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**YVONNE MAN, BLOOMBERG:**

Let's get back to markets and bring in our next guest, Mohit Mittal, is the CIO of Core Strategies at PIMCO and manages over $100 billion in assets. How closely are we watching this election now?

**MOHIT MITTAL, PIMCO:**

Thanks for having me. Yeah, I think we are certainly very closely watching this election. It will be a source of volatility, a broad election cycle in 2024 across many countries; will be a source of volatility. So we will be continuously closely watching this, making adjustments as needed based upon the elections. The only thing we would highlight is it's too early to make a distinction. One way or the other, what the final election outcome would be. So we would keep evaluating it.

**MAN:**

Do you think it does anything to impact the Fed pricing that we've seen in these markets? We've seen a bit of a recalibration of late.

**MITTAL:**

Yeah, I think the Fed pricing is more of a function of growth and inflation data. The Fed will continue to focus on that. On that front, we have seen inflation come down, closer to the central bank's target. So you're starting to see increased probabilities of Fed cutting rates at some point this year. Now, the Fed will want to remain data dependent, continue to watch the inflation data and adjust policy course over the course of next six to 12 months.

**HASLINDA AMIN, BLOOMBERG:**

Mohit, talk about volatility as we kick off the year. Just wondering, when you take a look at price action, isn't it about a fundamental shift? Or is it about adjustment and positioning?

**MITTAL:**

I think there are some fundamental shifts as well that are happening. First, relative to six months ago, we have seen a clear trend down towards inflation. Many of the improvements that have been made in inflation have come from a supply side related normalization. We have seen post-COVID a pretty, basically, increase in inflation driven by supply side issues. Those have normalized. So that has helped inflation come down. From here on, the focus will be on how much further inflation gets down towards the central bank's target. And as we see progress on that front, that would provide confidence to further adjust rate monetary policy.

**AMIN:**

So has it in any way affected your bullish view on the bond market? And how are you intending to invest in the bond market? Geographically, what's looking attractive right now?

**MITTAL:**

Yeah, I think we are quite constructive about the aggregate high-quality, globally diversified fixed-income markets at this point. I think we can construct high-quality, diversified portfolios that are yielding about 6%. That yield is higher than that on the cash. That yield is higher than what inflation is with inflation coming down towards 2.5% in developed countries. And then last but not the least, in a scenario where we hit a recession or where growth falls more, you could have a pretty substantial increase in pricing almost to the tune of a double-digit return from a high-quality fixed-income portfolio.

**MAN:**

Why do you think money markets have been so quick to aggressively price in these cuts? When it seems like consensus, it's still for a soft landing right now.

**MITTAL:**

So I think our view would be that the current path of rate cuts that are priced in are more commensurate with what you would likely see in a soft landing scenario. However, in a scenario where growth falls more, we hit a recession, you could see even more rate cuts than what are currently priced in. At the same time, we would be open to the idea that inflation doesn't come down as quickly. And in that scenario, the rate cuts that we see or the rate cuts that materialize would be lower than what is currently priced in.

**MAN:**

Does that still make bonds more attractive than equities right now when we see an S&P at all-time highs?

**MITTAL:**

Yeah, absolutely. From our perspective, I think there is a very strong case for increasing allocation towards high-quality fixed-income relative to both cash as well as equities. With respect to equities, as I've talked about, in a scenario where we hit a recession, you could see a negative return in equities, whereas fixed-income could provide that double-digit return. And then if we don't, then you still have a pretty healthy 6% yield in fixed-income.

**AMIN:**

Mohit, how about Chinese bonds? Do they have a place in your portfolio? I mean, we saw how sentiment collapsed recently. Are you brave enough to be picking up Chinese bonds?

**MITTAL:**

I think from an opportunity perspective, opportunity set perspective, we find better opportunities in other regions of the world, like Australia, like Canada, like UK, and even in emerging markets like Brazil and Mexico. With that said, regarding China, there has certainly been a weakness in sentiment as can be seen from the property market, as well as from the equity market. I think more recently, we have seen a policy response, as you were mentioning earlier, as well, with respect to the fund to stabilize equities. I think additional policy responses, targeted towards property or consumption, could improve the sentiment with respect to Chinese bonds.

**AMIN:**

So do you share the view that, you know, we'll see more monetary easing by the PBOC this year? Is that something you're expecting?

