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**GUY JOHNSON, BLOOMBERG:**

Let's get another view on what is going on here. Geraldine Sundsrom, Asset Allocation, Portfolio Manager, joining us from PIMCO. Geraldine, let me ask a question that I've been asking everybody this morning. How much of a game changer was that Friday payroll? What does it mean for equities on both sides of the Atlantic?

**GERALDINE SUNDSTROM, PIMCO:**

Well, it certainly put a nail in the coffin of March, unless there was to be a really big surprise between now and then. In terms of equities so far, the market has decided to shrug it. There seems to be this really “goldilocks” scenario where the economy remains strong and inflation is going down and inflation is really a supply side story. It's not a demand side story and this is good for the stock market. It's really a question- I think “it’s the supply, stupid” and the market really likes that.

**JOHNSON:**

Do I shift the stocks that I want to own though in an economy, maybe it's just a US economy, but an economy that looks like it's reaccelerating. Do I need to pivot back to the cyclicals? Do I need to change what my mix looks like? Do I need to think about what is happening with the energy story a little bit more? Or do I simply just carry on allocating towards big tech?

**SUNDSTROM:**

Well, what seems to be happening is really those sectors where supply is in overcapacity where we see this big deflation price falling in terms of goods, very often where China is a big supplier. Those industries are struggling, profits are coming down and then those areas that are much more shielded, maybe more in the service sector or in the tech industry where competition is not that rife, those companies seize their profit to be pretty isolated.

**KRITI GUPTA, BLOOMBERG:**

Geraldine it’s Kriti in London, let's talk a little bit about the liquidity picture. You're talking about- I love that, “It’s supply, stupid”, at the end of the day. You're talking about that for the stock market, the bond market as well. Where are the liquidity cracks going to potentially emerge if they haven't already?

**SUNDSTROM:**

Well, we're seeing, of course, all the interest rate sensitive sectors are having a bit of a harder time. It's very well known. The housing market is very slow and the longer interest rates stay high, the maturity is coming, roll over due. It makes the situation potentially more complicated. This will have to be weighed, but it seems that the central bank nevertheless is going to cut interest rates because inflation is coming down for good reasons and this should ease the situation.

**GUPTA:**

But when you talk then about this interest rate story and I think it's interesting that you mentioned the China piece of the equation, Guy and I were talking about this earlier in the show that as we start to see the kind of exposure to China really plummet from international investors, who picks that up? Where do you think the tradeoff is? If not China, then who?

**SUNDSTROM:**

Well, it will be a market mostly driven by local participants, I suppose at the end of the day, if the trend continues and I think by now and large it's about the local investors. So, these local investors need to regain positive sentiment so far hasn't happened because the economy is still very sluggish and really suffers from deflationary pressure, which is not very good news for most businesses.

**JOHNSON:**

Feels like the China story is really isolated though at the moment from an equity point of view. The big take this morning though that I'm trying to figure out is, what happens if you don't get rate cuts? Geraldine was talking about the fact that we are going to get rate cuts, but Mark Cudmore, earlier on was talking about the fact that we're going to kind of push those out and out and out. So, how does the market actually react to that?

**GUPTA:**

Well, I guess they have to still watch for kind of the surface level bond market moves because you're talking about the free pricing in the bond market. But if you look at the surface level story, it's still range bound, which means that's affecting borrowing rates for corporates, which affects their stock price, which isn't really moving because again, the surface level nothing's moved. So, the answer is nothing yet.

**JOHNSON:**

Nothing yet. Geraldine, what do you think global equity markets will look like if the US 10 year trades back up to four and a half?

**SUNDSTROM:**

That's not good news of course, especially for most interest rate sensitive sectors that are longer duration. Quality should still be doing relatively well. We're seeing growth still pretty strong. Really, the stock market has to weigh the two things. Are earnings growth developing? We see a lot of things in the ISM, PMIs seem to be stabilizing, re-accelerating. We're seeing numbers above 50 once again. This is going to be taken very positively by the stock market. On the other hand, of course, you've got the discount factor going higher. So, I think overall, it could be pretty neutral. Then if we do get some interest rate cut, yeah, maybe only three or four instead of the five or six that the market has been pricing, it's still helping at the margin and could reinvigorate a capital expenditure cycle, which has been, in large part, delayed in many sectors. That's what we're reading from companies' transcripts because interest rates are still viewed as too high and there were fears of a recession, which are now decreasing.

**GUPTA:**

Well, Geraldine, to build on Guy’s point though, we're looking at 4.08 on the 10 year yield right now. Four and a half really shocks the stock market as you lay out. How high can yields go before it starts to make equity investors nervous? What is the ceiling there?

**SUNDSTROM:**

Well, we saw very well last year that around five percent make things a lot harder, I suppose, that would. There's no real reason to see it going there unless we had a genuine reacceleration of inflation or something that really pushes central banks outside the base case scenario, in which case the market would then be back fearing a hard landing and equities might not fare very well either. So as long as we stay within a range, things should be fine if we go to extremes, of course, anything can happen.

**JOHNSON:**

Okay, Geraldine, the payroll number Friday was the catalyst that maybe takes us in that direction though. What is the catalyst this week? What are the highlights you're looking for? What are you watching for this week?

**SUNDSTROM:**

We're going to get ISM and PMIs around the services. This is going to be important. We're going to have to look at more earnings, especially as we go away from the US. The US has given us a lot. Now we need to see the situation in Europe and the rest of the world. But now I suppose the most important thing would be to watch all this inflation data and how they are coming around around the world and see this continuous disinflation. Anything that would point to a resurgence of inflation, like we see, you know, might be a reacceleration of the economy that might be unsettling.

**GUPTA:**

All right, Geraldine Sundstrom, Asset Allocation Portfolio Manager over at PIMCO. We thank you so much.