**MEDIA: Television**

**STATION: Bloomberg**

**MARKET: National**

**DATE: 2023-09-27**

**TIME: 03:33 PM ET**

**PROGRAM: Markets The Close**

**SUBJECT: Jerome Schneider - Markets**

**PAGE COUNT: 3**

**KATIE GREIFELD, BLOOMBERG:**

Well, let's go from that sector back to the bond market and what to expect next from the Fed, including how a government shutdown could affect monetary policy. Joining us now, I'm thrilled to say, is Jerome Schneider. He is Managing Director and Head of Short-Term Portfolio Management and Funding at PIMCO. And actually, Jerome, I want to start on the long end of the curve because the moves that we're seeing have been pretty staggering. We're at cycle highs across the curve, particularly at the long end. And when you look at that and you look at the pace of the moves that we're making, have we moved beyond fundamentals? Is there something else going on driving these moves?

**JEROME SCHNEIDER, PIMCO:**

Yeah, Katie, good to be with you here today. We believe that there is obviously a significant move to be had. It’s driven by some volatility, some recalibration in inflationary expectations for a little bit longer. That's been propelled by the recent discussions within the Federal Reserve. But ultimately, investors have been preparing and are continuing to prepare for a higher for longer scenario, at least for the immediate future. And what that means is two things. Number one, that term premiums, meaning this shape of the yield curve and the premium you should demand for being in longer maturities, continues to recalibrate higher. And that's denoted by the reinflation, if you will, of the two's 10 spread by moving more than 30 basis points in recent weeks. And the second thing, ultimately, is liquidity premiums. The notion of having the amount of cash and what liquidity is worth in the marketplace has continued to move higher. And as a result, what the investors are really telling you is that they believe the Fed is going to be on hold for a reasonable period at this point in time. They need to be paying or achieving higher yields in this regard. And fundamentally, the fixed income universe is much more attractive than it was even a few weeks ago as a result. And so that balance is sort of a healthy recalibration and rationalizing what the Federal Reserve continues to tell investors: to be vigilant, to focus on the possibility of a soft landing. But at the same time, trying to avoid the tail risks of longer term inflation outlooks that will remain higher than expected.

**GREIFELD:**

So to the point that fixed income is more attractive than it has been, of course, yields at 15-year highs will do that. But then you think about the volatility that's coming from fixed income. I think it's safe to say the treasury market has been a lot more volatile than the stock market. The fact that what's supposed to be the ballast of your portfolio, the volatility dampening part, what does it mean that that's actually where a lot of the volatility is coming from?

**SCHNEIDER:**

Well, that might be true in the microcosm of hour-to-hour day-to-day moves that we witnessed over the past few weeks. But what I think we have to look at is the portfolio composition as a whole. And historically, the equity volatility tends to be much more profound than the fixed income volatility. We actually look at the fixed income balance in the portfolio as being a diversifier and specifically actually helping to reduce portfolio volatility. Well, how is that? We specifically look at the difference in how we achieve returns. And in this world, where we are today, those returns are achieved by earning income, by receiving distributions and coupons that right now are in excess of 5% and as a result, portfolios have a lot of cushion within that fixed income universe that helps reduce the volatility profiled to their portfolios and actually not increase it. And so while you may not necessarily have the precise entry point of knowing where the ten-year note is today, tomorrow, and next few weeks, the recalibration of where we are in the range of 4.5% right now presents a really interesting opportunity for investors to increase those distributions and actually reduce the volatility in a portfolio, especially given the uncertainties we see in the economic outlook that might still be a tail risk to investors' portfolios over the cyclical horizon.

**ROMAINE BOSTICK, BLOOMBERG:**

Well, let's talk about that uncertainty. And I guess one part of that that some people seem to think is certain, which is that the Fed isn't done or at least is certainly not going to cut rates anytime soon. How does that change, if at all, the general calculus here of what you hold?

**SCHNEIDER:**

Well, part of the calculus is what we see obviously going in the marketplace with the rates moving to the higher end of our spectrum of what we believe at PIMCO. But at the same time, what we think is the critical juncture for investors who have been typically underweight fixed income for many years at this point in time to begin to rethink the value of fixed income in their portfolios. And the initial impact is to think about how to move to cash, put that to work, and then move slightly beyond that as its spectrums. We think that there's an opportunity, no matter which way the Federal Reserve moves, by being in the front end of the yield curve potentially. And the way we think about it is there's three different outcomes. The first one is that the Fed remains on hold for the foreseeable future. In that case, you're going to earn an above market premium by being in the front end of the yield curve compared to money market funds, often in times of 100 basis points or more. So those returns are about 6.5%. In a rate hike, you're also being more defensive by immunizing your portfolio to market risk. And at the same time, earning higher yields by being in instruments like floating rate notes. And the third element is should you have an unforeseen shock where the Federal Reserve actually has to cut rates, you're going to have the ability to reinvest cash and have already reinvested cash for a much longer duration than being in a money market fund which will recalibrate its yields immediately. So we view this as a thoughtful process where investors who have a lot of cash on the sidelines begin to dip their toe into that fixed income universe and potentially continue to move out the yield curve as they find opportunities and they get more comfortable with the yield outlook where we see it right now.

**REPORTER:**

Alright, Jerome. It's great to catch up with you. We really appreciate your time. Our thanks to Jerome Schneider of PIMCO.