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**KATIE GREIFELD, BLOOMBERG:**

And let's get into it now with Mike Cudzil. He is PIMCO Portfolio Manager for Liability Driven Investment. Mike, it's great to have you with us today because you look at the reaction in the bond market, looking at two-year treasury yields down by about 16 basis points so far. It felt for a while that we were looking at a one-way trade when it came to the treasury market, yields higher. Is this a dynamic shift right now? Or do you think that there's more of a sell-off to go in the treasury market?

**MIKE CUDZIL, PIMCO:**

Thanks for having me. I think when you look at the treasury market, just taking a step back for a second, yields are as attractive as they've been in 15 to 20 years, whether it's nominal yields as attractive as pre-global financial crisis or real yields as attractive as they've been in 20 years. These are opportunities you haven't seen in quite some time. So certainly, if you just peel back the lens for a second, for an investor, certainly an exciting opportunity to be in fixed income. As it relates to today's rally, it just gives the Fed and markets a little bit more comfort that we continue directionally to move toward the Fed's objectives, which are lower levels of inflation, lower levels of growth. And this is just another piece of data that's moving there and gives the Fed a little more comfort that maybe they don't have to necessarily hike again. Maybe they will. Maybe they won't. I think the impact on asset prices will be quite subdued. It's really a function of how long they stay high and whether or not they need to re-engage in a hiking cycle, or whether or not they're going to start cutting rates sometime next year.

**GREIFELD:**

Well, I do want to talk about the Fed, but I want to go back to your first point that yields, if you look at them, they're the most attractive that they've been in quite a while. Where within the fixed income space, though, are you finding the most opportunity right now?

**CUDZIL:**

I think there's something for everyone. If you're an investor that likes to stay in the front end of the yield curve, there are returns to be had on cash that, again, you haven't had in quite some time. You can build a portfolio with very low duration at six and a half or seven percent yields. Those are equity-like returns with really very limited volatility. You can go further out the yield curve and get returns of five and a half, six percent, and get capital appreciation and diversification, potentially, if and when yields do fall. So I think it depends on the investor and your overall portfolio allocation, but something for everyone in fixed income, it's really an exciting time.

**SONALI BASAK, BLOOMBERG:**

I'm curious to get your thoughts on the data, Mike, because if you look at the conference board data on consumer sentiment, you're looking at a reading, though, as the biggest drop in two years. You're starting to see interest rates start to bite at the consumer, but the question is, how much more does it bite into the consumer into next year?

**CUDZIL:**

I think that is a very important question. And one, we're going to get some more data going forward. This is just a piece of data. If you saw the first two quarters this year, the U.S. grew at a rate above potential, and certainly showed a resilient economy, due to high levels of savings, a consumer that may be a little bit less responsive to higher rates, due to fixed rate mortgages. But at some point, yeah, these higher rates will matter. It's just a question of when these savings finally are depleted, if and when the drop in job openings translates to job losses and higher unemployment levels. And so ultimately, the direction of travel is normalization. These consumer confidence levels are lower, but normalizing. The job's opening's data is lower, but normalizing. The inflation data is lower, but normalizing. The question is, as we move forward to the fourth quarter, with four or five quarters of higher rates, as we move forward with student loans turning back on, California tax payments need to be made, all of this will remain to be seen if it weighs on the consumer, if it weighs on the economy. If it doesn't, the economy is certainly more resilient. If it does, our base case at PIMCO is potential for recession sometime in 2024.

**BASAK:**

The other area of volatility is the read through across different types of rates, particularly mortgage rates. And if you think about the opportunity to invest in different types of fixed-income securities, where do you fall in your views on the mortgage market, given how much of a surge we've already seen?

**CUDZIL:**

There are plenty of opportunities in fixed-income, again, not just from a beta perspective, but from asset allocation perspective. And so, as we look across the landscape, agency mortgages are an area that's really exciting to us. Some terrible technicals, as it relates to the Fed, running off their balance sheet of a couple hundred billion dollars this year, as it relates to the FDIC, selling some bonds that they've purchased out of banks and receivership. All that's led to valuations that you really don't see very often in agency mortgages. And it's an asset class we find quite attractive, and it's an asset class we're investing in across platforms at PIMCO. The other areas we find quite attractive are securitized products: AAA CNBS, AAA CLOs. These are assets that are senior in the capital structure, very well collateralized, and, compared to other assets, namely generic investment-grade corporate credits, the out-yield generic investment-grade corporate credit, it's an opportunity to add resilience to portfolios and yield to portfolios while going up in quality.

**GREIFELD:**

All right, Mike, that's a good place to leave it. Our thanks to Mike Cudzil of PIMCO. Thank you so much.