**MEDIA: Television**

**STATION: Bloomberg**

**MARKET: National**

**DATE: 2024-01-19**

**TIME: 07:37 AM ET**

**PROGRAM: Bloomberg Surveillance**

**SUBJECT: Tony Crescenzi - Markets**

**PAGE COUNT: 5**

**SCARLET FU, BLOOMBERG:**

All right, we were talking to Tony Cressenzi, who's been sitting by patiently. He is PIMCO Portfolio Manager and member of the firm's investment committee. Tony, it's so great to see you. Thank you for making it in on this freezing morning in New York. Does the move by Congress to actually pass a short-term spending bill and avert a shutdown, do anything for the bond market?

**TONY CRESCENZI, PIMCO:**

I think the bond market coming into 2024 had no- very little expectation that anything would change regarding the trajectory for US debt. In fact, it hasn't changed in quite a long number of years. I would say, though, that in 2025, we may begin to see what I would call a “Read-My-Lips” moment. “Read-my-lips” for George Bush, 1988, Presidential Candidate, in a speech written by Peggy Noonan, who was a famous speechwriter for Ronald Reagan. In what she said was the best line of the convention, George Bush said, “Read-my-lips, no new taxes.” He wound up breaking that pledge two years later, because the interest payments on the US debt had grown substantially. To a record high, 3.2% of US GDP, that's a level that hasn't been breached since. Today, it's at about 2.5%, it’s doubled in the last few years because of high indebtedness and high interest rates. He's going to breach the George Bush number in a few years' time. Interest payments will be over $1 trillion, more than defense spending. Then the bond market will begin to say, and investors will begin to say, and the public will begin to say, “What's happening here? We can't take much more debt.” Just like in the UK, last year and a half ago, when Prime Minister Truss was pressured out, in part, because she had a debt proposal that the bond market rejected.

**MANUS CRANNY, BLOOMBERG:**

Can you, honestly, I mean, everybody sort of smacks me back when I say this, you know? Can you imagine some kind of a serious jolt and strike against US treasuries as happened under the Truss government?

**CRESCENZI:**

Well, the way it would likely play out as it did under the Truss government, is where the bond market would react to proposals to raise indebtedness further in a very negative way, meaning interest rates would rise, but that rise in interest rates would stop the legislative process in its tracks and prevent the indebtedness from worsening. So I wouldn't worry about it too much, but I would expect some volatility. If there are any proposals to raise indebtedness significantly more, because think about it, we are reaching certain endpoints, you could say, I'll call it a “Keynesian Endpoint”.

**CRANNY:**

That’s the title of your last book- one of your last books, “The Keynesian Endpoint”. You said that in the break. Where do we get to in that?

**CRESCENZI:**

Well, it’s a practical limit to the use of debt. We had a lot of spending after the pandemic and inflation that resulted from it, so that's a practical limit. So the bond market would be self-stabilizing. In other words, don't worry too much.

**FU:**

All right, so the bond vigilantes will at some point make their presence be known.

**CRESCENZI:**

They’re in control, more than the policymakers.

**CRANNY:**

They haven’t gone to sleep.

**FU:**

They're just kind of quiet right now.

**CRESCENZI:**

Because this is an election year, nothing will happen in a legislative process to stop the debt trajectory.

**FU:**

OK, well, this is an election year. What's going to happen on the Fed front? Because if the Fed moves too close to November, they're going to be accused of trying to influence the election one way or another. So markets are betting that, “OK, it's got to happen in the first half, and once it starts, it can't stop”.

**CRESCENZI:**

Well, you've seen some pushback by Fed members recently, including Governor Waller recently. Seeming to indicate that the rate cut trajectory, that the market thinks is probably a bit sooner and deeper as Mohamed El-Erian, my former boss, said this morning, “The markets may be a bit ahead of themselves”. The Fed may achieve price stability before it achieves its inflation objective, they’re two distinctly different things. And markets will begin to, probably in 2025 and ‘26, be comfortable with the idea of price stability. What I mean by that is something that Alan Greenspan, the former Fed chair, and Paul Volker, used to define it as “A level of price changes that ceases to influence businesses and household decision-making”. So we may not get to 2.0 percent. We'll get to “2 point-something”, but that “2 point-something”, if it's sort of wavers around there, can still be price stability. But the Fed isn't there yet. So it has to be cautious about acting too soon, because a key lesson of history is to “Keep at it”, as Paul Volker said, and “Keeping at It” is his book from, 2018, until the job is done.

**CRANNY:**

I think part of the problem is that we have recency bias, in other words, we're not going to have the cutting cycle we had in the GFC, Pandemic, Tapered Tantrum and others. And we have a community that has lived, perhaps not back past 2000, in this bond market for a long period of time. You say there’s “Three D’s”, Don't try and time, you know, the bond market. Don't catch a falling knife, but Do catch today's yields. So this is rich enough for you on 10’s.. This is rich enough. Will the curve shift? Do you want to level into this? Do you want to scale into this?

**CRESCENZI:**

So there- if timing moves in interest rates, in terms of picking the top end yield, it's difficult. And lately, yields have been rising. You see the 10-year yield moving from around three and three quarters to about 4.15 recently. So some investors are probably thinking, “Maybe I wait a little longer, it’ll go back to 5%.”. But that timing decision, many investors, historically, are poor at it. And today's yields, as I said, all right, maybe you're worried about catching a falling knife, falling bond prices. So watch your scaling. But do catch these yields, while you can. Because look at the Bloomberg aggregate real quick. 4 and 3-quarter percent today, the Bloomberg aggregate, by the way, is sort of like the S&P 500 bonds, a compilation of high quality bonds. 4 and 3-quarter percent is still significantly above the last decade when it was two and a half. And in the last 20 years, it was three and a quarter. And in the last 30 years, it was four and a half. So you're getting yields above each of those long averages. And so quite attractive relative to history, relative to expected inflation in the 2’s. So you're getting your high real interest rate. And finally, expected volatility, that Bloomberg aggregate tends to move two, three percent or so. Yes, it moved a lot in 2022. But the bond market's going to say no to inflation, et cetera. And the Fed will get the job done. So, Manus, the final “don't” for years, “Don't fight the Fed”; believe in its ability to foster price stability.

**FU:**

To execute.

**CRESCENZI:**

To actually give you confidence in owning bonds today. And so we'd have all that confidence. And again, this is a very good time to be investing in fixed income.

**FU:**

All right, Tony Cressenzi with the “three do's and don'ts” when it comes to bonds. Thank you so much for joining us.

**CRESCENZI:**

Thanks Scarlet, thanks, Manus.

**CRANNY:**

Great to see you.