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**ALIX STEEL, BLOOMBERG:**

Which brings us back to the question of the day: Are Powell, Lagarde and the bond market all still on the same page? Just last week, central bankers were talking about the bond market, helping them do their job for them. We've seen now yields move lower on the 10-year by about 50 basis points, but does the reverse hold true too? Sonali Pier, Portfolio Manager for High Yield and Multi Sector Credit at PIMCO, joins us now. Sonali, what do you think? Are central bankers in the bond market on the same page?

**SONALI PIER, PIMCO:**

Yeah, you know, I think the initial move wider in rates certainly was the market helping the Fed do its job. But I think at this point, given the rising risks with geopolitical risk, with the broader economy, the Fed has reemphasized the data dependence. I think they're going to continue to buy time as they look through the data and try to sift out what their next move may be.

**GUY JOHNSON, BLOOMBERG:**

Sonali, what we all think at the moment is something of a growth slowdown. Everybody's talking about a soft landing. I'm assuming that a soft landing basically means getting to 2% without a significant recession. How likely do you think that is at the moment?

**PIER:**

Yeah, that's a great question because we have not seen that be successful in the past, but certainly it is where the market has coalesced on a go-forward basis to date. I think it really leads to part of the reason why we've seen such significant dispersion. For example, in the credit markets, the haves and have-nots and really the high-quality portions are performing very well, but a very skeptical eye towards the low-quality portions, because it seems very difficult to avoid, while it may not be today, a recession, but one over a longer term horizon. And therefore, we're seeing more and more differentiation between credit quality, between industries, and even between regions.

**STEEL:**

So then that's happening, but it's not reflected on the overall index, then to some extent. If, say, central bankers take some of a back seat when it comes to long ends, and it's more fiscal, right? And then how governments manage their fiscal deficits, et cetera, what's going to happen to the high-yield market? What's going to happen to the credit market in that kind of environment where the driver just becomes different?

**PIER:**

Yeah, one thing that's also helping markets like high yield is the fact that the technical- that the asset class is actually shrinking, right? Year to date, we've had about 120 billion of rising stars, companies going from high yield to investment grade. And most of the issuance we've seen so far is targeted towards more of the refinancing. So the asset class is shrinking, which is what's helped yields- kind of spreads, especially, stay more range bound relative to, say, history. When you look at kind of a go-forward basis, we are still concerned about companies that have low margins, low multiples, just have more cyclicality, less flexibility than that capital structure to grow into it. With respect to rates, that question remains, at this point, monetary policy effects have lagged, especially in credit markets and fixed income markets, because many have termed out their debt, right? Not on the corporate side as well as on the sovereign side. So they have not yet had to bear the full risk of the increase in interest expense just yet.

**JOHNSON:**

That is coming, though, isn't it? We've got a load of maturity walls next year.

**PIER:**

Absolutely.

**JOHNSON:**

And the expectation is that we can get over those walls and this process can be managed. How ugly do you think it could be, though? If we are in a “higher, for longer" environment, at some point, we are going to have to deal with the higher.

**PIER:**

Yeah, that's true. And, you know, in fact, starting fundamentals have been pretty decent as well, which is why we've seen, actually, again, going back to why there's been so much bifurcation in the market. High quality companies are actually starting to the extent possible, even buy back some of their debt at a discount today, knowing that the total interest expense will go up when they need to refinance. So if they can lower that debt stock, they can kind of at least work through that increase in interest expense in a more reasonable way. In fact, through 2025, we only have 9% of the high yield bond and loan market coming due. I'm more concerned about the “higher for longer” in the loan market, where it's floating rate in nature and they're already seeing that impact from monetary policy change.

**STEEL:**

Yeah, I was going to say because I wonder if looking at the credit market, high yield investment grade is the right market to be looking at? I was reading something today that private credit is obviously a risk that we, it's not transparent, right? So we don't actually know what the read through is for “higher for longer”in that market. You mentioned leverage loans. Like, is that where we need to be looking for the real read?

**PIER:**

Yeah, I think on a go-forward basis, both of those asset classes, lever loan market as well as a private credit market will have significant opportunities, but because of the fact that they've grown so much and there will be more dislocation and there will be a read through perhaps to high yield, but at this point, high yield has been a higher quality asset class and it's, you know, much of the size and the lower quality nature of credit is shifting to the lever loan market and private credit market, making them ripe for disruption and potential opportunity down the line.

**JOHNSON:**

Let's just talk about what a hard landing would look like. If we get a hard landing, Sonali, just walk me through what you think is going to happen in the markets you just described and how different it will be to the kind of base case we're thinking about at the moment?

**PIER:**

Yeah, with a hard landing, we would also though, have rates rally, right? So that part would be helpful for credit. Obviously, spreads would widen, you know, it's a question of the magnitude and the, given the size of these markets have all grown dramatically as well, right? So, you know, again, when I think about a hard landing, usually that would be met with outflows, so there's also the aspect of, you know, which asset class in particular would outperform and be able to be more shielded from those outflows, right? So for example, you know, while the quality of the high yield market has gone up, and the low market has gone down in terms of quality, the difference is that over two-thirds of the low market is owned by CLOs, which are not marking to market other than the excess of a 7.5% Triple-C’s, right? So that's a bit stickier. And so when you think about kind of how it looks down the line, a hard landing, it will, there will certainly be volatility and dislocations that say a multi-sector mandate could take advantage of, trying to call where it's tactically overshot and be kind of more aggressive in that scenario. But, you know, I think it will be quite varied through the process of getting there. And I think, you know, again, going back to kind of the core of how we look at credit, looking for the ones where there's flexibility in the capital structure, where there's the ability to, you know, what the exit strategy is, such that there could be a catalyst for downside protection.

**JOHNSON:**

Sonali, great to catch-up, I really appreciate the time. Thank you very much indeed for joining us. Sonali Pier, joining us from PIMCO.