**MEDIA: Television**

**STATION: CNBC World**

**MARKET: International**

**DATE: 2024-01-30**

**TIME: 07:14 PM ET**

**PROGRAM: Squawk Box Asia**

**SUBJECT: Mark Kiesel - Markets**

**PAGE COUNT: 6**

**MARTIN SOONG, CNBC:**

All right, let’s keep talking and bring in Mark Kiesel, Managing Director and also Chief Investment Officer, CIO Global Credit at PIMCO. He joins us live, up in our Hong Kong studios. Mark, good to see you, and thank you for your time, appreciate it.. So, the consensus seems to be June and round about 75 basis points, or three cuts. Are you there?

**MARK KIESEL, PIMCO:**

Yeah, Martin. That seems about right to us. You know, inflation is coming down, but we're still seeing inflation, core inflation around two and a half to three percent. So it's still a little bit above the Fed's target, but there is good progress. Economic growth has been quite resilient. I think the Fed has room to cut, simply because rates are so high. If you look at a Fed funds rate of five and a half percent inflation, core inflation, heading to two and a half, that three percent real level, it's still pretty high. So they have the ability to lower rates over time, but they don't want to start too soon. They want to get clear evidence that inflation, in fact, is coming down. So I think we have to be patient, but it's likely we'll see cuts start maybe in the second quarter of this year.

**SOONG:**

Around half time more so. And, you know, they're going to be joining- it could be sort of a rate-cutting party, right? Because I know, you as well as other people expect, a lot of DM; developed market central banks will start doing that around the middle of the year. ECB, BOE, among them as well. With regards to the ECB, it's just a calendar thing, just a couple of days away from the Fed, right? The BOE, though. What do you reckon? Do you think they're going to end up front running the Fed and having to start cutting even earlier?

**KIESEL:**

No, I think all these central banks are roughly in similar timing. We could see one or two go slightly ahead of the Fed. But nevertheless, I mean, all these policy rates right now are at restrictive levels when you look at where real rates are. When you get real rates, whether they're short-term real rates or intermediate rates to two to three percent, that typically is restrictive. That causes the economy to grow below potential. And it does set up eventual rate cuts. So I think in terms of the timing, this is going to be pretty much in unison with all the major central banks in the developed markets cutting rates throughout this year. And that's very good, Martin for bonds. So I think the big message here is that bonds are back. It's a very good time to own bonds. Nominal and real rates are likely headed lower over the next one to two years. And these central bank rate cuts will be the catalyst for very strong bond performance over the next year or so.

**SOONG:**

So Mark as a fixed income manager, right? You're looking at around five to 10 as a sweet spot.

**KIESEL:**

Yeah, we like the intermediate part of the curve. And the reason is that once the economy starts slowing and we start to get those inflation levels coming down towards that two percent level- these rates are now four percent. And a lot of our intermediate credit funds are yielding six percent even higher than that. When you look at long-term histories, this is near an equity return with a half to third the volatility of equities. So investors basically don't need to extend all the way out to 30 years. They can own five to 10 year maturity bonds right now and get very, very high returns. And the potential for price appreciation, because remember, as yields fall, which they're likely to do over the next one to two years, you not only are earning that six percent income, but you're earning potential capital appreciation from bond prices going up as rates fall. So this is, again, it's a very good time to own bonds.

**SOONG:**

Indeed. Mark, listen, stay right there. A lot more talked to you about Mark Kiesel continues with us from PIMCO coming up in just a little bit after these words.

**SOONG:**

All right, back with Mark Kiesel from PIMCO. Still with us live up in our Hong Kong studios and tying that into what we've been talking about, in with the IMF's rosier forecast for the US. They see the economy resilient there. So in other words, when the Fed does start cutting, fingers crossed, it'll be doing so for the right reasons, not because they're cracks in the economy, but because inflation is easing, right? But those cuts, if we're right, and with the resilient economy, we're probably going to amount to say 75 basis points, as opposed to let's say the 150 that the market is pricing right now. And what you're basically saying is there's no rush to go long duration right now, which is why you like fives and tens as a sweet spot.

**KIESEL:**

Yeah, longer term, there's still debt sustainability issues with the US running a 6% deficit. So we just feel the curve being very flat right now. You don't have to extend all the way out to 30 years. We like that five to 10-year part of the curve. We do feel confident rates are headed lower over the next one to two years. And also, let's not forget that, you know, you can invest in all types of bonds. You can own government bonds, but there, the government is taking on more debt, deteriorating its credit fundamentals, the private sector, many companies are seeing significant improvement in credit fundamentals. So owning select corporate bonds actually can be the right place to be. And we do find many opportunities around the world in credit. And so that's one of the reasons why I'm here in Asia looking at the opportunities globally.

