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**JULIE HYMAN, YAHOO FINANCE:**

Alright, for more on what the December jobs report means for investors and their money, we want to welcome in Tony Crescenzi, PIMCO Market Strategist and Portfolio Manager. Tony, happy 2024, it's great to see you.

**TONY CRESCENZI, PIMCO:**

Same, Julie. Thank you.

**HYMAN:**

Now obviously, we've had some hours to digest this jobs report, right? And to think about what it implies potentially for the rest of the year. Do you think that this strength that we still seem to be seeing in jobs is going to make the job tougher for the Fed?

**CRESCENZI:**

Well, Julie, as you pointed out, and Josh (Lipton), there is deceleration occurring in the job story in terms of the different sectors. In fact, I would add the good sector to that. If you look at the good sectors, health, leisure, and hospitality, those sectors have been a big part of job growth over the past six months or so. Strip that out, and you see the rest of the economy slipping in terms of the rate of job growth, and that's important because what is happening, and what PIMCO expects for 2024, is, let's say, call it four stages: the growth recession, that's a growth rate that's below potential, which is around 1.7, 1.8% in the United States, but above zero, so it's not an outright recession, although we think the odds are higher than market participants think. The growth recession that enables rebalancing of the labor market, the goods and services markets, in terms of the supply and demand, followed by disinflation. We're already seeing that, it's already here, especially in Europe. And then finally, interest rate cuts, and that seems to be the progression. What's missing right now from investor's minds is the idea of the growth rate slipping below potential because that's what's needed in the end to bring about the rebalancing and the disinflation and then the rate cuts, but it does seem to be moving along those lines. And finally, Julie, I would mention today's ISM index, services index, as you noted earlier a little while ago, pretty weak, a figure that we haven't seen in several years and an employment report that we haven't seen as well since the pandemic, and that's vitally important, given how large the service sector is. So everything seems to be in place. We wouldn't change our view that the Federal Reserve will be cutting interest rates this year. It may on January 31st, so be cautious about signaling that it's imminent. That's about it in terms of change, though.

**JOSH LIPTON, YAHOO FINANCE:**

And Tony, when they cut, is that because they're going to say, okay, inflation is going to return to our 2% target and it's going to stick there and because they see the slowing economy? What are the reasons you think they're going to cut?

**CRESCENZI:**

Hi, Josh. And I think that the important story would probably be the rise in the real interest rate. So of course, the Federal Reserve has its policy rate; call it around five and three-eighths. It's a range between five and a quarter, five and a half stated range, five and three-eighths, but the inflation rate has been falling. So in other words, the difference between the policy rate, the five and three-eighths, and the inflation rate's widening, which historically means that the Federal Reserve policy is getting tighter. We should add to that, there are other factors. And the Federal Reserve Bank of San Francisco tries to measure these factors. It relates to quantitative tightening, the selling or letting the balance sheet runoff occur at the Fed, plus communications. Those factors combined, the five and three-eighths, plus some effect or some equalization, if you will, to the funds rate from quantitative tightening might put the funds rate in the sixes according to the San Francisco Fed. So policy is pretty tight, so Josh, the point is, again, the real interest rate is rising historically, even in the Volcker period when the Fed was facing a major battle against inflation. It guided the policy rate lower, but it kept the real rate steady. In fact, if you care, it was a 5% real interest rate back then that got the job done. So that's one of the key stories here.

**HYMAN:**

Well, this makes things difficult for investors, I would think, right? This is sort of a tricky period here, while we're waiting. And in some of the commentary you sent us, you said you have three don'ts for bond investors right now. Just briefly, tick through those for us.

**CRESCENZI:**

Right, so we're often asked at PIMCO, and others are asked, what should we do? First think of three things not to do. You don't want to try to time the peak and yield. Yields are higher than they've been in a while. So the Bloomberg aggregate, which is a compilation, sort of like the S&P 500 of bonds, is close to 5%. It's above the 10, 20, and 30-year averages. So that's a good reference point. It's also high relative to expected inflation and expected volatility. So don't try to time the market, awfully difficult to do, even for the pros. Secondly, sure, perhaps you're worried about falling bond prices recurring. So don't catch a falling knife. But do catch these yields while you can. So what this story there is, be cautious about scaling. Be cautious about how long you get in terms of interest rate exposure. The final one is a little confusing, perhaps. Don't fight the Fed. Don't fight the Fed in 2022 meant run for the hills. In 2023 and 2024,.it should mean believing in its ability to foster price stability. And Julie. note I said price stability. I didn't say its price objective. Price stability defined by Paul Volcker and Alan Greenspan, former Fed chairs, is a level where the degree of price changes no longer has an impact on household and business decision making. We may achieve price stability before that 2% objective. And the final word on don't fight the Fed, is it's likely to cut its policy rate. And that's good news for investors.

**LIPTON:**

And Tony, I want to get you out of here another variable we got to consider this year because we are in an election year. And I think Tony, part of your argument is, hey, markets could reprice when the outcome of that election is known. So is your general advice then, Tony, if you're an investor, you'd better stay nimble in 2024?

**CRESCENZI:**

Yeah, I think, Josh, the nimble word also should be associated with being active. One has to be active on their feet. May have to depend upon the financial advisors, big firms like PIMCO and others that have expertise in the global markets because lots of movements, complexities related to the rewiring of the global economic system since the pandemic, complexities related to the outcome of the election, including elections, I should say, in emerging markets. Lots of things happening, complexities, et cetera. So you want to be really careful about markets this year. But again, the good news, the foundation for a good year is central bank rate cuts. But in the final word, it just came to my head. It's the idea of divergences between central bank movements. While they're all moving the same direction, they move at different speeds. And so it's another reason to be active and to seek out expertise in the area of central banking.

**LIPTON:**

Tony, we always love having you on the show. Thank you for your time and insight. Enjoy the weekend.

**CRESCENZI:**

Thank you so much, Josh. You too. Take care.