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**RICK SANTELLI, CNBC:**

It is an important day for us because we have a Managing Director here, Jerome Schneider from PIMCO. Jerome, I couldn't think of a better time. Let's set the table here. Yesterday we had a really, really good CPI. We see huge drops in yields. We suddenly had a low yield of what? 442 and a 10, 481 and a 2. And yesterday the open interest in treasury futures reached 20 million, which means game of foot. We're fully packed with players. What do you see that's different today with a cool CPI where rates have actually jumped up a bit.?

**JEROME SCHNEIDER, PIMCO:**

Simply investors are trying to take a rational approach to all the data that they've seen over the past few days. Inflation metrics are in one direction. Growth is clearly on people's minds. Even geopolitics are coming into the equation. And they're trying to rationalize that in the context of perhaps the soft landing that many risk assets, including equities, are having within the current market context. What we’re ultimately finding is that the long open interest is simply symbolic of a rationalization that fixed income perhaps has a bigger place in people's portfolio at this point in time. And as a result, we should expect this rationalization to come back to the direction of larger open interest, of larger risk appetites, to de-risk exposure to volatility in the broader marketplace. The next income does that.

**SANTELLI:**

That makes perfect sense because there's also this notion that stocks have to be going higher here, that the soft landing is already embedded into the picture. It's on the menu and it's done. I'm not sure I agree with it, but we have to trade the market that's in front of us. So, let's handicap all the moving parts. We have trying to handicap growth, trying to handicap inflation versus disinflation, and on the other hand, you have servicing the debt or supply, and you have the term premium that has been expanding and took a little pause. Put all that together.

**SCHNEIDER:**

Well, we clearly see growth decline and we expect at PIMCO zero to one percent growth outlook for the course of 2024. And you couple that with a variety of factors, including the uncertainty of new supply coming into the marketplace, but counteract that with the Fed policy, while restrictive at this point, might actually stay restrictive for a little bit longer than the market expects. We expect at PIMCO that the recession probabilities are a little bit higher than the market expects, too. So, these are things that are creating this confluence of monitoring the market, monitoring the data, all the while the Fed is clearly trying to get to the point where the easing, or rather the tightening of financial conditions, leads to not necessarily the tightening of monetary policy anymore. We believe that the Fed will remain on hold for December, but clearly the outcome and what happens to inflation, specifically wage inflation, wage pressures, as we get into 2024, should become front and center for the debate at the Fed as well as the market.

**SANTELLI:**

How do you bring in international forces? Germany used to be German engineering, but that auto industry has changed. Germany's numbers do not look good. I don't see an engine of growth emerging out of Europe. The Japanese, their currency is basically at 33 year lows against the dollar, and yet their export numbers are moving the wrong way, because they're trading partners' economies are slowing. How is all that going to affect the US?

**SCHNEIDER:**

Yeah, clearly the calibration from an economic point of view is something that will put a weight on growth as we get into 2024. From a fundamental perspective, we like the front end of the yield curve, because it's generally immune to a lot of these factors. Yes, the Federal Reserve will come into play, but a lot of the premiums, term premiums supply other factors that might be persistent out the yield curve might actually be more insular at the front end of the yield curve. Again, it's an income story as opposed to a capital appreciation story that you might find in many risk assets at this point in time. That theme is prevalent throughout the global economy.

**SANTELLI:**

So, stick with the shorter maturities, but watch that asterisk. Yields may be moving a bit higher despite some of the better news on inflation slowing, but maybe slowing a bit too slow. Jerome, thank you. Tyler, back to you.