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**TOM KEENE, BLOOMBERG:**

It's time for global Wall Street to stop and listen to Anthony Crescenzi. To say he's Market Strategist, Portfolio Manager at a West Coast shop called PIMCO, barely describes his authority on short-term rates and how they were down to the Fed out the yield curve. Tony, thank you so much for joining surveillance. I'm gonna cut to the chase. The real yield, the inflation-adjusted yield, negative way out above two, it's come back, it's 2%. Where is that yield, the inflation-adjusted yield in one year?

**TONY CRESCENZI, PIMCO:**

It's difficult to say, but it's likely to stay lofty but it'll probably come down. And the central argument for that is the Federal Reserve. One should have confidence in the institution that it's an instability to foster price stability. It may be difficult to get to 2%, which is its inflation target. We see today inflation over 4% and it's been there for some time. It peaked in the 6’s; it peaked 9% for the overall level. But the Federal Reserve has sufficient arsenal to bring the inflation rate down and so one has to believe in its ability. Now, fostering price stability is different than getting to that 2.0 in the sense that there are different definitions of price stability, some could say it's 2.0%, but Alan Greensman, former Fed Chair, way back, would say that price stability is achieved when price levels cease to be a factor in decision making for households and businesses. That's likely to be the case before long. We see the inflation rate continue to move down in 2024.

**KEENE:**

But the key thing here to the real economy is the new positive interest rate is tangible, sector by sector through the Standard and Poor’s 500. Are we gonna- Yardeni is calling this “an equity bull market, a roaring 2020s” Is this a real economy that can withstand this new interest rate regime, this post-pandemic regime?

**CRESCENZI:**

Well, yields today are attractive relative to history of today's yields, double less decades average. It's higher than the 20, 30 and almost near the 40-year average period that includes higher interest rates. It's attractive relative to expected inflation and expected volatility. The economy can handle it to some extent, but it can't in one major way. And this you see playing out in government bond markets, think the UK in 2022, Prime Minister Truss suggested lowering taxes without giving it a solution for paying for the increased indebtedness. The bond market pushed back violently. The yield on the 10-year gilt, as it's called, the government bond there rose 150 basis points rapidly. You could say the bond market vigilantes came out and disciplined the fiscal authorities and Prime Minister Truss was ousted. I'd like to call it, because I wrote a book about this idea, “Keynesian Endpoints”. Keynesian Endpoints, where we reach practical limits to the use of debt–

**KEENE:**

No, no that's for the Dodgers buying Ohtani for more money than God. That's a Keynesian endpoint!

**CRESCENZI:**

So the world is seeing this. So the high levels of debt do make it more challenging for nations to have high service costs. And here's one idea. What I call a “read-my-lips" moment, ahead before perhaps the United States and other nations. “Read-my-lips” for George Bush, 1988 in a speech written by Peggy Noonan, Ronald Reagan's famous speech writer. At the convention, he said, “read-my-lips, no new taxes”. He got to break the pledge two years later because the interest on the debt rose to 3.2% of GDP, which was a record that still stands. Well, in a few years we'll breach that. Politicians like Bill Clinton and his Treasury Secretary, Robert Rubin, solve the problem. He eventually had budget surpluses. But Washington doesn't seem to be the kind of place these days for those types of solutions.

**LISA ABRAMOWICZ, BLOOMBERG:**

As an investor, Rose Costridge said that he's liking credit as a possible greater component of the 60/40 or maybe 65/35, that credit is offering sometimes a more attractive proposition, both from the fundamentals, as well as the yields, than government debt, do you agree?

**CRESCENZI:**

In general, I mean, historically, if you look back, it's better to have some overweight to credit than not. We'd suggest an investor needn’t reach very far for good yields in terms of risk adjusted yields because yields are higher. We do think that this is total return time. This was a year for clipping coupons in, let's say, the Bloomberg aggregate, the high-quality bonds. But next year is more likely to be the total return time. What we've seen historically since 1978, core bonds, those with duration average maturities, call it five to seven years, beat cash 90% of the time by an average of almost 300 basis points per year on a three-year rolling basis, which is to say, looking at the story three years from now back and seeing how returns were, it's likely that having some duration rather than being in cash will win. So core will be king, it's total return time, and that includes high-quality investment grade bonds, because, of course, looking at the Bloomberg aggregate is about a quarter of the universe.

