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**JOE KERNEN, CNBC:**

Yep, rates have jumped after what we saw with the big jobs number. Jerome Schneider, Portfolio Manager and Head of the Short-Term desk at PIMCO, I'm ready to stay short-term. Everybody's selling these long-duration mods, and then they go up another 50 basis points and you're underwater. Is it time to go out the curve?

**JEROME SCHNEIDER, PIMCO:**

It is time to take a more elaborate look at what fixed income can offer. And then I think what the prospect is right now is there's a lot of uncertainty. When you think about where we are in the economic cycle, perhaps late, what we have is a consumer who is perhaps weakening a bit. We have a job sector, which is going to continue to be undulating over the next year. We have productivity, which continues to be in question, and you have corporate profitability, which continues to waver. These are all factors which affect the psychology of investors over the foreseeable future. What it fundamentally means is that there's probably more volatility in the market as we continue this process of trying to reconcile where data comes in and ultimately where the Fed reacts to it.

**KERNEN**

You said that the labor market's been undulating. Is undulating a synonym for surging every month?

**SCHNEIDER:**

Well, it has been higher. It has been lower. If you look at the data today, it's obviously very strong from the headline perspective, but average hourly earnings is slightly weaker than the expectation. There is some good news in that context, and we have to put it in balance. Frankly, the investors and more importantly, the market is probably more data dependent than the Fed at this point in time. And you're seeing that in the mark to market of treasuries and the rates market, ever since the Fed came out with their dots over the past few weeks. So we're simply marking a market the relative value of the curve at that point.

**KERNEN:**

Have we seen the return of the bond vigilante?

**SCHNEIDER:**

Not necessarily, but you've seen the return of a rational investor who wants a term premium at this point in time. And the term premium puts us in the ballpark of an attractive asset class that perhaps has a little bit less volatility given the economic outlook.

**KERNEN:**

But if they're going to 7 or 8% long term, you don't want to buy it for $7,000, right, Jerome?

**SCHNEIDER:**

And that's if. And there's a lot of road to cover before you get there. And effectively, you need to think about things as a sequential element. Going to 7 or 8% is not likely in what PIMCO's forecast is going to predict. But at the same time, there's a longer term prospect where we need to be thinking about how the Fed reacts, what happens next year, and there's a lot of factors that come into play, how we think about inflation, how we think about wage pressures. There's a lot of factors that don't necessarily portray a slow road toward this digestion.

**KERNEN:**

33 trillion, does anyone ever say that at PIMCO? Or 150 debt to GDP, aren't those long term entitlements that we need to do something?

**SCHNEIDER:**

Well, away from the political standpoint —

**KERNEN:**

What’s political about 33 trillion? Isn't that just a reality?

**SCHNEIDER:**

There's a factual number in that, but you also have to look at the supply demand mechanic. And what you have, Joe, is simply that there's more supply coming and you should expect more term premium. And we've seen that begin to be a function of market pricing, basically the deconstruction of the severe inversion we've seen in the twos and the tens curve has effectively acknowledged that at this point in time. When you get to the overall rate's perspective where we are right now, there's a big factor in play. Number one, that total return is a consequence of how much interest rate exposure you have. But the second component, which is recalibrated significantly, is the income component. And the income component can provide a lot of shield, a lot of cushion as we continue to move through this process of understanding where, in fact, the ultimate destination for the Federal Reserve is going to be.

**KERNEN:**

Okay, a better idea about PIMCO’s thinking. Now, I think there’s one more interview, and therefore they're telling me we've got to run, Jerome. Thank you. Thanks for coming in. Squawk Box is coming right back.