**MEDIA: Television**

**STATION: CNBC World**

**MARKET: International**

**DATE: 2023-11-24**

**TIME: 3:05 AM ET**

**PROGRAM: Squawk Box**

**SUBJECT: Geraldine Sundstrom - Markets**

**PAGE COUNT: 4**

**KAREN TSO, CNBC:**

Let's get to Geraldine Sundstrom, who is Asset Allocation Portfolio Manager at PIMCO. Geraldine, could you just touch on sentiment on markets so far this week? Because early in the week, we saw again a little more confidence, that narrative around monetary policy, again supporting risk on assets, a bit of fatigue setting in, but we don't have the US markets trading over Thursday with Thanksgiving. So what do you make of where we sit now on risk and enthusiasm to take on risk?

**GERALDINE SUNDSTROM, PIMCO:**

I think we're in a consolidation mode. We've had quite a big rally so far this month, be it equities or fixed income. We got good news on inflation. We have hopefully seen the peak of interest rates and the market has priced this. Now we're lacking catalysts. We had PMIs yesterday in Europe. They are consolidating, they're bouncing a little bit, but at really unexciting levels. We'll have those of the United States this afternoon, that might give us a bit of direction. But clearly here, we need new news to push markets higher or lower. And that's why we are in sort of range.

**TSO:**

So you're neutral when it comes to your equity stance at this stage. But I know a lot of market participants are not. They're putting all the chips on the table. I think now is the time. How much of the monetary policy outlook depends on this “put all the chips on the table” strategy that some of the more bullish forecasters have out there?

**SUNDSTROM:**

Well, what we see is indeed some bullish consensus earning forecast for 2024, which seemed to be somewhat incoherent with our forecast of the growth that is gonna slow markedly in the United States, which was very exceptional. The rest of the world is really slowing. And when you look under the hood, earnings are really driven by the “Magnificent Seven" and the rest of the economy, earnings in Europe and elsewhere, are not really doing very well. And margins so far have held up thanks to a lot of cost cutting, delays of capital expenditure due to high interest rates. But those cost cutting typically or less business for another company. So we're more cautious. And we think that, there is better value in high quality bonds that yield five or seven percent, which are likely to give you this type of returns for the years to come.

**STEVE SEDGWICK, CNBC:**

Geraldine, very nice to see you this morning. Look, I seem to be one of the few people that I've come across in the financial world at the moment that isn't worried about supply. I thought buying or selling anything was about supply and demand? And when I look at what the treasuries around the world, including especially the United States, have on offer for all of our viewers over the next couple of years who want to buy bonds, they're not going to be short of opportunities. They're not going to be short of supplies, Geraldine.

**SUNDSTROM:**

That's very true. At the moment, you know, we've had a bad dynamic in terms of yield. We had a big sell off in the past two years. It takes a lot of courage to come and step in. But when you think about it, indeed, growth is slowing down. You know, there's still a toss of a coin if we're going to get a recession or not a mild one, but nevertheless, a recession. We see growth in Europe around zero. At some point, demand could very well offset the supply that's out there. It's really about sentiment for now. The market is pricing a very soft landing. I would say even acceleration of earnings. So they see very little point to buy bonds. Now, you know, the proof will come as economic data week and month after month starts to fall in.

**SEDGWICK:**

Yeah, and it's very interesting tying a couple of your answers together. One; you talked about. You know, there's a lot out there that's 5 to 7 percent that looks pretty attractive. I appreciate that. But there's also a lot out there that isn't priced much higher up, which, for all intents and purposes, is the old word “junk", the current word “high yield" as well. And you mentioned on your last answer about the, the scenario's a mild recession, but a mild recession for companies that have got to refinance over the next 12 to 18 months at extreme levels when they originally financed at very low levels as well, that's going to create a lot of tension in parts of the market and parts of the curve, isn't it?

**SUNDSTROM:**

Absolutely. And that's why we really stay cautious in the highest quality agency, mortgages, investment grade, and really try to stay away from that junk debt because there's a wall of maturity that is going to come due next year and the year after. And if we're higher for longer, of course, those companies are not only going to be sensitive to a slowdown in growth. And see, you know, lower profit and revenues, but will also be hit by much higher refinancing rates. So yes, those yields might be attractive from the look of it, but we would stay cautious because we think that the economy is going to slow down under the weight of this quite restrictive monetary policy.

**TSO:**

Can I turn your attention to Italy? I was just looking at what we've got on the yield. And it's of note that you've seen a decline in that yield, the spread between Germany and Italy is closed, and there seems to be a more favorable outlook by some of the ratings agencies around the outlook for Italy. What do you make of that because at various different points in the cycle, we've seen Italy flare up as a concern, but now that yield has come right off the higher ranges over the course of this month?

**SUNDSTROM:**

Pretty neutral here. Not at those types of spread. It's you know, you get an extra carry, but you also have extra risk. We would think it's probably fair if yield widened more than yes, might want to go for an overweight, potentially.

**SEDGWICK:**

You mentioned, staying clear of some of those more concerning areas of the high yield market. In terms of where you see the best opportunity, and I mentioned a lot of refinancing, which you know far more about than I do, that corporates have to do. Where would be the most exciting area where you're gonna get the biggest bang for your buck? Is it IG, or is it somewhere in between IG and high yield?

**SUNDSTROM:**

Well, actually, the area that we prefer the most is agency mortgages. They seem to be, you know, when there's mortgages written, people don't want to touch it because they're worried of high interest rates. They're worried about the housing market. But we really think that when you look at, you know, value- bang for your buck; value for money or risk / reward agency mortgages in the US are the most attractive. We have spreads that are the highest- they've been higher than during the Great Financial Crisis or the Pandemic.

**SEDGWICK:**

So what are we talking about? Around about 5% for that- Is that enough though? Consider, I mean, I know that certain parts of real estate have been attracting certain investors, including the likes of Mr. Buffett as well. But, but correct me if I'm wrong, you're getting around about 5% for agency- ss that enough given the stage of the cycle we're at?

**SUNDSTROM:**

Well, we think that the quality of those bonds, you know, is very high and some would argue very near that of the US Treasury. So you do get quite a bit of extra return, about 100 basis point or so when you volatility adjusted versus U. S. Treasury for such a high credit quality and relatively good liquidity as well. This looks attractive.

**SEDGWICK:**

Superb. Lovely to see you, Geraldine. Thank you so much indeed for joining us out of Geneva today. Geraldine Sundström, who is the Asset Allocation Portfolio Manager over at PIMCO.