**MEDIA: Television**

**STATION: CNBC**

**MARKET: National**

**DATE: 2023-10-12**

**TIME: 02:43 PM ET**

**PROGRAM: Power Lunch**

**SUBJECT: Dan Ivascyn - Markets**

**PAGE COUNT: 3**

**KELLY EVANS, CNBC:**

Welcome back everybody. Our Five Star Fund Week continues and today's focus is on fixed income. Good timing with yields pushing to multi year highs. Today's Five Star Fund Manager says investors have the opportunity to earn equity-like returns with less volatility. Dan Ivascyn is Group Chief Investment Officer with PIMCO and Portfolio Manager for their $127 billion five star morningstar rated income fund at about two percent year to date but is consistently one of the top performing funds in its category. Dan, it's great to have you here. Welcome.

**DAN IVASCYN, PIMCO:**

Thank you, Kelly

**EVANS:**

I don't know what the move index is doing today but these are about the most interesting times we've seen in a long time in bond land.

**IVASCYN:**

Yeah, it's true. The last couple of days have been a good reminder that volatility is high and we unfortunately expect volatility to continue. So it's both a mental concern as well given the big moves in rates but also a great opportunity for active management in the fund.

**EVANS:**

So the strange dynamic as someone trying to manage a portfolio in fixed income is that you want high yields, but if they keep going higher, you're left with mark to market losses. And you're trying to track benchmarks and all of this. I really can't imagine. So where are you looking for both tactical opportunities and for people to earn pretty decent longer term yields?

**IVASCYN:**

So I think the mindset is one of patience. The good news about fixed income is the starting yield is a great predictor of forward returns, so if you're patient, and our particular strategy now is yielding about seven and a half percent without taking a lot of interest rate exposure, the prospects look quite bright over the next few years. With that said, I think today's CPI data is a reminder that we've yet to control inflation. The risks of a hard landing are still quite high, and what we've been trying to do is keep it simple, remain resilient, and over the past several months, we've looked to actually go up in credit quality. And the good news is you can do that in very high quality liquid areas of the market and still generate the type of yields that I just mentioned. So a lot of government guaranteed risk, things like agency mortgage back securities, a lot of very high quality corporate bonds, some asset-backed in very seasoned pools of mortgage securities, and again we're at a very high level of credit quality in a historical context. We think we're quite resilient even if we do get into a recessionary type scenario.

**DOMINIC CHU, CNBC:**

Dan, it's Dom. It's good to see again. One of the things I've had a lot of conversations about on a relative basis more than I've had in years at this point with folks on Wall Street is the idea that people are looking more and more at things like bank loans and floating rate adjustable rate debt and they're looking to invest in places like that. We've seen a lot of fund flows into floating rate mutual funds and ETF type products. Do you think that's something that has legs? Is there a shift in investor sentiment on the credit side where they are now looking more at these higher interest rate levels that could reset at even higher rates down the line?

**IVASCYN:**

So there's a lot of temptation to move into the floating rate area of the market simply because you don't have a lot of direct interest rate exposure. Those are actually some of the sectors that we like the least and I think it's important to remember that the senior security loan space segments of the private credit markets have grown significantly over the last several years when rates were at or near zero. So again, it's good in theory that you have a floating rate, but the companies that have borrowed in the floating rate markets and in many cases aren't perfectly hedged or in some cases not even hedged at all have to increasingly find extra money to actually make those debt payments. So given our slightly higher concern that we're headed for a harder landing than what's implied in the market, we think it makes sense to be quite defensive in those areas. Those areas of the market tend to be lower rated, less flexible companies, so we’d much rather actively manage duration at a high level and focus on sectors that will be much more resilient if we do get into a hard landing scenario. So that in fact is an area of our portfolio where we've actually brought down risk and have very little exposure to senior secured loans or other higher risk forms of corporate debt.

**EVANS:**

It's a crucial point, Dan. It's the very calculation everyone in the markets is trying to make right now. Are we going to make it through this okay or not? And as you said, you're kind of in the hard landing camp. So these yields, what you can get on cash, what you can get across the treasury complex, are these the buy of a lifetime?

**IVASCYN:**

Well I’m not quite sure of a lifetime, and again, yields can certainly go higher. But this is as good a value as we see in this market going all the way back to the pre-global financial crisis. And again, for the patient investor with a two to three year type horizon, we think you're going to be well rewarded to shift out of cash, lock in some of these yields. Or even looking at equity valuations versus fixed income, it probably makes a lot of sense to shift a little bit of your equity exposure into the higher quality bond market, maintain some liquidity. and then position yourself to take advantage of what we think will be more volatility the next couple of years. And even under a softer landing scenario, there are going to be problems in the commercial real estate markets. There are going to be problems in the corporate credit markets. And by staying liquid, running an attractive yield while you wait, we think you can be well positioned to go on offense and that's exactly what we're looking at preparing to do with this strategy as well.

**CHU:**

All right Dan Ivascyn at PIMCO, our fourth Five Star Fund Manager of this week. Number five is coming up tomorrow. Dan, we appreciate it. We'll see you soon.

**IVASCYN:**

Thank you. I appreciate it .