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**AKIKO FUJITA, YAHOO FINANCE:**

With economic uncertainty looming and traders betting the Fed is done raising interest rates, where does this leave the high yield market? Here to discuss is David Forgash, PIMCO Head of Leveraged Credit. David, it’s good to talk to you. It’s certainly an interesting time to be where you are. We have seen the yields pull back at least on treasuries over the last few sessions. How are you looking at where things are moving right now in the context of where the Fed is? We’ve talked a lot about how the market has been doing a lot of the work for the central bank.

**DAVID FORGASH, PIMCO:**

The market has, and we’ve seen some slowdown so far. But when you think about how high yield is positioned currently, which is in a pretty strong place compared to any other time of the Fed raising rates, balance sheets are actually in pretty good shape. Most of the companies in high yield were able to term out quite a bit of their debt over the past year and a half when Fed rates were very low. So they’ve locked in some pretty good low coupons. It’s quite attractive.

**JOSH LIPTON, YAHOO FINANCE:**

What about the underlying fundamentals, David, of the companies issuing high yield debt? How does that look to you right now?

**FORGASH:**

So for fundamentals, really take each credit at a time and you have to look at different sectors. For fundamentals themselves, the companies we look at that are involved in the high yield market — and by the way, when I say high yield market, it’s really just one big credit market. It includes high yield, leverage loans, and private direct lending. It’s one market because it’s all really fungible with each other. So when you look at the underlying fundamentals of them, they’ve held up. The expectations at the beginning of this year were that you’d see EBITDA decline, earnings decline. And we really haven’t seen that so far. A lot of it has been helped by the consumer, but you’ve seen these companies hold up very well, even with Fed rates hiking. Now of course, it does raise the cost of borrowing, especially the leveraged loan market where there are floating rate coupons. But in high yield, they were actually able to lock in, like I said, these rates, and the average coupon is quite low. Historically it’s six percent, even though you’re getting about 9 to 9.5 percent yield all in on high yield.

**LIPTON:**

David, are there certain sectors that look more attractive to you right now? Is it energy or retailers or real estate?

**FORGASH:**

You think about energy in the past and that was always the area where there was the most strife as far as defaults. They had levered balance sheets. That’s actually not the case right now. There were some defaults that took place after COVID, but they’ve actually done quite well as far as taking down the risk in those balance sheets, or in other words, paring down their debt. They’re actually some of the best performing credits this year in the high yield market. And in energies, we’ve seen a lot of them move up, which is what we’d call a rising star, so a move from high yield into investment grade. So energy is in a pretty good spot. There are some other sectors that are concerning. Those are sectors that borrow quite a bit of money for CapEx, so you think about telecom, cable, those types of companies that borrow a lot and have locked in either high rates now or will need to continue to fund in higher rate environments in order to pursue that CapEx. That’s where the issues are generally going to be centered as we enter this next year, and we’re already seeing some of it right now.

**FUJITA:**

Certainly a lot of investors are looking to put some of their money to work on that front. You mentioned energy is one place. What are some other sectors where you’re seeing attractive yields?

**FORGASH:**

Well, let’s just talk about yields in general then. If we talked about where we were just when the Fed started raising rates, high yield was at four percent. That’s a very un-high yield level. It was kind of like driving a car uphill on a very smooth road but you’re just not really getting anywhere. And if you wanted to get real rates or real returns, you’d have to go out to CCCs, which as you know are the riskiest area in high yield. Now you can invest at a very resilient portfolio of high yield credits BBs, so just below investment grade, and have a 8 to 8.5 percent yield, which is very attractive if you think about it because the long term average for this, where defaults are very low for BBs, it means you’ll have some of the highest after-default yields or highest locked-in yields really since the great financial crisis. So it is a very attractive time to invest, generally speaking.

**LIPTON:**

David Forgash from PIMCO, thank you so much for your time and insight today. We appreciate it.

**FORGASH:**

Happy to be here.