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**JONATHAN FERRO, BLOOMBERG:**

With us around the table, you've got a sneak peek of this. Andrew Balls, Global Fixed Income CIO at PIMCO. Andrew, good morning.

**ANDREW BALLS, PIMCO:**

Good to be here. Thanks very much.

**FERRO:**

10 years- fantastic to be with you. 434 on a 10 year yield this morning. To build on what Lisa said. Is this a moment in time? Bye, bye, bye. Lock it in before it goes away. Or can we live with this?

**BALLS:**

So I think it looks pretty attractive. We're in the middle of our forum discussions, which we had in London as well, actually. So we're still talking about this with the investment meeting–

**TOM KEENE, BLOOMBERG:**

Well, give us a head start.

**BALLS:**

But it looks pretty attractive here. If you have a high quality bond fund, five, six percent yield in US dollars, with more credit, kind of seven percent, maybe seven and a half percent yield, this looks very attractive. Equities have done very well this year. Looking forward, you know, six and a half, five and a half percent type yield for a bond fund looks very good to us.

**LISA ABRAMOWICZ, BLOOMBERG:**

There are two points here. One is, does this look attractive now? And the second is, where is the next rate- where does the move come from? Is it higher or is it lower? There are two different discussions, right? How sticky this is going to be. How big is the argument right now in some of these meetings at PIMCO?

**BALLS:**

Well, I think you were talking about real yields and I was nodding when you look at real yields, look at long-term history. It's starting to look attractive here. We had this period after 2008 quantitative easing and all of that and depressed real yields. But you're now seeing real yields at attractive levels and nominal yields. I was quoting before, look pretty good to us. You have, you know, in the outlook, you have inflation still stubbornly high at the core level, improving much faster in the US compared with Europe. I think the jury is still out there. But then don't forget the recession risk. We have had very significant global tightening across the world. And yes, the data has been better than expected, particularly in the US this year. But as we all know, these central bank tightening takes time to feed into the real economy. I'm looking forward to it. And the jury is still out on inflation. But that recession risk remains significant.

**KEENE:**

Critical question for PIMCO. And it's not only the heritage of PIMCO from Bill and Muhammad forward. The great call you people made a number of years ago. You've got the advantage of the former Vice Chairman, Richard Clarida, I believe, darkens the door. I can just see Balls and Clarida in a debate over where we're going to reset our start and almost on a global scale. Do you sense within all the great work you do, Andrew, that we're going to reset in a new rate regime, something that we've never experienced before?

**BALLS:**

So I think it's an interesting debate. Rich and I tend to agree on this point that as you look forward beyond this inflation episode, the cyclical rise in policy rates we've seen, there's good reasons to think that our start, neutral rates are at the low levels that we've seen for the last several years. We'll see this in the Fed's projections this week, but the chances are the Fed will also see two and a half percent as their long dot. So compare the 4.5%, 4.3%, 4.4% for the ten-year treasury or look at the forward rates, and compare it with that neutral anchor. We believe that anchor remains the correct way to do the analysis and then the long term outlook. First is that it looks very attractive, I'd say.

**KEENE:**

Does Lagarde have an R-starred? Does Ueda have an R-starred? Dare I say, does Bailey have an R-starred?

**BALLS:**

They all have their variations on this. I think the Fed maybe is a bit happier to talk about it sometimes, but again, looking at Bund yields now, even in Japan, you are getting to levels in terms of the ten-year yield where it's starting to look more interesting: control for volatility, return per unit of volatility.

**KEENE:**

I agree with that.

**BALLS:**

And it becomes a little bit, once we get beyond the YCC, once we get beyond the yield curve control. So if you think that you have that anchor and we do, then look at your five-year, five-year forward rates to isolate the long-term expectations beyond this central bank cycle. And that's the environment when it's much easier to come in and be positive like I am today, compared with the lows of the COVID period.

**FERRO:**

We don't spend nearly enough time talking about this. How different this regime is to the regime of the last decade before the pandemic. How different is it for you and the team? What have you had to change just in terms of your approach away from zero rates and QE forever towards potentially the Bank of Japan hike and interest rates? The ECB is going to levels I never thought they'd get to. I thought maybe they'd go back to zero, but here we are at 4%. How different is this for you and the team?

**BALLS:**

I think it's very different. And I think as a bond manager, you like to see these high yields at the front end of the curve. It becomes really interesting the relative value at the front end of the curve, you know, zero yields. Remember those, something that hopefully we've consigned to history. I think one important thing looking forward to the last ten years is uncertainty around inflation. So we see inflation coming down towards central bank targets, a little bit above, but coming down over the course of next year. But I think clearly there's much more uncertainty in the inflation picture for the next few years compared with the last decade. And so back to the discussion before, you should be getting a term premium. You should be getting paid an appropriate term premium for holding the ten-year part of the curve. But again, comparing our forward rates with our expectations for our start, it looks like you're getting fair compensation after a period with quantitative easing and all. These are the risk premiums which are really compressed.

**ABRAMOWICZ:**

What about credit, though? I mean, given the fact that you're looking at greater vulnerability to an oil price shock or a unionization shock or a technological shock, some of these things become that much more important when your cushion is that much smaller.

**BALLS:**

So I think the baseline for credit looks fine. I think credit should do well in an environment where you avoid the tails, not just about recession, but real recession, not just a technical recession. And on the upside case, if inflation is coming back into line with that fairly benign middle path, then credit should be fine. From our perspective, though, we want to guard against the tails. And if we do get a deeper-than-expected economic downturn, that's going to be painful in credit. So I think up in quality, IG looks attractive versus high yield, avoid “cuspier” credits, avoid any kind of exposure to real default risk in what remains a really uncertain environment. It's not often you have these sorts of tightening cycles globally to such an extent. And then the final thing, there's lots of other stuff we can do in the world. US agency mortgages, very, very high quality instruments, very attractive in terms of the valuations. So again, if you can get to the king of five, six percent type yields on core bonds, that looks pretty good to us in terms of the next few years.

**FERRO:**

Andrew, always a privilege. Thank you, sir. Andrew Balls there of PIMCO.