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**SCOTT WAPNER, CNBC:**

Welcome back. Big market reversal for stocks today. Nasdaq now on pace to break a four-day losing streak, the 10-year treasury yield lower after hitting 5% yet again. You can see, though, S&P is now negative, too. Nasdaq is still holding on, but that's about as half as strong as it's been, so we'll have to track this right up until the close with less than 30 minutes to go. For more now on how to position through the quarter and the end of the year, PIMCO’s Erin Browne. Welcome back. It's good to see you.

**ERIN BROWNE, PIMCO:**

Nice to see you as well, Scott.

**WAPNER:**

What do you make of this market action? I'll just ask you plain and simple. Have yields peaked?

**BROWNE:**

So I think it's really hard to call the peak in yields. We still have a massive treasury supply, which is coming. I think the key date is going to be the next treasury refunding on November 1st. But I think absent that with term premiums continuing to rise, I think you can definitely say that the curve is likely to steepen from here. And it's very hard right now to call the peak in yields.

**WAPNER:**

Are we on recession watch, then, or how do you assess that?

**BROWNE:**

I do think that we're heading to a much slower growth environment over the next year. Whether or not we tip over into recession, I think it's a really hard call to make this point. But I do expect that we're going to see growth flow below potential. We're going to have inflation gradually come down. And I think that the tails for the outcome are particularly wide right now, which does make uncertainty high and make it a really tough environment to be directionally long equities. Between now and year end, I think it's fine because of seasonal effects, because we've sold off recently. I think it's fine to have a little bit of a long going into year end, but as we turn the page into next year, I think those interest rate sensitive sectors of the economy are going to be hit hard, and they've done pretty well the year to date. So I think that's really the key area to watch.

**WAPNER:**

Interesting, though. You do think that we could actually rally between now and the end of the year. The last handful of days as rates, 5% seems to be the line in the sand. If you're going to continue to go above 5%, okay, well, maybe that's going to upset plans that the bulls had for a late year run.

**BROWNE:**

So I think the market's largely been pricing in higher and higher yields, really for the bulk of 2023 and 2022, and that's why we've come off pretty significantly over the last three months and really in the third quarter with respect to equities. Going into year end, we have an earning season which is set up optically to look actually pretty decent. We're going to get about a third of the S&P reporting this week, but I think you're going to have and hear pretty decent earnings coming off of what continues to be a pretty strong economic environment. So I think that could set up pretty nicely for a year end rally. With that said, I think what's going to be really key is how companies are indicating for the year ahead, and I think you could see a lot more ambiguity, a lot more uncertainty. So while I expect that we'll see pretty decent earnings for the rest of this year, I think as we move into 2024, the earning set up is going to be a lot more difficult. So I would say buy on a tactical basis, but get ready to start to sell as we move into 2024 on what I think is going to be much tougher comps next year.

**WAPNER:**

I'm sorry to step on your toes there. You are a PM over there, portfolio manager. What's your biggest position right now?

**BROWNE:**

Right now, our biggest position is in duration. We think that duration right now — not too dissimilar from the comments that were made overnight by some of the tweets we've heard from some hedge fund managers — we think duration is pretty attractive at these levels, particularly for medium to longer term investors. Agency mortgages, just given the sell-off, are really cheap versus intrinsic value. So we also think that looks attractive. In equity space, we're long quality, we're long some more defensive assets, and short some of the cyclicals, specifically consumer cyclicals like autos and homebuilders against it.

**WAPNER:**

Oh, you're short against that. Mortgage rates 8%. You don't have to be a rocket scientist to think that the housing market could be in a little bit of a tough go if mortgage rates remain elevated, right?

**BROWNE:**

I think that's exactly right, but look at the home building index. It’s up 18 percent year to date. You look at some of the auto manufacturers both here and as well as in Europe, and they've done pretty decently well, despite what's been a really challenging environment. And so what we've seen is a lot of backlog worked off, and that's bolstered these sectors. But I think as we move into an environment where the consumer is going to be increasingly constrained to put on any type of leverage given interest rates, I just don't see how those sectors of the economy are going to stand up.

**WAPNER:**

Erin, good to see you again. We'll talk to you soon. Erin Browne, PIMCO, joining us here on Closing Bell.