**MEDIA: Television**

**STATION: Bloomberg**

**MARKET: National**

**DATE: 2023-10-17**

**TIME: 04:06 AM ET**

**PROGRAM: The Pulse with Francine Lacqua**

**SUBJECT: Geraldine Sundstrom - Markets**

**PAGE COUNT: 3**

**FRANCINE, LACQUA, BLOOMBERG:**

Joining us now for a look at the markets is Geraldine Sunstrom, Managing Director and Portfolio Manager for Asset Allocation Strategies at PIMCO, Geraldine. As always, thank you so much for joining us. There seems to be a belief in the markets that not only does this conflict not escalate, but maybe the President can make a difference, Joe Biden, when he arrives in Tel Aviv. How are you expecting markets to behave in the next couple of weeks?

**GERALDINE SUNDSTROM, PIMCO:**

The market, like us, will be observing a horrific yet very fluid situation for signs if this conflict remains contained the way it is currently, or if it broadens in the region. So far, remains contained, and that's why markets have decided to move on and look at micro-economic data and central banks like they have been before.

**LACQUA:**

Overall, and I know you put it in your market insights, there's this push and pull between resilient economic data, but of course the tightening of financial conditions, and it's unclear where that ends.

**SUNDSTROM:**

Yes, I mean, there are risks of inflation. We see the stickiness. We know that there might be a bit of inflation going back up. The labor market is still very strong, and then we have the term premium, which is being rebuilt at the back end of the curve. That said, we think that bonds here remain attractive, the yield is attractive, and especially relative to other asset classes. It feels like something safe, given that we are not completely out of the woods in terms of a market slowdown in the economy.

**LACQUA:**

So, what's it mean, Geraldine, for example, when you look at treasuries, and I know the Fed has done a couple of things. We're looking at the treasuries- the 10-year is above 4.7 right now. It's gone higher, but is there a comfort level that the Fed will try not to breach?

**SUNDSTROM:**

Well, certainly, they have to weigh both. The term premium being rebuilt is a normalization is something that had to happen in some way. We have quantitative tightening happening. We have more volatility in inflation, but of course, they have to be cognizant of this. They are going for this higher for longer, and eventually, we think that the economy is already slowing and is going to slow down some more from here. So, probably a watch and see attitude, and letting the times do its work is the preferred way. Of course, if there is a resurgence of inflation, they have made it clear that they will be ready to act. So, at this stage, it's probably a toss of a coin, if they hike one more time, or if the data gives them the possibility to just watch and see.

**LACQUA:**

What's your biggest concern, Geraldine, right now about the U.S. economy?

**SUNDSTROM:**

Well, we'll have to see what's happening in terms of the labor market, even though it's a lagging indicator, certainly strikes, wage pressure, is something that the Fed will be looking at. This is going to have quite a bit of an impact on inflation developments ahead. So, this is something that, probably, we have to look at. We would need to see some weakening in the labor market to gain comfort that the inflation we've seen in the last few months can indeed continue.

**LACQUA:**

So, Geraldine, where do you see when you're building your portfolio, where do you see the biggest value right now? I don't know whether you do thematics, and whether that's still the right way of an analysis, or whether you just also need to look region by region.

**SUNDSTROM:**

So, a little bit of both, certainly what we like at the moment, and that's an overarching thematic across our portfolio is quality. We do see an economy globally that is slowing down, and yet, when we look at the stock market, for instance, earnings expectations are actually upward sloping, so there's a bit of an inconsistency there. So, we tend, when it comes to equity or fixed income or credit, to really go on the cautious side and go for quality. So, it means investment grades, it means more defensive, more quality equities in portfolios. And then, of course, looking and starting to look more into secular thematic, which will grow no matter what, the energy transition will occur, even if we have a recession. And these could be areas of the market that do get some support when the economy finally slows down, and all the more than year to date, they have performed very poorly.

**LACQUA:**

So, Geraldine, also given all of the uncertainty out there, what does that mean for volatility? And can you buy, do you buy VIX, do you buy something else?

**SUNDSTROM:**

Well, volatility is likely not to go away, especially with this second-war opening and the uncertainty that this brings. So, one thing that we like doing, in fact, is we find the volatility in the option market, on the equity market, not that high. So, this allows you to buy protection to the downside, in case we would have a hard landing, because clearly, the one market that is priced for, I would say, not even a soft landing, but a re-acceleration of the economy is the equity market.

**LACQUA:**

Geraldine, thank you so much, as always, for joining us. Geraldine Sundstrom at PIMCO.