**MITTAL:**

I think our view would be a modest easing in a likely scenario, only to the tune of about 20, 25 basis points.

**MAN:**

I'll talk a little more about alternatives. You mentioned China might not be the safest place here, right? There are alternatives, though, right? If I look at a bond market, like India, where, you know, also low correlations to global markets, very low positioning among foreign investors, we have an index inclusion that could be happening this summer, as well. I mean, how positive is that story right now?

**MITTAL:**

Yeah, I think for our dedicated emerging market local strategies, we have a constructive view on India, local government bonds. The reason for that is that inflation is coming towards 4% now, and the yields are around 7% and a quarter percent. So you have yields of around, real yields of around 3% and a quarter percent. That looks attractive. I think inclusion into the indices will be positive, but only at the margin, because the total amount of demand that it creates is only to the tune of about 2% to 3% of the stock of the Indian debt market, and it'll be implemented over the next one year. So our reason for a somewhat constructive tune or somewhat constructive view has more to do with the valuation and the fundamentals with the inclusion being the marginal positive catalyst.

**MAN:**

Has that diversification sort of an opportunity, right? Like China, but do you think it could actually be that- are the dynamics a bit different, though, than what you're seeing in China versus India?

**MITTAL:**

Yeah, I think the valuation is different with inflation at around 4% and yield at around 7% and a quarter percent. So that's the main source of difference in view with respect to India and China. Another thing that I would highlight is that, at this point, from a global opportunity set, there are other opportunities that are offering better value for our investors. So Australia, Canada, UK, where you have a very different mortgage market dynamic, where they are much more sensitive to interest rates. As rates stay here, the consumer's payment for mortgages increases, which reduces consumption elsewhere. So you could see your divergent monetary policy path in those regions, which increases the attractiveness of bonds in those regions.

**AMIN:**

Mohit, you were talking about the Indian market and the potential there. People also talk about election risks. Have election risks played out already? Have they been affected fully?

**MITTAL:**

I think, as I was mentioning earlier, elections will remain a source of volatility. And we try to incorporate that into our analysis, but the initial conditions with respect to starting level of real yields does offer marginal attractiveness there, particularly in the emerging market, local portfolio context. For a globally diversified portfolio, as I was mentioning earlier, better opportunities in Australia, New Zealand- or sorry, Australia, UK, Canada, as well as emerging markets like Brazil and Mexico.

**MAN:**

You said one of your conviction calls is to go where banks are retreating. Where is that in public markets? Where is that in private markets?

**MITTAL:**

Yeah, I think given that regulation and then post the regional banking crisis in the US in March of 2023, we are seeing banks retreat from certain areas. It applies to both public as well as private markets. In the public markets, that applies to agency mortgages. These are mortgage bonds that are guaranteed by a US agency. So that makes it very high quality. So that's an area that we like. We also like- the same thing that is happening with senior structure products against banks retreating, creating attractive valuations. In private markets as well, we are seeing opportunities in asset-based lending, both on the consumer side as well as on the non-consumer side, based upon bank retracement.

**MAN:**

OK. Obviously, when it comes to the consensus of soft landing, last year we thought the US was going to have a recession, but we got that wrong. How much confidence is there that we might actually be wrong? I mean, are we likely to get wrong again as my question? And is it actually time to actually do some hedges just in case, right? What are those hedges going to be?

**MITTAL:**

Yeah, I think the way I kind of think about it is that the best contrarian signal is the prevalence of a consensus view. At this point, the consensus view seems to be soft landing, that is avoiding a recession. So from our perspective, we want to prepare portfolios, in case that soft landing scenario does not materialize. And the way we can do that, at this point, for investors is high quality fixed income. In a case of a recession, that portfolio yields about, can return about 10%, so that can be a very good diversifier if that soft landing scenario is not realized. Another scenario is that inflation persists above central banks' expectations. So you want to have portfolios that have hedges for that scenario as well. The area that we like as far as hedging for that scenario is inflation-protected securities across the global markets. So in the U.S., in certain emerging markets as well, inflation-protected securities can offer a hedge-in case inflation persists above central banks' targets.

**MAN:**

All right, Mohit. Thank you so much for joining us. Mohit Mittal, there, of PIMCO. joining us here in our Hong Kong studio.