**MEDIA: Television**

**STATION: Bloomberg**

**MARKET: National**

**DATE: 2023-11-14**

**TIME: 09:01 09:05 09:17 AM ET**

**PROGRAM: The Open**

**SUBJECT: Erin Browne - Asset Allocation**

**PAGE COUNT: 4**

**JONATHAN FERRO, BLOOMBERG:**

And we're going to talk about it with PGIM's Robert Tipp and PIMCO's Erin Browne. Erin, can the Fed declare victory?

**ERIN BROWNE, PIMCO:**

Well, they've now paused for three out of the last four meetings. And I think that the bar for them to hike from here, particularly with these numbers coming in, is going to be really high. It's not to say that if we were to see another inflation spike early next year, that they couldn't hike again. But I think we're probably past the point now, at least with conditions remaining as they are for the Fed to hike again.

**FERRO:**

Further disinflation might be in our future. Neil Dutta of RenMac, lots of response to this reaction coming through. Here’s one point from Neil this morning, here's the quote: “There is likely additional slowing and consumer prices on the horizon, particularly in core consumer goods, with the U.S. economy holding up the inflation data, a Soft Landing Nirvana for the equity markets' '. Erin, let's talk about that “Soft Landing Nirvana” for this equity market. If you believe in further disinflation, I think we've got to have a conversation about what we're converging towards and we're going back towards two, or are we likely to get stuck around three?

**BROWNE:**

Well, I think right now what we're seeing is we're sort of gradually sliding into a softish landing, but I still think that inflation will take time to come down and that will leave the Fed on hold longer than you typically see during a cycle. I think that the Fed is not going to take its applause and take a bow with just one data print and they're really going to wait to see through really the first half of next year to make sure that the data continues to confirm that inflation will fall. Now I do think it will fall to a level slightly above what we've run in the pre-pandemic period. And so I think that's going to be the tricky argument, but it's probably a back half of the year argument and conversation that the Fed has to have; not one in the first six months of the year. What I do think is really, you know- confirms some of the supportive inflation data is if you look over the last year and particularly over the last two quarters, what you're hearing from companies in the S&P 500 is that margin compression, margins, you know, labor, all of those factors that really pressured margins in 2022 and also were the result of higher inflation are now starting to abate. And so we've now seen two quarters coming out from 500 companies in the S&P 500, all which are suggesting that inflation is no longer as big a concern as it was in the past. And to me, that's what's most encouraging, the fact that you've seen such significant margin improvement in the equity market this year and that I think is what's really bolstered equities this year and continues to drive some of the outperformance and enthusiasm today.

**FERRO:**

Do you see reasons then to bolster equities for all of those things to bolster equities into 2024 then, Erin?

**BROWNE:**

So I think it's going to be really a tale of two cities within equities, you know, the easy margin gains were gotten this year. I think as we look forward into next year, the bar for earnings is really high. The consensus is looking for double-digit earnings growth next year in an environment we're expecting pretty low nominal GDP environment, typically that doesn't make sense, like you don't have a low GDP environment and very high earnings. So I think you're going to see sectors that have gotten hit this year that underperformed that have clean balance sheets are going to be big performers next year, but sectors that are more highly levered that are beneficiaries of this year's gains, like the homebuilders, auto manufacturers that are leveraged to consumer credit, I think those are going to get hit hard. So, you know, I think it's really going to be a bifurcated market.

**FERRO:**

Erin Browne, the conversation in DC has been the same one for the last 10 years, governance issues. Should those governance issues lead to high yields? Does it make it more expensive for this government to finance the deficit given the dysfunction in Washington?

**BROWNE:**

Yeah, I think like the prior speaker just said, I think that the increased dysfunction that we've seen over the last decade or so does lead to more risk premium being priced into 10 year treasury yields and really disfunction makes it more difficult for smooth government financing to occur for the government to fund its deficits to really focus on this priority. So I think that that does import some modest amount of higher yields on treasuries, but it's very hard to be able to disangle how much is coming from increased risk of government dysfunction, but I do think it matters.

**FERRO:**

Erin, I want to share this view from UBS's Bhanu Baweja, who says the following, “we don't see the conditions for why this time is so different. Inflation is normalizing quickly, and by the time we get to March, the Fed will be looking at real rates, which are very high. The view from UBS is that rates fall to between 2.5 and 2.75 by the end of next year, and the terminal rate plunges to 1.25 by early 2025”. Clearly, Erin, that's a view on the other end of the spectrum. Do you think they're wrong?

**BROWNE:**

I do think that they're probably early in that call. Certainly, I do think we'll see rates by the end of the cycle normalize back to the levels that they suggest, but I think in the very near term, it's going to be difficult to achieve, because what's different this time is that we really had an inflation scare that was persistent and well above the Fed's projections, either at the start of or the middle, or even towards the end of the inflation cycle. And so it lasted much longer. It was more of a supply-driven shock, which had ramifications, multi-months, and multi-quarters, and they continually had to revise up and were approved wrong with respect to their expectation for inflation normalizing. And so I think that that recent shock will keep them a little bit more reluctant to aggressively cut rates this cycle, like you've historically seen during prior rate-cutting cycles.

**FERRO:**

It’s too early to declare victory seems to be the conclusion from the two of you, Robert Tipp, Erin Browne. Thank you very much for being with us.