**MEDIA: Television**

**STATION: Bloomberg**

**MARKET: National**

**DATE: 2023-12-08**

**TIME: 01:03 PM ET**

**PROGRAM: Bloomberg Real Yield**

**SUBJECT: Jerome Schneider - Markets**

**PAGE COUNT: 4**

**SONALI BASAK, BLOOMBERG:**

Now joining us now to talk more about what's happening in the bond market is PIMCO’s Jerome Schneider and Karissa McDonough of Community Bank. Thank you both for joining us. Jerome, let's give you the word here first on exactly what is happening at the 2-year, and what is changing in terms of expectations for next year's cuts.

**JEROME SCHNEIDER, PIMCO:**

Yeah, a good afternoon. And basically what we're seeing is that the market is simply recalibrating its expectations not necessarily with regard to this soft landing, but with regard to the proximity of a Fed cut at that point in time. You know, quite honestly the Fed has been very vocal in terms of how it wants to manage those expectations and admittedly it'd become more data dependent in recent days as there was more positive, more positive data pointing to that. Today's number doesn't really change the calculus that much and perhaps actually helped to reconcile the disconnect between the market's expectations of an exceedingly soft landing. One that was going to be propelled by five or more rate cuts in 2024 to one that's probably more normal and realistic that we're going to see revealed in the dot plots to come in December. And that's probably really what we're seeing here today is real-time reconciliation between expectations of the Fed and more importantly the market expectations. But nevertheless, I think this is the one thing for practitioners and investors to think about. When you get to this point, even though we've had a sell off today of about 12 basis points as you note in the front end, it's only worth about a half of a rate hike over the course of 2024. So while large in basis point terms today, it's not necessarily that meaningful in terms of the overall market's expectations of approximately five rate cuts in 2024.

**BASAK:**

You know, I want to listen to a quick thing that Priya Misara of JP Morgan had to say, she weighed in on the latest payrolls report saying “that the strong wages and higher participation should keep the soft landing narrative alive. Some of the near-term fed rate cuts will get taken out, but we think people will buy the dip. Not many people had an opportunity to buy 10-year treasuries at 5%, but even at 4.25% is not a bad level heading into a slowing growth and inflation world”. She says it's a good number for risk assets. Jerome, what do you think about the 10-year at this point? What are the buying entry points?

**SCHNEIDER:**

I think what we're simply trying to do is rationalize where we've come from in terms of the rate spectrum. Obviously, low rates from 2022 are no longer, it’s in the rear view mirror. And when we look to 2024, we actually see an evolving landscape, one where rates really not only produce income, but also produce potential safety and capital appreciation as we get into a landing, which is something a little bit harder than a soft landing, but not necessarily a deep recession. And that's where bonds moving a little bit further out the curve out from money market funds into short term, even in the middle part of the curve, make a little bit more sense. So, this range that we're seeing across the curve is more palatable for investors, and especially those investors who potentially see volatility emanating from a weakness in the broader economy. And that's really the outlook for 2024 from a PIMCO point of view.

**BASAK:**

You know, Jerome, something else I've been thinking about a lot is you have the economic data, but you also have the market functioning here. You saw those repo stresses, for example, that have posed problems in the last week or so, if you will. How much does that worry you? Do you think about liquidity concerns a lot?

**SCHNEIDER:**

Yeah, I think there's two main focal points for 2024. The first one is obviously the inflation outlook, and what we think is the last mile effects of getting inflation closer to target. The second one is looking out to the liquidity conditions in 2024, and you have a market which is not only functioning with concern and trepidation just because of the higher cost of capital and trying to understand where risk lies, but you also have a practical implication, which is you have excess reserves or the cash, globally sitting on the sidelines is diminishing, and that will be something that goes from about $3 trillion in the global banking sector to something closer to two and a half. And as that happens, the cost or effectively the ability to have cheap funding for global central banks and global banks in general, is going to become more dear, more expensive. For investors, what it ultimately means is that those investors who are keen to take advantage of dislocations in the market, the higher cost of liquidity and sitting on the sidelines are going to have opportunities to put cash to work in meaningful ways. And so a little bit of patience, a little bit of active management trying to find those locations that are defensive, but yet not necessarily priced fully for those dislocations are going to be opportunities in 2024. So liquidity is something to keep an eye on as we enter the new year.

**BASAK:**

Now, one quick one to you, Jerome, before I let you go. And it is indeed lately I go to bed thinking about funding stresses these days. You know, next week is a big week. Again, not even just for the US Central Bank. What are you looking for in the dot plot next week?

**SCHNEIDER:**

Yeah, I think the dot plots are going to be the most meaningful takeaway. And really, not necessarily that they're going to have a realization of the rate hike that they forecasted back in September. But what is the median dot? And what does that ultimately mean to the outlook for rate hikes potentially later in 2024? In that regard, the Fed might hold steadfast here. And with the data today, it probably shifts that median from being three rate hikes to closer to two rate hikes. And thus, when we sit here today looking at the two-year note at about 4.7%, we still see that that equates to about five, I'm sorry, five rate cuts in that regard, as opposed to the two rate cuts that the dot plots will probably likely reveal at that point in time. So to be clear, there's still a lot of reconciliation between the market's expectation of cuts and the Federal Reserve's prognostication of cuts over that point in time. And we think at PIMCO, there's probably closer to the Fed's outlook than the markets at this point in time.

**BASAK:**

We've got to leave it there. That's Jerome Schneider of PIMCO, and Karissa McDonough, we thank you so much for your time.