunities to pivot once the economy globally becomes more clear and easier to triangulate. Until that point in time we're sort of trying to read the tea leaves like everybody else. And you might get an inclination of where that's going to be with Jackson Hole. But don't hold your breath too much in that regard.

**YVONNE MAN, BLOOMBERG:**

The data though, are we starting to see cracks, cracks in the market for example. I mean are those cracks getting wider and what are you starting to see those sides of crack, in the credit market?

**SCHNEIDER:**

It's a fair question and I think what we're ultimately seeing is you're seeing higher claims numbers within the jobs markets but you're not necessarily seeing an unemployment rate moving much substantially higher, and that's the key impulse which is going to propel the Fed to actually provide some support to the economy, at least here in North America. Central banks are going to be facing the same question around the world, and while some are facing inflation area pressures, others are going to have more conflicting outlooks and here in the US it's going to be a conflicting outlook. So Jerome Powell might in fact use Jackson Hole to actually articulate and maybe perhaps re-emphasize the need to fight inflation in the longer term, but ultimately the calculus is going to remain that data dependency. We haven't seen that data turn materially softer in that jobs market. We still see unemployment well in the three handles instead of the four handles and it might take some time for that to develop and until you see that weakness develop in the jobs market and inflation is specifically wage inflation starting to deteriorate and come off the boil, we might not necessarily see a Fed that's any more accommodative than it already is. In fact, there's a possibility that you actually might see an additional rate hike or so over the course of the remainder of 2023. That's the conflict at hand. Ultimately what it means is that investors are going to have to find ways to embrace this uncertainty perhaps through higher yields and looking around the global markets and the global structure for these higher yields that we've now seen available, but at the same time perhaps adapting to a world where there's higher real rates and higher inflation metrics than we've seen for perhaps a generation.

**INGLES:**

Now I'm glad you mentioned that because you know the data will, to your point, remain noisy. There's a lot of income on the table. Do I take advantage of my question here, Jerome?

**SCHNEIDER:**

Indeed you do. And I think one of the calculations is when you take a step back and look at the opportunities of portfolios with individual portfolio, corporate portfolio, institutional portfolio; what you really want to do is think ways to immunize volatility within the portfolio. The way we think about it in a wonky sense, is look at risk adjusted returns, in a volatility adjusted manner. What it really means to an investor is find avenues to invest capital which don't necessarily absorb all the bumps in the road, and income helps provide a lot of that shock absorber along the way. So the determining factor where you are in the yield curve or even what part of the yield curve or what you'll curve your investing in, is materially different than it was a year ago. And for us at PIMCO, we find that as a unique opportunity here to effectively earn returns, earn total returns emphasized by income, but do so in a lower volatility profile. So from that perspective, all the uncertainty and basically a lot of the volatility we're seeing here in the summer months the waiting summer weeks here in the in the Northern Hemisphere, what really ultimately happens is that we are going to see these doldrums percolate; people are going to become more convicted over the next few weeks, which will have ultimately provide another source of volatility as people recalibrate to the market. That volatility though, also equates to opportunity that you want to be actively positioned for.

**MAN:**

How do you look at Europe now, Jerome? I mean, just given the day that we got. I mean it seems like this economy is deteriorating much more faster than than what we're hearing in the US, in particular. How do you position around Europe now?

**SCHNEIDER:**

Yeah it's not necessarily good news. I mean one of the big good key avenues to look at it is the higher yields perhaps in the UK, looking at the UK as a source of income as you as you highlighted, but definitely portends to a more conservative posture, specifically with that outlook, but it's not necessarily anything that we that we haven't been prepared for. You know, there has been weakness within the landscape for us to be paying attention to. A more defensive posture has been warranted for much of the part of the past year. So people might have been a little bit euphoric considering some of the initial data that we received early in 2023 but we've taken a little bit longer view at PIMCO to recognize the fact that the defense mechanism within portfolios needs to be well balanced. It's not an environment to go be risk seeking ultimately at this point in time, and ultimately what we think about is there will be some sources of recalibration. Those sources of recalibration provide opportunities to reposition portfolios at more attractive entry points, and that's something that we foresee later in 2023 and ‘24, being a common theme across all portfolios and fixed income.

**MAN:**

Jerome Schneider, Head of Short Term Portfolio Management and Funding at PIMCO, joining us from Newport Beach, here this evening.