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**ALIX STEEL, BLOOMBERG:**

When you wind up having two-year yields hit that high that we saw back in 2023, you saw the low around October for 2023 for the S&P. Now what’s interesting here is that both are moving higher together. You see the two year yield now near its peak that we saw back in 2023 as the S&P continues to grind higher. So it begs the question: does that make sense? If we do have a soft landing, that might make sense. If we don’t, one of them is going to be mispriced, Romaine. The question is which one and which of you is right?

**ROMAINE BOSTICK, BLOOMBERG:**

Alright, well, I can’t answer that question, but maybe our first guest can. Jerome Schneider is starting us off, kicking us off to the close here on this Tuesday afternoon, Managing Director and Head of Short-term Portfolio Management and Funding over at PIMCO. And Jerome, I don't know if you heard Alix’s question, but I'll just steal her question here. And I'd like to get your thoughts on that.

**JEROME SCHNEIDER, PIMCO:**

Yeah, absolutely. I think that there is obviously a natural tendency to see where the peak in rates makes perhaps risk taking a little bit less sustainable as we witnessed in 2023. But I think one of the main factors here is that as we continue on, there is a notion that the soft landing is potentially possible. At PIMCO, we think that there's some of the macroeconomic data, which perhaps pretends to a little bit more deterioration. Perhaps some of the ISMs later this week will point to that. But ultimately, what we think is that the economy still moves forward at a slower GDP growth than we saw back in 2023, which doesn't necessarily forebode a deeper session or the like. We just have to get more comfortable that as we have higher rates, ones that are more in tune with the Fed's outlook, we're going to necessarily see that risk taking be a little bit more subdued over longer periods of time. And more importantly, that risk taking is going to be more specific in certain elements of risk taking in specific sectors versus a broad-based risk taking that's happened. So we do think that there ultimately is going to be a recalibration, if you will, of tendencies of how you think about fixed income versus equities. But specifically where we are right now, we're finding that fixed income element much more attractive in terms of volatility management, in terms of income potential and total return at that point in time.

**BOSTICK:**

And we've seen, at least from maybe the last three and a half months or so, Jerome, some bit of extension of duration, the idea that you don't necessarily have to stay camped out in T bills or money market funds, that there is life across the spectrum.

**SCHNEIDER:**

Right. What we're ultimately seeing over the past four weeks or so is that this rate adjustment, the movement toward these higher yields that we haven't seen in quite a while, is creating a sense of opportunity. Perhaps some of those investors who missed some of the higher yields back in 2023 are revisiting that. And more importantly, looking to move some of those assets out of cash, even though cash rates are still near that peak that we've witnessed for a long period of time, they want to take advantage of some of that price appreciation, which will end up ultimately developing once the Federal Reserve moves into action later on this year. And I think that calibration between the Federal Reserve's continual focus on managing price stability, managing job growth, and doing so in an economy, in a marketplace where they want to focus on financial conditions and financial stability ultimately leads that market rate of conciliation to come closer to those Fed expectations. And that's exactly what we witnessed. So investors want to begin to think about what that means to their portfolio, and not necessarily miss the opportunity to extend that duration out of the cash component of their portfolios, which has been inundated over the past few years.

**STEEL:**

Yeah, I was wondering, I have a CD maturing, I know, CDs. I'm so old school. And I was like, what do I do now? Do I go back to CD?

**SCHNEIDER:**

There's so many opportunities.

**STEEL:**

I know. There's different options now than 18 months ago when I first put it in there. Jerome, are you of the camp like Jenny Yellen that, okay, we're looking at a soft landing, or are you of the David Solomon and Romaine Bostick camp where you're a little bit more skeptical?

**SCHNEIDER:**

Yeah, you probably have to thread the needle a bit. Here at PIMCO, we're sort of thinking about the historical precedent in a way, thinking that the components, the variables necessitated for a soft landing, it takes a lot to really make sure that equation comes out precise. But yet at the same time, we're sort of seeing some of those macroeconomic indicators slow a bit. So while there's a potential for soft landing, it's not a highly probable event in our book. So what we're thinking about is a risk scenario that begins to materialize over the course of 2024 into 2025, where perhaps some things like wage pressures, job growth, growth in general becomes a little bit more subdued as profitability in the corporate sector, not just in the U.S., but globally begins to weigh on sentiments at that point in time. Again, not in a hard landing at all, but the soft landing is a bit idealistic when you take it from a historical context that we've been evaluating at PIMCO.

**STEEL:**

See, Romaine? That works. That's something I know you're saying. Perspective,

perspective. Jerome, where should that money in my money market fund belong? Should it belong to the corporate credit market? Where along the curve does it belong to? I’ve been really stunned at the amount of issuance that we've seen, also just the amount of demand that we've seen, even over with OATs and France. What do you think?

**SCHNEIDER:**

Yeah, there's a demand component which is self-fulfilling. Let me spend a moment on that. We continue to see trends in money market funds continue to move higher over the course of the first quarter of this year. And what we're ultimately seeing is that there's a bit of self-propelled inertia within that. Money market funds spin off about $25 billion of income on a monthly basis to their investors, which means ultimately they're going to have to be reinvested in some way, shape, or form. Sure, we're seeing some of that going to risk assets, we're seeing it extend out the yield curve in terms of duration. But a lot of it actually gets recycled within money market funds itself, creating an upward trajectory to assets under management. I think the key point here is that when you want to think about the balance of how to put that capital to work, a lot of investors are shying away from embracing volatility, finding risk assets, and looking more for that income-based component, which really is ultimately a volatility management story at this point in time in 2024. While we find it relatively attractive and you highlighted earlier on Bloomberg this morning that we only have about 75 basis points of rate cuts priced into the 2024 market pricing at this point in time for the Fed, the reality is that's really pretty close to where we see its fair value, and investors should use this as an opportunity to move out the yield curve, to embrace some potential for capital appreciation, for price appreciation from bonds, but also earn and lock in, frankly, healthier incomes for longer, that money market funds simply can't sustain once the Fed begins to cut rates. And that's the logical precedent here. Investors and cash strategies, perhaps your CD, Alix, want to necessitate earning that income at higher yields for longer at this point in time, and that requires a little bit of maturity extension of interest rate exposure to manage that over those points in time. So investors ultimately want to position themselves for price appreciation and bonds by extending out the yield curve.

**BOSTICK:**

Alright Jerome, great stuff as always. Jerome Schneider, the Head of Short-term Portfolio Management and Funding at PIMCO, helping us kick you off to the close here on this Tuesday afternoon.