**MEDIA: Television**

**STATION: Bloomberg**

**MARKET: National**

**DATE: 2023-11-12**

**TIME: 10:03 PM ET**

**PROGRAM: Bloomberg Markets Asia**

**SUBJECT: Stephen Chang - Markets**

**PAGE COUNT: 4**

**RISHAAD SALAMAT, BLOOMBERG:**

Let's have a look at how all of this is playing out and give us a sense of, as we wait, those CPI numbers out of the U.S. later this week, Stephen Chang, Managing Director and Portfolio Manager, PIMCO Asia is with us now. And Stephen, this read is going to be parsed over very, very carefully because it's central now to what happens. So, you know, give us a sense of what could it actually make the Fed do if they are data dependent as they say?

**STEPHEN CHANG, PIMCO:**

Well, I think the first question is whether they are as data dependent as they were. Well, this is, maybe this sounds a little bit like kind of like a kind of different description, but they have actually relied more on a kind of model forecasted inflation of late. I think they were very much watching the data for most of this year. Now, there is a lot of data coming up, so they could revise the model for projected- whether that be growth in terms of retail sales, or in terms of CPI, which also got released this week. We'll be very focused on particularly the core CPI data. That number has gone from mid-six percent to about 4 percent of late. And there are different components having varying dynamics. One part would be the core goods, which are going down, or moderating quite quickly. The rent is also not really rising very much, but the core services, which are very much linked to wages, are very sticky. And if you were to watch many of the negotiations and the outcomes of labor negotiation, that might be cause for that to sustain at a higher level.

**SALAMAT:**

Stephen, okay, we've got a couple of banks today, Goldman and Morgan Stanley saying that they'll start cutting. I think it's Morgan Stanley saying they're going to start doing that in June of next year. Meanwhile, Goldman Sachs is going to be in the fourth quarter. Now, isn't the message essentially coming from Powell; his message to the Treasury market is, “don't mistake a hold for a cut.” So, you know, is that essentially the thing that we've got, the market railing against, because they say they may well have to cut, because there's going to be a slow down, and they'll have to.

**CHANG:**

I think part of the narrative–

**SALAMAT:**

I mean, that's a kind of battle for them.

**CHANG:**

…that they think it's probably restrictive at this point, but they don't want to let the inflation get out of the genie bottle again. So, they might hold it for a while. Now, how long that holds is being debated by market participants, including what you said about Goldman and Morgan Stanley. Is it- in June, which I think the more Stanley forecaster is, is kind of penciling in, or towards a later part of this year? Or later part of next year, I should say. So, there are a lot of debates about exactly when it is long enough to hold it, what kind of data needs to turn, to get the Fed more comfortable about cutting. And the market has a pretty wide range, and you look at the curve in terms of the expectation for the cut. It starts somewhere around June, July, or next year, and has three cuts priced in. We were not too far from that in terms of our own internal assessment.

**HASLINDA AMIN, BLOOMBERG:**

So, who's right, Stephen? We have Morgan Stanley saying, “a cut of 300 basis points”. We have Goldman saying “175”.

**CHANG:**

We think that the cut, unless there are some big accidents coming through, it's going to be more gradual, probably, towards what the market is pricing in, say, three rate cuts, next year, or maybe not even that.

**AMIN:**

2-year yields back up above five. Where are 2’s headed, where are 10’s headed?

**CHANG:**

We think it's actually not a bad time to have some duration exposure. There are a lot of things that are happening that could introduce volatility, and Treasury could be a reasonable risk of hedging with these starting yield levels. There are debates whether the cash rate is so high that you might just stay in cash, but I think with the curve being less inverted, you also can lock in yields for a longer time. And it also hedges against, let's say, some of the geopolitical risks, and our slowdown risks in the U.S., we are positioned to be long duration.

**AMIN:**

Stephen, in terms of risk appetite, how much risk appetite is there right now, versus before the pandemic?

**CHANG:**

I think it depends on the region. I think in the U.S., there is the sense of exceptionalism, and the equity market has bounced back quite quickly off of yields going lower. And so risk appetite there seems to be reasonably strong, and maybe they are not expecting much of a recession odds. We actually think the odds could be, let's say, close to 50-50 for a recession to happen over the next 12 to 18 months. And yet the market is having a pretty strong appetite. That's part of the reason why we want to be more overweight in duration.

**SALAMAT:**

So U.S., you know, exceptionalism aside, I mean, does that change, you know, where do you look then? And, you know, we had a beleaguered Chinese market, equity-wise at least. Are you looking at that, and we've got this swell of data again this week?

**CHANG:**

Yeah, you're right. I think the, perhaps the biggest consensus out there is to be underweight China. There has been a lot of pessimism. But there are also some signs. As you said, there are some turnaround in data starting the last couple of months. The data for GDP, if you aggregate up for people who forecast, let's say, 2023. Many would mark it to be above 5%. Now, and next year's a little bit more of an open question about what growth might be in China. But data-wise, that's actually been improving.

**SALAMAT:**

OK, but disinflation remains. And we saw that in the data last week. You know, this is a really important part of what's going on, people have not got the confidence to go out spending, and even saw some of this evidence in the singles day.

**CHANG:**

I think that's part of the pessimism. Even though the growth number on the real GDP number is reasonably high, the deflator is actually trending negative for this year. So nominal growth is probably a bigger predictor for some of the manable spirits in the system than necessarily just the real GDP itself.

**SALAMAT:**

Stephen, thank you so much for joining us. Stephen Change there from PIMCO Asia, just taking a look at investment philosophies and where you put your money and, of course, the Fed as ever. Haslinda?

**AMIN:**

“Buying duration” he says.