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**SCARLET FU, BLOOMBERG:**

All right, we're just about 50 minutes away from the closing bell. Joining us as we count you down to the market close is Erin Browne. She's Portfolio Manager of Multi-Asset Strategies at PIMCO. Erin, thank you for sitting through us talking about Taylor Swift and Travis Kelce and the state of their relationship. First of all, welcome to the close on Bloomberg Television. I want to get from you a sense of what inflation looks like right now because that, of course, dictates how the Fed proceeds next. And this cooler than expected producer price report, is it aligned with the consumer price inflation numbers that we did get?

**ERIN BROWNE, BLOOMBERG:**

So I think it is in line. I think what you're gradually seeing is a lowering of inflation really much across the board. There's still some sticky components of inflation, like medical services and shelter, which are keeping inflation more elevated. But what I think is going to be really key for markets is next week's core PCE print, which is going to give a really firm indication of the primary measure that the Fed's really focused on and whether or not that continues to see lower numbers, which is what we're expecting. We're expecting a .2 percent on a month on month basis, which would bring core PCE down below the three percent threshold and would be in the upper two level. And this is really key for what the Fed is focused on. That said, I still think that market pricing in the front end of the fixed income curve is probably too aggressive. Right now the market is pricing in six and a half cuts between now and year end. I think while certainly March is a live meeting, I think that the market's likely going to be disappointed by the pace and the start of the Fed cutting cycle. It's likely to be pushed back a little bit further into the spring.

**FU:**

Yeah, there's also concerns about inflationary triggers like what we're seeing in the Red Sea with all the shipping disruptions and those increased costs that companies now need to contend with. How are you thinking about what those disruptions would mean for the goods rebounding and restocking that we've been seeing of late?

**BROWNE:**

So, so far, what we're seeing is at least retailers and wholesalers are suggesting that they're really not seeing any meaningful impact from disruption in the Red Sea or in the Panama Canal. So, that's another issue or area that we're watching. But certainly, if this is prolonged, if we were to see escalation, we certainly could see disruption occur. Now, we're at a much different point today than we were at the start of the pandemic. First, inventory levels are still pretty high, particularly in the wholesale channel. They're lower in the retail channel, but in the wholesaler channel, they're still quite elevated, particularly across key categories. Secondarily, there's a lot more excess supply or capacity amongst shippers today than there was going into the start of the pandemic. And so over the course of the year, we're expected to see mid-single-digit growth capacity increase in terms of shipping availability. That's pretty significant based on historical standards. And so, we're just at a very different point, not at the same sort of pain threshold today. So, I think that we're in better position to navigate some of the challenges that we're seeing in the Red Sea and in the Panama Canal, but certainly the longer that this goes and the worse that it gets, it is going to start to put some pressure, particularly on European retailers, although right now they're also highlighting that the disruption has been pretty muted and they haven't really seen any effect. That said, shipping rates are starting to go up, so that will put some pressure on margins, but we're not seeing that right now as a significant risk to near-term profitability.

**KATIE GREIFELD, BLOOMBERG:**

All right, I want to talk a little bit about the Fed here because it seems like everything that's happened this week, when you think about CPI, when you think about PPI, that has only added to bets in the market that rate cuts will start pretty soon and that they're going to be pretty deep. But I'm taking a look at your notes and you point out that when cuts begin, they will likely last longer and be deeper than the market is currently expecting. Can you put some numbers around that? How many rate cuts are you anticipating?

**BROWNE:**

Sure. So firstly, I do want to emphasize that we're not expecting rate cuts to start at the same sort of period that the market's currently pricing in. We think it's going to start later than what the market's priced. And right now when you look at the forward curve, the market's pricing in six and a half rate cuts between now and year-end starting in March and then being regular throughout the rest of the year. We think that it's going to start much slower, but that once it does start, it's going to happen for a much longer period of time than the market's expecting. So we're really thinking that the rate cuts are going to be pushed out, but last longer. I don't think that the ultimate terminal point of the market is too far off. We probably put the terminal point of the market a little bit lower, but we think that the timing is probably misjudged by the market right now. And typically, you would expect that the Fed would get back below neutral once they start to cut rates. And that would be at some point in 2025, not in 2024.

**GREIFELD:**

And how do you position a portfolio around that? Especially when you look at the bond market, for example, we've seen a big rally in the front end, of course, as those more aggressive rate cuts have been priced in. How are you thinking about the setup right now?

**BROWNE:**

So I think in terms of positioning and trades for the bond market, certainly we saw a significant rally into the year-end. We took some chips off the table going into the start of this year based on the rally that we saw across the curve and fixed income. I still think from a longer-term perspective, duration is very attractive, although you have to be tactical around your positioning. That said, I think that what you will see over the course of this year is that the curve will continue to steep in, particularly in the 530s point of the curve. And that, I think, is a very attractive way to position your portfolio, which gives you some continued exposure to a duration rally, but does it in a way that I think is a little bit more nuanced and quite attractive from a valuation perspective. What that means ultimately for equities is, we're going to be in an environment where with equities, I think just given the financial condition loosening that we saw at the tail end of last year, it's going to keep growth at least for the first half of this year decent. And so that's an okay backdrop for equities to continue to do well. But I think you're going to see a lot more differentiation amongst equities between the haves and the have nots. And I think quality by and large is going to outpace and outshine the rest of the market. So you're really looking for companies that can maintain good margins, good growth in a gradually declining economic growth environment. I think you're going to see inflections in energy and health care this year. And those are the sectors that I'd really place my bets in.

**GREIFELD:**

All right, Erin. Gotta leave it there. Always great to speak with you. That is Erin Browne. She is Portfolio Manager of Multi-Asset Strategies over at PIMCO.