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**SONALI BASAK, BLOOMBERG:**

Now, let's bring in Sonali Pier, Portfolio Manager for High Yields and Multi-sector Credit at PIMCO, and Danielle Poli, Managing Director and Portfolio Manager for Global Credit Strategy at Oaktree Capital. Danielle, when you see how tight spreads have been, where do you find value here?

**DANIELLE POLI, OAKTREE CAPITAL:**

Well, Sonali, while spreads have been tight, all-in yields are quite attractive. There's an opportunity to get high single digit, even double digit yields. And so shifting that thinking from spread to yield, I think makes a lot of sense, especially when you consider some of the other factors in the high yield market, like the fact that bonds are trading at a decent price today, well below par, so there is some potential upside as well. And generally, it's a higher quality market than it was. For where we are in this cycle, I think we're seeing that defaults have been relatively low, borrowers have been able to weather where we are. And if you're a credit picker like we are, we think that there's ample performing companies that are going to pay us back on those loans.

**BASAK:**

Now, how do you feel, Sonali, as the economic data starts to weaken here? Do you get a little worried about some sectors, particularly the ones that are more levered to the consumer?

**SONALI PIER, PIMCO:**

That's right. So, I think overall for high yield, we're quite constructive. We think there's a lot of opportunity as yields have risen to generate that income, predictability and resilience in fixed income. With that said, as we look to some of the lower quality portions of high yield, even though the asset class has improved over the last decade, and it is looking relatively strong, there are some areas where we're concerned. So, for example, in some of the very cyclical issuers where interest coverage is starting to shrink, especially in some cases in the bank loan market, or in sectors which are in secular decline, right? So, areas like wireline, retail, where there's just a lot less resilience, and therefore maybe more difficult with low multiples and low margins to weather any sort of disruption.

**BASAK:**

Well, it's interesting because the risk rally and triple C bonds have really been the best performing asset class in February when you think about it, but interestingly, Danielle, too, you look at HYG, for example, and you see outflows that were quite meaningful here. How do you handle that? Do you also start to take some chips off the table in places where you see lower credits, or do you start to be greedy, where others are fearful?

**POLI:**

I think that's the right question to be asking, and I think a lot of investors reached into risk in the fourth quarter, and you're right, triple C's really rallied. We tend to be more conservative, and don't feel that we need to stretch for that risk, especially in a multi-asset construct. Our global credit strategy has a mix of not only high yield bonds and senior loans, but we're able to extend and reach into CLOs. CLOs are an interesting investment opportunity because it's a diversified pool of loans, where you're getting paid a premium above similarly rated debt. And we think that those yields are quite attractive. CLOs are also a stable borrower base for loans. So instead of taking triple C rated high yield risk, why not increase in quality, go into the CLO market, and get an instrument that's going to be more loss remote over a cycle?

**BASAK:**

It's interesting, Sonali, when you think about how excited banks are to get from that record issuance from investment grade over to high yield and even leverage loans, that bank loan market you're talking about here, do you think that new issuers should expect the same sort of rosy reception for the next few months, especially as we may not see rate cuts as quick as expected, more things starting to break a little?

**PIER:**

I think it depends on how much is coming to market, so what are the options that investors can choose from, as well as the quality of what's coming to market. So there are many times at PIMCO we're providing dual track pricing, for example, for a public deal, as well as a private deal, and what the terms we would like to see on those. So I think it really just increases the ability to be selective and active in our selection of which new issues will participate, what format we'd participate, and again in that multi-sector diversified income approach, we have the ability to go across asset classes so we're not segmented by market structure and we can really look at where the best relative value is globally.

**BASAK:**

Well, speaking of, are the banks able to really start to outbid the private markets here? There was that strong bid when you think of the private credit markets, but now you're seeing the banks starting to compete.

**PIER:**

Yeah, absolutely, right? More and more people are looking at private credit as an area to be able to compete in, but I think what's important is one, the credit quality, so that due diligence aspect. Two is, what is the expertise you're bringing in there? So for example, when we look at it, I think that overall, the leverage finance as an asset class across high-yield, bank loans, and private credit has grown tremendously and that's good for both issuers and investors, standing at over 4.5 trillion today. It’s now more a question of structure, covenants, where we think that credit is going and where we want to be investing our incremental dollars.

**BASAK:**

I want to move to a sector that a lot of people are watching now as well. Danielle, when you look at the financial sector here, people are thinking a lot about New York Community Bank and the troubles that it's seen and it's interesting. You saw a bond here that was trading at par fall to about $0.74 on the dollar, jump back above 80 and then today jump back below that level. And so I'm wondering from your perspective, when you see these jitters in the property market, in the regional banking system, how do you view that opportunity and is it even an opportunity?

**POLI:**

So I think these pockets of volatility can create opportunities, especially to go in and buy credits that are high quality at discounted prices. We've seen the regional banking crisis spread, at least in terms of volatility into other credits previously when that happened. And I think again, it might create a more favorable market for investors like Oaktree that are more contrarian and tend to go into these times with the expectation that they can get some good bargains and hold for the long term. I do feel like the market has been gracing this unexpected scenario in our view that there's going to be significant rate cuts in the face of a strong economy and growth. And there's probably going to be some volatility ahead, as that may not materialize and you do have flare ups in regional banks or other geopolitical events that could occur.

**BASAK:**

Sonali Pier and Danielle Poli, we have to leave it there, but certainly a big week in credit and still a lot of questions ahead on where spreads go.