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**ALIX STEEL, BLOOMBERG:**

That was Lindsey Piegza, Chief Economist at Stifel speaking earlier on Bloomberg TV. So let's get to the question of the day. We're going to try and tie in what we got in growth here from the ECB as well as earnings. If the ECB has plateaued, which feels like that's what Christine Lagarde was saying, where does Powell peak? Here to help us answer that question is Erin Browne, PIMCO Portfolio Manager for Multi-Asset Strategies. And Erin, we came up with that question and relationship to this very strong GDP number that we got led by personal consumption that we have been waiting for to roll over and it yet has not. What do you think? How long to the Powell peak?

**ERIN BROWNE, PIMCO:**

So I think that today's number was really a last gasp but really strong economic data. It certainly exceeded expectations and it was driven both by broad-based consumption gains as well as a re-accumulation of inventory. But we do think as we turn the page into 2024, you are going to start to see GDP growth materially decelerate. Backdowns for the more comfortable level for the Fed. And so while the Fed may have one more rate hike to go at the end of this year, we don't think you're going to see continued rate hikes into 2024. And so we think that the Fed is close to peak rates. There's potentially one more rate hike in the card.

**GUY JOHNSON, BLOOMBERG:**

ERIN, are we confident that inflation in America is decelerating towards 2% at a fast enough rate? There are areas within the economy where we are clearly seeing a re-acceleration, not a deceleration.

**BROWNE:**

So I agree with you. I think it's hard to be confident with any degree of certainty right now regarding inflation but what I would say is that leading indicators are suggestive that inflation is declining and will continue to decline through 2024, particularly on the back of what we see as weaker GDP growth in the year ahead. That said, I do think that, to your earlier question, is it going to be fast enough? The answer I think is probably no. I don't think that this means that the Fed is likely to cut rates anytime soon. I think that they're going to be on hold for a protracted period through the first half of 2024. And so you'll still restrict your rate which is going to continue to weigh on the economy through at least the first half of next year.

**STEEL:**

So it's what I feel is interesting with earnings because a lot of the earnings that we've seen are holding up okay, but the outlook seems really uncertain. Like UPS for example, that's a macro story but it's also a micro story and it's really hard to get a clean read. And I'm wondering if we kind of need to ignore the GDP data. Like that's backward looking, right? What kind of setup are we looking into? How do you defend yourself against that?

**BROWNE:**

Well, I think it's really interesting looking at earnings this quarter because if you look at earnings, on average about 80% of companies have beaten EPS. But when you look at sales, they've only beaten by about 50%. So pretty weak in terms of the revenue fee, although pretty decent earnings that are coming out of these calls. So while we're still early, I would say, in the days of earnings, and we still have a lot more to come, right now, it's suggested that companies are propping up their earnings by cost-cutting measures or by the benefits of getting lower inflation, not necessarily from uber strong sales growth. And so I think that that is a little bit of a canary in the coal mine for broader equity markets and why you're seeing more muted commentary from corporate regarding the outlook.

**JOHNSON:**

Erin, we've seen some pretty substantial downdrafts in the equity markets over the last few days. How close to the point are we now where we are priced for the kind of environment you're talking about on the corporate front and also priced for the higher for longer kind of environment you're describing when it comes to rates?

**BROWNE:**

So I don't think that we're priced for any type of recession next year with respect to earnings, and we're probably not priced for higher for longer, either. And this, I think, can really be underscored or viewed through the lens of looking at some of the highly leveraged sectors in the equity market, or those sectors that are really dependent on strong financing in corporate credit growth, such as the home-building sector, such as the autos, which really haven't traded down too significantly and are still up pretty strongly on a year-to-day basis. And those are pockets of the market where we think that there's going to be real concern and underperformance next year. Anything that is really leveraged to corporate credit growth and to continued easy financing conditions I think is going to be hurt next year as you see the higher mortgage rates start to really bite.

**STEEL:**

So, Erin, what does that leave you with tech? I'm picking on tech right now because it continues to roll over here, and I'm wondering about the downside potential that you see.

**BROWNE:**

So I think tech is really a tale of two markets. I think those tech sectors that are highly capital intensive that have required strong economic growth and are probably weaker credits or weaker corporates, I think will probably underperform next year. Those tech sectors that have high earnings potential, strong, secular growth stories, and that are cash rich, I actually think are going to do quite well. Right now, they're underperforming with the broader tech market, but I think that as we move into next year, we're seeing inventories have been drawn down fairly significantly. Free cash flow growth is still quite strong. And so, I think those higher quality tech sectors and markets, including some of the semiconductors, I think are actually going to start to outperform as we move through next year. And so, I wouldn't be too pessimistic on the tech sector overall. I do think that they're going to be spots of brightness next year.

**JOHNSON:**

Two-day chart, Nasdaq, down 3.6%. It's pretty brutal out there right now, certainly. Erin,

great to catch up, really appreciate it as ever. Erin Browne, PIMCO Portfolio Manager for Multi-Asset Strategies.