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**TOM KEENE, BLOOMBERG:**

What we're gonna do now is wrap around that important Washington interview with the interview that matters for global Wall Street Jerome Schneider, legendary at PIMCO in the short term paper space. And we're thrilled he could join us this morning. Jerome, not so much what this job report does. How hard is it to manage the risks of short term paper right now?

**JEROME SCHNEIDER, PIMCO:**

Yeah, good morning, Tom, and good morning, Manus. The reality is that a lot of clients have been positioned to be pretty defensive in 2023. And I guess when you see this latest data, we find ourselves in a confluence of events which the outlook will continue to recalibrate. The issue with short term paper really is, it's quite attractive. And that issue is one where investors may define balance between harvesting the attractive yields at the front of the yield curve with the opportunity set to own a little bit of interest rate exposure and income further out the curve. And that challenge will continue to be reconciled as we get into 2024. So that's the prospect where the challenge from understanding the data and more importantly, the investment landscape really will tend to reconcile. Any one data point as we witness this morning isn't necessarily as important. And the Federal Reserve will continue to sort of put the emphasis on the longer term views when they meet next week. So for investors, they should do the same thing. Take a longer term view, understand that interest rates have greatly recalibrated from where we've come from in 2022. And more importantly, look at the broader landscape of opportunities.sets. That, yes, you might have a softer economy, but the likelihood of a soft landing while a possibility isn't a high probability. And that tends to be a fairly attractive investment outlook for at least for fixed income over the next 12 months.

**MANUS CRANNY, BLOOMBERG:**

Good day to you, Jerome. Good to be on air with you. I mean, we had a wonderful line from Mike McKee a moment ago where he said, “you know, the bond market traders and salespeople have the attention span of a two-year-old”. Having been slaughtered by the bond market in 1994, you get moments like this where 10’s and 2’s and 10’s have bolted higher this morning. Is it just a bit of a wake up call that the trajectory on rates is not one way? It's not a collapsing falling knife all the way. There will be moments of interruptions which present opportunity.

**SCHNEIDER:**

Well, yeah, you're trying to get an insight to the practitioner's frame of mind. And then right, honestly, Manus, it's one of those things that from a data dependent point of view, yes, the attention span might be one of the two-year-old if that's the view you take. And that's why we suggest at PIMCO, to take a longer term view. The practicality of it is that the bond market has effectively challenged in many ways the Fed's resolve many times this year, probably five or six times by my count. And they're going to continue to do so. One of the largest challenges will be actually over the next week, as we take a look at the dot plots that will be revealed. And that will ultimately suggest that perhaps the Fed only suggests a handful of rate cuts, versus the Fed's remaining five plus versus- the markets rather five plus rate cuts that they're expecting. And that is a fairly big reconciliation, that can have fairly large impacts across the curve where I do my domain, which is in the front of the yield curve.

**KEENE:**

How do you respond to the risk of reinvestment? The idea is somebody is picking out a duration and financial advisors say, “oh, but the risk of reinvestment”. How do you respond to that, Jerome?

**SCHNEIDER:**

Yeah, that's where you have to have a diversified portfolio. And while there is attraction to be at the front of the yield curve, and you know Tom, that I'm a big proponent of being just outside that cash landscape of the money markets, the reality is that there are attractive yields both in real terms and nominal terms at this point in time. And the risk of reinvestment is one where you actually want to balance the income, which is a heck of a lot more attractive right now with the opportunity of capital preservation and more importantly, total return, which is going to be emphasized by capital appreciation over the course of the next few years as spreads normalize and more importantly, as you perhaps get to an economy which is more supported by the Fed, which might be in later 2024 or ‘25, which means those rate cuts means bond prices go higher. So that's where you want to think about that reinvestment risk and sort of take some off the table by moving ever so slightly out the yield curve and adding a little bit of interest rate exposure.

**CRANNY:**

Jerome, I'm just trying to work out what kind of flow comes into the short end of the curve across 2024, money market funds, and you peak $5.9 trillion–

**KEENE:**

What are you, a former bond trader?

**CRANNY:**

Well, it was a very bad sale- I was a terrible crack spread and oil commodity trader. But I didn't do too bad with the bonds.

**KEENE:**

You sound so authentic, I sounded like a fool, you just have flow.

**CRANNY:**

No, I think you know, you could get-

**KEENE:**

Just like a Jerome Schneider track.

**CRANNY:**

We’ve got PIMCO on the line here, they're the pros.

**KEENE:**

Please.

**SCHNEIDER:**

Well, Manus, you sound a bit of an expert. So maybe we'll take you for a–

**CRANNY:**

Oh, maybe I can get a job at PIMCO. Listen, that's a long time ago. First Chicago, many, many, many years ago. Money market funds, 5.9 trillion. How much of that flows out of cash and into the short end of the curve? Is that a bump that you get?

**SCHNEIDER:**

We begin to see it happen that the effect is going to be the trade off between the Fed's outlook which will be cautious, but yet perhaps pivoting to that dovish aspect later on in ‘24. And at the same time, investors still want to harvest those high yields. So the resolve of the money market fund investors will be actually quite high. We expect that the investors will continue to be in that- approximately 6 trillion money market fund for quite some time. But we're actually quite, you know, quite excited by the fact that investors are beginning to see that balance, to begin to rationalize the risks in a more quantitative way, if you will, because they're thinking about the volatility in the market, the outlook of the market, and realizing that the story of capital appreciation which has been so relevant and prevalent in the landscape of risk assets, equities, et cetera, for the past decade, might be changing. And that might require slightly different allocation.

**KEENE:**

Jerome Schneider with us with PIMCO head of Short-Term Portfolio Management. We’re thrilled he could find time to stay with us in the early West Coast. Morning.