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**ROMAINE BOSTICK, BLOOMBERG:**

All right, a big macro week this week as we kick you off to the close on Monday. Sonali Pier is joining us right now, Portfolio Manager of High Yield and Multi Sector Credit over at PIMCO. And Sonali, I do want to start off here with what we're seeing first in the rates market. The general, not just the trajectory of yields, but this general idea here, I guess of how restrictive right now, the bond market, the fixed income market, if you will, is showing us.

**SONALI PIER, PIMCO:**

Yeah, certainly. Thanks for having me first. Wednesday we are expecting essentially a hawkish pause from the Fed. At this point, the bulk of the move is behind us. And I think what we're trying to digest here is the lags of monetary policy. And the transmission mechanism from which we will see different industries, different markets try to adjust. And that's essentially what we saw earlier back in March with the regional banks. And so we're really here trying to digest a lot of what's to come, given much of the debt has been termed out and so hasn't had the full bear of the rise in rates yet.

**BOSTICK:**

When we talk about positioning right now, and the idea that there are still a lot of people still kind of just magnetized to that shorter end of the curve here, is there anything that sort of breaks that trend?

**PIER:**

I think it's exciting to get that type of yield in the front end, especially given where we've come from. But the reality is, in order to have comfort around returns in the future that's a yield you're renting. In order to own it, you've got to go out the curve and really fix it in, right? And so, while the curve is inverted and you're getting paid pretty well in the front end, in fact, I would say it's probably worth going further out and picking up some spread as well in perhaps credit markets, agency mortgages and the like.

**KATIE GREIFELD, BLOOMBERG:**

Is duration risk more attractive at this point than credit risk?

**PIER:**

It's a good question. I would say actually fixed income generally is more attractive, right? So obviously we've had a pretty big repricing from the treasury market. But when you think about the all-in yield and the income it generates, it's a question of risk appetite for sure, but our preference is kind of the higher quality spread areas, where you're getting a little bit more than the duration and some potential for credit spread tightening. But all in all, overall, you're getting a decent level of income where starting yields are a good indication of potential returns. It's a bit more predictable, just given where we are today. And there's a reliability factor, meaning in fixed income, we're getting long-term equity-like returns with much less volatility. And amid an uncertain outlook, that's pretty attractive, especially after we've seen 17 plus percent in the equity market today.

**GREIFELD:**

Well, even with those equity-like returns, it's really interesting. If you take a look at the ETF world as a proxy, for example, for appetite, you haven't seen the flows going in a meaningful way into high yield ETFs, into some pretty good performing CLO ETFs that are on the higher end of the credit quality scale. We've been calling this an unloved rally. What do you think that disconnect is between performance and actual inflows?

**PIER:**

I think part of this is also, let us not forget, unfortunately, how difficult 2022 was, right? For absolute returns across every single asset class, fixed income, equities, and it came as a result of yes, credit spread widening, but also from the significant repricing in interest rates. And so with that backdrop, there's a question of also where we are in the cycle and the potential for recession or not, although the market has coalesced around a soft landing. All in all, when I look at this you can see that we've seen flows say in strategies that offer a little bit more flexibility. And where clients have liquidity, you're right. We haven't seen significant inflows into high yield yet, but I think part of that has to do with the uncertainty out there. And should we be able to have more certainty in the broader economic outlook, naturally, that could lead to inflows into lower quality credit.

**BOSTICK:**

I am curious if I can get your thoughts here, Sonali, on what's been going on in the mortgage bond space, at least relative to it being an attractive opportunity against the backdrop of what you can or maybe cannot get in the corporate bond space.

**PIER:**

Yeah, so agency mortgages have repricing quite significantly, especially with the Fed now not a net buyer of the lower coupons that were being produced in the back half of 2020 and in 2021. And, as a result, valuation has changed considerably. We haven't seen these levels of spreads on agency mortgages. Even post-GFC levels were lower than this. So we think this is an opportunity. Certainly, vis-a-vis, say, single-lay, corporate cash. This certainly looks like an opportunity here that we find attractive.

**BOSTICK:**

All right, great conversation here. Great way to kick off the show with Sonali Pier over at PIMCO.