**ABRAMOWICZ:**

How do you pair this idea that you're going to get great total return from corporate debt as well as government debt next year, with the bond vigilante story and an unsustainable debt profile of the United States?

**CRESCENZI:**

In 2024, the bond market, fixed income investors understand not much will get done in Washington. But it's in 2025 that the bond market will be looking closely at what's proposed. You could imagine a situation where a president decides, perhaps, to propose increasing indebtedness, you would expect, perhaps, the bond market to push back in that case, and there could be some volatility. We would suggest, though, that the bond investor today shouldn't worry about that for one, it's in 2025. Secondly, because the bond market is in control. So James Carville's idea of being reincarnated, Bill Clinton's former campaign manager, as a bond investor, because you can scare everyone, is something to be thinking about, because the bond market will discipline the fiscal authority.

**JONATHAN FERRO, BLOOMBERG:**

Enough fixed income. Should we do Ohtani? The really interesting stuff. The fact that he's going to get paid two million per season and defer six hundred and eighty million dollars until ten years' time. Wall Street Journal's got an amazing story on this. So, six eighty, he's going to pay out between 2034 and 2043. So, work out what this means for taxes. I'll read this quote from the Wall Street Journal's story for you all at home. “During the last ten years, or rather, during the first ten years, he will be subject to state income taxes on his annual two million dollar salary in California, and wherever the Dodgers play. But by the time he starts receiving the 68 million dollar payments, he may be able to avoid state income taxes by living someplace like Florida without an income tax or by moving back to Japan.

**KEENE:**

Six hundred and eighty, you misspoke..

**FERRO:**

That's the story. What did I say?

**KEENE:**

Sixty-eight, it's- move the decimal.

**FERRO:**

Sixty-eight a season. Sixty-eight a season. So, it's going to be 68, Tom. Seventy a season, two millions going to be paid up to the front. Sixty-eight a season deferred over ten years. Six hundred and eighty million. That's how the math is going to work. Nuts!

**KEENE:**

Or does he even move out of the country? I mean, there's other, you know, not shenanigans. That's not accurate to say that. But this is tax planning, isn't it?

**FERRO:**

Oh, big time. And then the Dodgers get to spend more money on players, right? In between. What do other teams think about this?

**KEENE:**

It really helps the cap. Well, I said, and Damian Sassower, our Bloomberg Business Sports was adamant yesterday. This is game-changing across all sports. What does it do to Formula One? What's, what's, who's the guy that won Formula One this year for Christian Horner?

**FERRO:**

Max Verstappen.

**KEENE:**

Max Verstappen. What's he worth after this discussion?

**FERRO:**

Well, a lot of these guys already live in Monaco, so.

**KEENE:**

Well, yeah, well, now they're going to own Monaco.

**CRESCENZI:**

Reminds us of Reggie Jackson.

**FERRO:**

Their numbers are nuts.

**KEENE:**

You got Dodgers tickets out there? I mean, do you have Dodgers or something?

**CRESCENZI:**

No, I'm a New York Yankee fan all the way.

**KEENE:**

Oh, there we go. Oh, they have Juan Soto.

**FERRO:**

They do.

**KEENE:**

Hello, Boston. Come in, Boston, please. Come in.

**FERRO:**

Mookie Betz, where’s he, TK?

**KEENE:**

Thank you. Yes.

**FERRO:**

Over to the Dodgers.

**KEENE:**

You want to chime in here, Lisa, 1986? You want to just pick it up?

**ABRAMOWICZ:**

Go Mets!

**FERRO:**

Tony, good to see you.

**KEENE:**

Tony, thank you.

**FERRO:**

Tony Crescenzi of PIMCO. Thank you, sir.

**CRESCENZI:**

Happy Holidays.