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**RICK SANTELLI, CNBC:**

We have Jerome Schneider, Managing Director of the Short End of PIMCO. Jerome, welcome. Well, I'll start out with CPI this morning. I brought it out at 8:30 Eastern. It definitely was on the warm side and it really does underscore how tricky it is, what we call “The Last Mile" means as the Fed gets close to their first ease. How does today's CPI affect that decision-making process?

**JEROME SCHNEIDER, PIMCO:**

Yeah, well at PIMCO we don't necessarily think it affects the situation for June. That probably still remains in play, but the focus on “The Last Mile", as we term it at PIMCO, is really a focal point for investors and the Fed as well. We see inflation moving from a good sector to obviously concerns about rent. Concerns about wage pressures, longer term and a lot of these things are in flux. And ultimately the equation doesn't necessarily mean that you're going to get back to that two percent threshold for the Fed as quickly as suggested. So while the Fed might ultimately react to this downward trend in June, the longer term trajectory of rates might somewhat be in question at this point in time. And so a more muted view of how the Fed thinks about it is going to probably be in the cards of the near term for 2024. The real question ultimately comes is what happens in 2025 as you get a confluence of wage pressures and earnings coming from the corporate sector–

**SANTELLI:**

Now let me stop you right there. When it comes to wage pressures we all know as we've seen strikes and there's going to be more strikes; longshoremen are talking about it. These things are going up, but there's certain aspects of the economy where there's sticky inflation that no matter what the Fed does with interest rates, it's not going to make a lot of difference.

**SCHNEIDER:**

Well, I think ultimately focusing on the wage pressures is important. When you dissect it, there's going to be some technical industries which will contribute to the upward momentum in wage pressures. Even though you might have the broad base service sector of employment continue to stabilize out of the COVID environment. More importantly though when we think about these opportunity sets, it means we're in a period of stickier inflation, growth, which is somewhat still lower than expected, especially compared to 2023. And a multitude of events, including geopolitical, that the Fed may or may not necessarily take into account.

**SANTELLI:**

It sounds a bit stagflationary, but embedded in that very inverted yield curve, that to your note as they start to ease, could afford some opportunities, your thoughts?

**SCHNEIDER:**

Yeah, we believe that there are some opportunities through dispersion, through active management in this regard, and really focus on the opportunity for being defensive. Lower volatility in fixed income, finding opportunities within that zero to five-year sector, having some income and some diversification along the way, even though corporate bonds might be relatively tight, diversify away from that. So from that, we want to really remind investors, simply don't be late for dinner. And what we mean by that is to move out of the money market funds, out of a little bit of an interest rate exposure, to help counteract some of the forthcoming yield declines, which ultimately means price appreciation in bonds.

**SANTELLI:**

So don't try to overly time it. There's going to be a handoff between money markets with juicy rates, and juicy rates that still remain in two-year maturities. Okay, and finally, let's do one more pass. When I look at what's going on with the Fed, my big issue remains supply. Supply is the outlier that could affect longer-term rates. Very quickly, do you think that we should be paying extraordinary, close attention to these auctions the way we have on the long end?

**SCHNEIDER:**

Today's the case at the point where you want to, ultimately understand where the demand side is coming from. And that demand side is really a function of term premium. Inflation expectations, supply forthcoming, that's a longer term at the secular view over the next three to five years. And ultimately, investors are going to demand a certain amount of premium that may not necessarily be there today. We focus at PIMCO on being at the intermediate to shorter part of the yield curve as the opportunity set right now, that might ultimately change as the yield curve changes as we get to more normalized pricing policies from the Fed.

**SANTELLI:**

Excellent, Jerome, you know your stuff, buddy. Thank you for joining me today. Tyler, back to you.