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**JONATHAN FERRO, BLOOMBERG:**

Joining us now to discuss; PIMCO's Mark Kiesel. Mark, it has been too long. It's good to catch up, sir. Can we talk about those monster unrealized losses for some people at least, in the treasury market? Mark, have we seen the pain from all of that early this spring, have we left that behind?

**MARK KIESEL, PIMCO:**

Jonathan, we think most of the sell-off is overdone. If you look at what's caused treasuries to back up, it's been a strong economy. It's been high inflation and also chronic deficits, which has led to a supply and demand imbalance in the treasury market. But we really do see three catalysts for lower yields over the next one to two years. First, nominal growth has peaked. It's slowing. Secondly, inflation has peaked. It's coming down. The Fed is credible. And third, they're raising recession risks. This monetary policy is now restrictive. Importantly, these rates right now, both nominal and real, we haven't seen these Jonathan in 16 years. So, actually, we think bonds are very attractive here. There's been a very great time right now to move out of equities into bonds. We think you can get, basically, near equity returns in the bond market. We have not been able to say that in 16 years. So, we're quite positive on bonds right now.

**FERRO:**

Mark, when you say in the bond market, credit specifically? Treasuries? All of the above, the whole universe?

**KIESEL:**

We specifically like shorter maturity, high quality bonds right now. You don't have to extend out the yield curve. You can get, basically, 6 to 6.5% by focusing on very, very short duration, high quality corporate bonds. Importantly, companies are throwing off significant free cash flow. They're de-levering their balance sheets. The opposite is happening at the government, where governments are taking on more debt; debt to GDP is rising. That's not happening in the corporate bond market. Fundamentals are improving. Companies are using all this excess cash flow to de-lever pay down debt. And importantly, at these higher yield levels, you're going to get less supply and more demand. That's not what's happening in the government market, the treasury market, where you're getting more supply. So, you've got more favorable fundamentals in corporate bonds, more favorable technicals, and valuations we haven't seen Jonathan in 16 years. This is the time to buy high quality, short duration corporate bonds.

**FERRO:**

Mark, I've got to say, you sound really bullish. Where was the last time you were this bullish?

**KIESEL:**

Jonathan, we have not been this bullish in a long time. It literally was back when we had the “Ring the Bell” moment, you know, over three and a half years ago, March 17th of 2020. So we are very bullish on short maturity, high quality investment grade bonds right now.

**FERRO:**

So when I look at spreads, they still look pretty tight. High yield spreads are something like 420, went through 400 in the last few weeks or so. Mark, some people might say, “that's not wide enough. There’s weakness to come, next year in the economy. Beyond that, we've got that maturity wall in high yield that's going to kick in as well. There's a lot of companies that need to supply, come to market, raise some money.” What's the argument against that, Mark?

**KIESEL:**

Well, Jonathan, the argument against that is that we've seen unprecedented growth in the economy and companies have termed out their balance sheets. There's very little short term debt coming due. If you look at the last year, there were 14 times more upgrades than downgrades. So companies, per my earlier comment, companies' fundamentals have been significantly improving. This is the opposite of the United States government where fundamentals continue to deteriorate. So while companies are paying down debt and de-levering, the government is re-levering. And so basically, the credit fundamentals are much stronger for most of these companies than for the government itself in terms of trajectory.

**FERRO:**

Let's talk about your favorite sectors right now, Mark. What are they for you?

**KIESEL:**

So Jonathan, we've talked about this over the last year, particularly when you've visited us in Newport Beach: Fun. We love “fun”. “Fun” is basically what people haven't been doing for four years. They're getting on planes. They're staying in those hotels. They're going to Vegas. They're spending money on concerts. This is where PIMCO has been invested for the last two to three years. And these companies are generating so much excess cash flow. They're able to de-lever that balance sheet significantly. They're not rewarding shareholders. They're actually de-levering. So they're doing, again, the opposite of what the government is doing. This is exactly as a bondholder what we want to see. So we love fun and fun as where the opportunity is.

**FERRO:**

So airlines, hotels, cruise lines, all of the above?

**KIESEL:**

All the above. And in addition, if you look at some of the highest quality American banks today, these companies literally generate 8 to 14 billion of profit a quarter. And you're getting paid now six to six in a quarter for five year maturity bonds. We have not seen this Jonathan, in 16 years. This is really a huge opportunity.

**FERRO:**

So Mark, I want to wrap it up. You said this a few times in this conversation. They're de-leveraging. The US government is not. The credit call is super bullish. Mark, what is the Treasury call? Are there deep-seeded concerns about where this is heading?

**KIESEL:**

So Jonathan, we think the Fed is close to being done here. The Fed looks a year forward and sees the unemployment rate at 4.1. We see the unemployment rate going much higher to four and a half to five over the next year. So we do think this slowdown is coming with the economy. And we think you're not going to be able to buy these yields one year from now. So now is the time to start extending that maturity wall. Bond's very attractive today.

**FERRO:**

Mark Keisel, thanks for the update. Mark Keisel of PIMCO, there. Super bullish on this bond market. I haven't heard Mark like that for a long, long time. Mark, thank you.