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**MANUS CRANNY, BLOOMBERG:**

Let's take the conversation to PGIM's Robert Tipp and PIMCO's Erin Browne. So here we are. I look at the data. The Fed may well be disappointed that the core number on the headline is not Sub-3, but they're going to probably welcome the fact that their market has been brought to heel. Four rate cuts, pre-Christmas, we were at seven. Here we are at four, and only a 40% chance of a fifth one.

**CRANNY:**

Erin, good morning. Good to see you. So here we are. How disruptive is this spike in inflation? I mean, if you listened to David Kelly just before we came on air, it was about the auto insurance and it was about the shelter component that caused these real underbelly of the spike.

**ERIN BROWNE, PIMCO:**

So I do think that this does complicate the messaging and the decision-making for the Fed. Remember, as recently as a week ago, a number of Fed speakers spoke, pushed back on the market's expectation for Fed cuts and we're really guiding the market to more than three rate cuts this year. You know, maybe a little bit more than that. Not what the market had been expecting, which was elevated relative to the Fed's expectation. So I think that the Fed has been trying to guide the market narrative to expecting less this year. But the market still, I think, was ahead of itself in terms of pricing, not just across bond markets, but across equity markets as well. You saw last week that some of the most beaten up highest-short interest names, you know, rallied pretty strongly last week on the expectation that we had good growth and that the Fed was still going to have this very dovish narrative. And I think you're going to see that come out of markets this week, you know, certainly following this print and unwind. And so I think some of the market movements that you're seeing today is just an unwinding and disruption of this very soft landing theme that's a narrative in the market.

**CRANNY:**

Yeah, I mean, one could say it's a moderate interruption or perhaps just a reality check. The red headline is that the swaps market has shifted to July from June for the first full cut.

**CRANNY:**

Erin, this plays to your theory, “Late and Less”, but I'm drawn to the extrapolation that you make, which is, they may be “late and less”, but then when they come, it's like all good things in life, it'll last longer. It'll be deeper than the market currently expects. So highlight where they'd be, and then high-deep do they have to go, because that says to me that maybe they have to cut more for all the wrong reasons, rather than disinflation. It's more about a slowdown, but is that over extrapolating your thesis?

**BROWNE:**

No, I don't think so. I mean, the “higher for a longer" theme or thesis really does mean that it does create more risk of a recession, or at least of a more pronounced economic slowdown, the longer that rates remain high. And so that certainly is the risk. And I think that the market has sort of priced out that tail of a recession. And I think that that's probably misplaced. And so we do have to be cognizant that you are seeing pretty big divergences right now in the real economy, as well as in equity markets in terms of how the large caps that have ample liquidity, easy access to capital, can issue in the bond markets, can issue in the equity markets are doing really well, but the small caps are not doing as well. And this is reflective of the general economy as well, as there's a big divergence between the halves and the have-nots in the market. And so the question is, what's really driving equity markets and what's driving the economy? So I do think that as we push out rate hikes- rate cuts rather, and as we persist at this higher rate, those companies that are the most vulnerable and need capital the most are going to come under increasing pressure.

**CRANNY:**

Do you think, just to continue that thought process then, Erin, do you think that we're going to see more injuries like the regional bank disruptive moment that we had a couple of weeks ago? Are there going to be other small canaries in the broader, in the broader minefield?

**BROWNE:**

So I do, and I think that that's one of the big risks out there for the market. I don't think that these are going to present systemic risks and take the entire market down, but I do think that you're going to see these intermittent periods of disruption, not just from other regional banks, but from other sort of small cap sectors that are highly leveraged, that have really depended on the last decade of liquidity and now have rolling maturities that are they're going to have difficulty refunding. And so there will be casualties along the way, and I think the most distressed parts of the market are going to be sort of the epicenter of those casualties, which is why, in our portfolio, we have a real “up in quality” bias right now in terms of how we're positioning across credit and equity markets.

**CRANNY:**

Erin, just in the break, the three of us were just having those sort of squash moments of conversation. I'm drawn to your comment, which is, “Well, you know what? Unprofitable tech got a little bit of a wake up call. You get this adjustment in rates and it's quite a spiky adjustment in the short end of the curve. But maybe it's not such a bad reminder and creates pockets of opportunity. If you're not in on the Mag 7, if you're not in on those bigger, bigger beast trades, maybe this drawdown is actually just a bit of air coming out of the tires. And it's not that bad to have unprofitable tech. Take a smack.”

**BROWNE:**

No, I think that's right. I mean, I think, particularly last week, we saw names get really ahead of itself. And actually, that was a continuation of what we saw in the fourth quarter of last year as well, where some of the more heavily short interest, more value oriented stocks did quite well coming into the close of last year, continuing a little bit into last week as well. And you saw these huge moves and stocks that probably did not have that fundamental underpinning for the types of investments that we saw. When you look at earning seasons this quarter, it really is this divergence between the tech plus sector, which has delivered earnings upwards of 38%, and the rest of the S&P 500, which is very middling returns. In fact, the cyclicals in aggregate, delivered earnings year on year down 9%, a lot of that is being driven by the energy sector, but even stepping back from that, revenues across the board were relatively weak. The more service oriented sectors did a little bit better outside of healthcare, but you're still seeing this market where you have one sector like the tech sector, which is up 40%, and you have another sector like healthcare, which delivered earnings down 20%. There's a huge bifurcation in the market right now, and I think that that really presents a lot of opportunity for equity investors.

**CRANNY:**

Can I just tell you this? You know how to see the top of a market? Today, technically, I'm deploying the rest of my pension fund from the Middle East into US equity markets. I thought you both know this is actually a near-term top. This is the most single devoted contrarian indicator to any investor either at the moment. Let's just put that in. I don't know what portion goes into credit. I don't have anything to do with the allocation.

**CRANNY:**

Team, thank you very much, Robert Tipp, Erin Browne, on the markets.