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**CAROLINE HEPKER, BLOOMBERG:**

Joining us now to discuss this and things moving markets. Geraldine Sunstrom, who is Asset Allocation Portfolio Manager at PIMCO. Geraldine, welcome to radio. Thank you so much for your time. I suppose as we look to the end of this year post the summer holidays, it's all around interest rates and whether or not they are peaking, have peaked. What is your view, certainly when it comes to the ECB?

**GERALDINE SUNDSTROM, PIMCO:**

The economy in Europe has certainly slowed down. Probably much more than in the U.S. and it feels like there's a bit of a tug of war there at the ECB and it will be very data dependent in the next few weeks. If you look at PMIs, you would tend to think that yes they are done, but inflation is still elevated.

**TOM MACKENZIE, BLOOMBERG:**

And what's the trajectory for that in your view, how sticky is the inflation that we're seeing in the Eurozone and how is that impacting your allocation strategy?

**SUNDSTROM:**

I would feel that the economy has deteriorated as things are more complicated and they're in terms of loan growth as a number of areas that are looking weak. And because it is very dependent on exports and potentially what is going on in China, where confidence is clearly lacking, Europe could have a really difficult period to come to the Autumn and the Winter. Energy prices will play a big role there, so far so good, gas storages are pretty full, there's been higher prices of late but it seems to be a little bit overdone even how soon the storage is. I tend to think that European rates have found an equilibrium, it's still relatively low compared to inflation, so we need to see this disinflation in the months ahead but clearly economic activity will be housing.

**HEPKER:**

Do you think then taking that on board that we're at the start of another bull run for fixed income? That seems to be one question around essentially expectations for when interest rates peak.

**SUNDSTROM:**

Yeah, so I mean a big bull market, that’s hard to say; but certainly when we look at equity valuations relative to fixed income, especially in the “fronter end” of the curve, and if you're willing to take high-quality credit risk, we are seeing equity risk premiums which are the lowest in decades, like 20 years or so. So fixed income now, the carry is pretty attractive, especially when you look at the carry to volatility and if you're willing to hang on to your fixed income and have a little bit of patience, it does feel like you can get equity like return with safer assets and that we feel fixed income here is looking very good relative to equities after the equity rally.

**MACKENZIE:**

That being said, are there still opportunities to be had in equities or is your preference definitely towards fixed income?

**SUNDSTROM:**

So in equities, once again, depending on your horizon and aspects of volatility can still some attractive, secular, sematic, especially in alternative energy which are sectors that have done not so well this year, which could be very resilient into a recession because a lot of the activity is supported by fiscal spending. So we still like those sectors, and then we like a quality at reasonable prices as well, which you find in some hardware technology, in healthcare, and even now increasing some other sectors that are a bit more industrial but are likely to remain supported even in a downturn. So quality I would say and a few secular equity sectors that have suffered this year.

**HEPKER:**

There surely has got to be more pain though, to come in Europe as companies have to refinance over the next, not just year two years, but over the next five years. Which sector within Europe is most at risk? I mean is it real estate, but does it go beyond that?

**SUNDSTROM:**

The most- if we get a recession, the most cyclical part of course will likely suffer. That's why we prefer high grade, we prefer high quality credit risk at this juncture because we think there will be a slowdown and then anything that has to do with- you know that relies a lot on energy. Like we've seen companies relocalize away from Europe. There's somewhat a bit of a disintegration of some sort, because Europe has lost some of its competitiveness with the energy crisis, and that's why sectors like alternative energy are likely to see an acceleration and some good business ahead.

**MACKENZIE:**

Okay Geraldine Sundstrom, Allocation Portfolio Manager at PIMCO. Thanks so much for joining us on the program this morning.