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**KELLY EVANS, CNBC:**

As we mentioned, investors bracing for this key speech tomorrow from Fed Chair Jay Powell at Jackson Hole and the economic backdrop heading into the event, well, re-energized bond yields, the two-year node, around 5%, the 10 year earlier this week at its highest level in more than 16 years. Joining us now, Louise Scheiner, Senior Fellow and Policy Director for the Hutchinson Center on Fiscal and Monetary Policy at the Brookings Institution and PIMCO's Managing Director Jerome Schneider. Welcome to both of you and it's great to have you here.. Louise, just quickly on the data, jobless claim, I'm sorry, durable goods, the headline was worse than expected, but jobless claims are strong and there's no sign this economy is rolling over in the very near term.

**EVANS:**

Jerome, is this a once in a lifetime opportunity to get yields at 4 and 5%? Is it, are we gonna look back in a year and say, “Oh man, we should have been seizing that opportunity?” Or at that point are they gonna be twice as high?

**JEROME SCHNEIDER, PIMCO:**

Well, I think the point is, we've seen a massive recalibration in sources of income over the past year and that source of income is gonna be quite generous for some period of time. Granted, there might be some periods of entry point that might be better than others, but where we are right now in the vicinity of approaching a 5%, two year-note. You know, obviously we've seen some recalibration out the curve. Those are, some of those technical factors are gonna be driven by supply. Some of them are going to be driven by inflationary expectations, but all in all, the environment for looking at ways to reduce portfolio volatility and favor income is a very generous one at this point in time. Although we have to remind investors that we shouldn't expect markets nor data to maneuver in a straight line, and we're obviously seeing that in the data today in terms of real time.

**EVANS:**

But I guess Jerome, the question would be, you know, are we really- do you really think, you can pick, you can pick the short end, you can pick the long end, do you really think they're gonna go materially higher from here?

**SCHNEIDER:**

It's not necessarily materially higher, but it's the response that we have to be thinking about that might be more protracted, or frankly more debated, which leads to a longer runway effectively toward those rate cuts that the markets anticipate later in 2024 and 2025. Those may or may not come to fruition. There's a lot of factors, including wage pressures. They were bus numbers that were getting in third quarter GDP, including the Fed's own Atlanta GDP now is close to 6% at this point in time. They're very favorable factors, and then there's obviously some deterioration in corporate earnings that offset that. But ultimately, what we have to see is that if we hear a notion, a continued message that the Fed is going to fight inflation for the foreseeable future, that might mean that we're on hold here, perhaps slightly higher than we are now as we enter the later months of 2023. That also means that we may not necessarily see rate cuts as quickly as the market forecast, as many suspects going forward, which means that these higher rates are probably with us and the sources of income are with us for a good period of time.

**RICK SANTELLI, CNBC:**

You know, let's move away from the Fed just for a second. Debt and supply, going back to Graham Rudman, the Treasury market has rarely given us the kind of behavior we would expect when debt and supply were key issues, but maybe it's different this time. There's talk about one trillion servicing the debt, rating agencies are weighing in. These are huge dynamics. Jerome, on interest rates, do you think they will pay more attention? Is the rise in long-end rates something unique, or is it as Bullard says, “that we're expecting much better growth”, which I just don't see in a world that's on the verge of a global recession?

**EVANS:**

Jerome, you wanna respond to that?

**SCHNEIDER:**

Quite honestly, yeah, quite honestly, Rick. It's a great point here, and I think that what the market has forgotten about is a lesson in bond math, which is term premium, which means you're taking into account the longer term inflationary expectations, and implications for a greater supply, and we're just finally starting to rationalize that out the curve, and granted why we still have an inverted yield curve, these might be factors that come in over the secular horizon and over the next few years, that ultimately rely upon how the market digest this new issuance, but more importantly, what the real rate, the nominal rates are going to be. So we might be in a period of time of higher real rates, we might be in a period of time where inflation doesn't necessarily go back to that 2% benchmark as quickly as people expect, which means that the market expectation for the rates is probably a little bit higher than the normal average we've seen over the past generation or so. So these are all factors that come into play. It also leads to the fact that ultimately, investors have to be nimble in this regard. There's gonna be volatility in the markets, there's gonna be opportunity also in the markets, and the ability to position and be defensive, but yet be cautious and embrace these higher yields is actually a perfect condition for being in fixed income at this point in time, given the outlooks.

**EVANS:**

Do you Louise think that there is—

**SANTELLI:**

Do you think inflation's gonna ever going to get back to 2% Jerome, in the near future? I'm sorry Kelly.

**EVANS:**

Go ahead.

**SCHNEIDER:**

No, it's a great question.

**SANTELLI:**

Do you think we see 2% in the near future?

**SCHNEIDER:**

Yeah, it's a great question, Rick, and I think ultimately the question with regard to that 2% will take some time in that regard. We might have to be accustomed with something just north of 2%, which will not necessarily be devastating, but not necessarily something that the Fed's going to be comfortable with. So we're gonna have to recalibrate that. Ultimately, we have to be careful what we mean by “inflation”. And right now, that spotlight is gonna move from goods and services to wage pressures. And we need to see how that materializes over the next year. So that road to 2%, if we get there is gonna be a little bit more protracted than people think.

**EVANS:**

Thank you everyone, we appreciate your time this morning, Louise, Jerome, Rick.