**SOONG:**

So with credit, or corporate bonds, right? “Selective”, I think, is a pretty important word because usually, at this part of the credit cycle, we start worrying about growth slowing down, cost going up, and rising defaults, of course. But what are we seeing this time around?

**KIESEL:**

Well, it's interesting, Martin, because the private sector is so resilient. The consumer is 70% of the US economy holding up extremely well with low unemployment rates, very high income growth, and the credit markets have held up remarkably well. We are moving up in terms of quality, so we're favoring investment-grade sectors, but there's many areas we still are very constructive on. We like financials globally, some of the national champions we like, for example, LNG in the US. And here in Asia, we actually like the Chinese consumer in Macau. This is an industry that basically was shut down for two and a half years. It just opened a year ago, and demand is coming back huge. We're literally now at 85%, 90% of where we were in terms of a visitation in GGR, and that should fully recover much like Vegas did. So Macau, actually, within the greater Asia-China outlook, looks very, very attractive from our perspective.

**SOONG:**

So, okay. This may be a little arcane, but bear with me, and if you can't talk about just say so, all right. While we're talking about high yield in Asia, or EM Asia, high yield, a lot of people have pointed out that one area to look at might be India, and Indian high yield bonds related to infrastructure. Have you taken a closer look at those, what you think, and also what about, I guess, the hangover? It wasn't that long ago when they had a lot of dead issues related to infrastructure loans that went sour?

**KIESEL:**

Yeah. So, I mean, I think in general, you know, what we're very focused on is we take a three, five, ten-year view. And what we're really looking at here is working the credit fundamentals to improve the most. So, these infrastructure plays can make sense because there is hard collateral. There's asset protection, but ultimately, what it boils down to, we want to see significant free cash flow generation. And one of the things that excites this most about Macau is that we're going to see significant de-levering over the next several years. These operators are growing again. Demand is coming back huge. And importantly, there's going to be a lot of free cash flow. It's just going to de-lever. So, while these infrastructure plays can make sense, I think in terms of just the best bond opportunity, we care about de-leveraging and free cash flow. And that, we think Macau is going to have the best growth and also the best opportunity for credit spread tightening in Asia.

**SOONG:**

All right. How are you feeling about U.S. high yield? This is something we talked to an earlier guest about as well. He's been noting that the quality's gone up. One, and spreads are below 300 basis right now.

**KIESEL:**

So overall, we're being more selective. We're being more selective in emerging markets in high yield and bank loans. But again, we do see opportunities. The beauty of our job is that we have over 100 people around the world looking for industries where the fundamentals are set to improve most. And I'll give you an example in the U.S. LNG is doing phenomenal. The U.S. was not exporting LNG in 2016. Now we're the largest LNG exporters in the world. The market's growing double digits. So we have investments, for example, in high yield companies. But if you look out one to two years from now, they're likely going to be investment-grade. So the key to our high yield strategy is where can we find rising stars? Companies that are future investment-grade companies. And in LNG, because the fundamentals are so strong, there's an opportunity where we do see high yield. Because these companies ultimately, we think are headed to investment-grade.

**SOONG:**

Mark quickly, I know you're overweight EMFX, right? What do you like the most? And obviously, this is a play on the Fed rate cuts, softening dollar as well. But I mean, we have to remember that a lot of these EM Central Banks are going to have to follow a lockstep with the Fed in terms of the cutting rates. So the end of the day isn't always just going to be relative?

**KIESEL:**

Yeah, there's a lot of opportunities all over the world. You know, we've been investing all over the world at PIMCO since 1971. And in my 28-year career, obviously a lot of travels. And so emerging markets are going to be a great place to put money selectively over the next several years. As growth in the US economy does slow, as these rates come down, you know, the US equity market has significantly outperformed most equity markets all over the world. But that doesn't necessarily mean that's going to be the place to be going forward. So again, PIMCO, we're global investors. We find opportunities in emerging markets. Also, the emerging markets in many of these areas were faster to raise rates. And so now their inflation is coming down. And so they're looking at a much, I think, more prolonged growth cycle than perhaps the US's. So yes, we do see opportunities globally and emerging market FX looks good to us.

**SOONG:**

Gotcha. Mark, listen. Pleasure talking to you. Appreciate the time. Your thoughts and your views. Keep safe, safe travels. And we'll do it again very soon, I hope. Mark Kiesel there from PIMCO joining us live.