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**SCOTT WAPNER, CNBC:**

We're back. With investors looking ahead to tomorrow's PPI report, the next inflation print could help indicate when we might start seeing the first rate cuts from the Federal Reserve. My next guest says this final stretch of inflation normalization will be the toughest, the last mile being the hardest. Let's bring in PIMCO’s Erin Browne, joining us as you see. Does it make you less bullish on the market because you think that last mile is going to be tougher? Does it have no bearing on your overall view of stocks?

**ERIN BROWNE, PIMCO:**

I think that it certainly has a bearing if we were to start to see inflation accelerate from here, but I think it's well understood that this last mile is going to be the most challenging and that inflation is going to continue to come down, albeit on a much more volatile path and the directional disinflation that we've seen over the last year. So for me, I think it makes it more challenging, harping back to your last conversation, to invest in broad, small caps right now, but I think for companies that are large, that are liquid, that have access to capital, that are not reliant on the Fed accelerating their pace of easing, I think it's still a good environment to invest in equities and you've seen that play out over the last couple of days.

**WAPNER:**

Oh, so you’re bullish US stock still, and to what degree do you think they can continue to move higher?

**BROWNE:**

So I think that they're going to continue to grow low double digit earnings growth this year. Equity markets can probably, between now and year end, grow high single digits for the rest of the year. So that's a pretty healthy number for the equity market, as long as we don't see some accident where the Fed is having to back away from their more dovish stance and start to hike interest rates again. Growth is still good. Real wage growth is quite positive. We're seeing financial conditions ease in part because of the higher stock markets and consumers have excess savings and you're seeing this now play out in consumer stocks and home builders, all of which are doing very well. So you have seen a broadening out of performance this year. Granted it's still in the large caps, but all of that is a very healthy sign for the equity market, which makes me pretty bullish on US stocks right now.

**WAPNER:**

Do I want to stay with quality, which has been working? We can talk momentum in a minute, but what about the quality trade versus going down the risk scale, so to speak?

**BROWNE:**

So I think that quality is still going to perform. The way the market is performing right now with quality and momentum outperforming is very familiar to a late cycle environment and that's sort of the cycle that it feels like we're in right now. And I think that that's right. I think that it's an environment where inflation still runs a little bit hotter than at least a more normal earlier cycle environment, where quality and access to capital liquidity outperforms. And remember, the Fed is still restrictive with respect to interest rates, and that doesn't really hurt the large companies with access to capital markets or more quality companies, but it does hurt companies that are down in size, down in scale, and are really reliant upon either bank funding or really easy capital conditions for smaller cap companies, and that's not an environment we're in right now. So I think that quality factors really focus on return on equity, the ability to grow intrinsically as opposed to really relying on very high GDP growth. Those are the types of stocks that are going to outperform. So for me and my portfolio, we have a very significant quality lens that we're looking through in terms of how we're investing.

**WAPNER:**

I'm not going to suggest that we're early cycle, but what makes you think that we're as late in the cycle as you suggest?

**BROWNE:**

So I think it's really a function of how the economic data is unfolding. Now that doesn't mean that we're heading next into a recession. I think that we could potentially go back into an early cycle environment in the latter part of this year, sort of skipping over recession, and we did do that in 2019. As a reminder, we very quickly went into a recession in early 2020 following the pandemic, but quickly came out of that and went right back into an early to mid-cycle environment. But I do think that based on the economic data, it would all suggest based on our models of PIMCO that we're in a late cycle environment right now, albeit not necessarily meaning that we're heading directly into a recession thereafter.

**WAPNER:**

What about credit? What's the best opportunity you see on that side of the ledger?

**BROWNE:**

So for credit, credit spreads have narrowed really dramatically in the fourth quarter of last year, and then even in the beginning of this year. There's a lot of issuance that's been on the docket to start this year, and we expect that that's going to continue through your end. So my preference is to be long equities relative to credit. If you want to own credit, I think that looking at structured credit is probably a more attractive opportunity set right now than looking at just corporate credit outright. And then I think, obviously, if you want to own credit, just invest in the Barclays Ag. That's yielding pretty lofty yield levels right now. I still think fixed income is a very attractive asset class, particularly over a more medium term horizon. And instead of going into just straight up corporate credit, own a little bit of equities and own a little bit of duration and have that barbell approach to your portfolio, and I think you're going to outperform than buying corporate credit spreads right now.

**WAPNER:**

Lastly, we're looking at your list of long opportunities, and Korea is on the list. Why?

**BROWNE:**

So you're starting to see an inflection. Korea underperformed materially last year, and it's underperformed the semiconductor space over the last 12 to 18 months pretty substantially, which is a real significant underperformance relative to history. Typically, you see Korea really highly correlated to semiconductor stocks, and you saw that divergence emerge over the last 12 months or so. You're finally starting to see that, I think, narrow, and I think that that gap is going to materially narrow as we move through the rest of the year, so it's a really cheap way to get AI and tech exposure and semiconductor exposure more broadly, and you're also seeing a lot of positive steps towards corporate reform similar to what we saw in Japan several years ago. So I think that this is a really attractive opportunity right now that's being overlooked by investors.

**WAPNER:**

We enjoyed the conversation as always, Erin. We'll see you soon. Thank you, Erin Browne, PIMCO joining us live on Closing Bell