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**ALIX STEEL, BLOOMBERG:**

Alright, treasuries on offer today. You got a sellout that started after those CPI numbers, and the weak U.S. Treasury auction for the 10 year really didn't help matters at all. The $39 billion sale drawing week demand, despite yields rising into that bidding deadline. Joining us now, Mike Cudzil, PIMCO Senior Bond Portfolio Manager. Hey, Mike, we got the three year yesterday, which was meh, we got the 10 year today, meh, and we have the 30 year tomorrow. What did we learn over the last three days here about the demand for treasuries?

**MIKE CUDZIL, PIMCO:**

I think we're learning that we need a little bit more of a risk premium in the treasury market in order to absorb these. This is largely supply and auction. I think you saw by the inflation data today inflation's not coming down in a straight line. That's a little more term premium associated with fixed income markets, a little more unknown uncertainty as to where inflation lands, a little more unknown uncertainty as to the Fed's reaction function and exactly their path. And so all that means a little bit more premium in fixed income and in bond markets. And that's what we're seeing today.

**STEEL:**

What's interesting though is that, say yesterday, the action is really in the front end, right? And then today, it's pretty much all across the curve. Did what we learn today from the CPI really mean higher for longer, which really means higher tenure down the road?

**CUDZIL:**

I think that's unknown and I think it's a possibility. I think the economy's been quite resilient to these levels of rates. It's been regurgitated for some time that these rates are restrictive. It's really hard to see these rates as necessarily restrictive, whether it's in levels of growth or whether it's in levels of inflation. And so I think the jury's out on how high rates need to be for how long and just where the Fed can cut to. So I think that's an open question. And I think it's one that markets are starting to process, and more data and more time will certainly help us answer that question.

**ROMAINE BOSTICK, BLOOMBERG:**

How are you positioning around that question, Mike? Obviously, you want to be as much out in front of it as you can possibly be here. There's already been a lot of activity as you've seen, probably on the longer end of the curve, at least relative to the activity maybe that we didn't see a couple of years ago.

**CUDZIL:**

I think first and foremost, we're positioned in an intermediate part of the fixed income market. I think that's where we find the most value. You can get yields there of 4.5 to 5% in U.S. Treasuries. You can get with some spread product 5.5 to 6% returns. You don't really need to take a whole lot of duration risk. You don't really need to take a whole lot of excess credit risk in order to get some pretty decent returns and returns that can rival those of equity markets. I just want to take a step back. If you look at what happened last year, we got the economic data wrong. It was the most called for recession in U.S. history that never happened. We thought the Fed was going — the markets thought the Fed was going to cut, and they hiked. And then finally, issuance was higher than expected. So you got all three legs of the stool wrong and you had fixed income returned 5.5% last year. And I think it's a really good reminder that starting yields are really important for future returns. And so I think the yields on offer today are really attractive and, again, rival those of equity markets and we're encouraging investors to look at fixed income and increase allocations to the asset classes.

**BOSTICK:**

So when you look at that gap and basically what is deliverable on the yield side, inequities versus what you get in the intermediate part of the fixed income space, Mike, do you anticipate at all that any actions the Fed takes this year, whether it's multiple rate cuts or even that rate hike that some people started to talk about, would that change the dynamics at all for you and your positioning?

**CUDZIL:**

It could change a little bit, but in terms of an asset allocation perspective, again, if we are in a situation where we take hikes out or take cuts out or even potentially put hikes in, I think that's a scenario where if you think about fixed income markets right now, we can sell off 75 basis points and you'll have a zero return in fixed income. I think if we move 75 basis points higher in yield, that will really weigh on risky assets. So even from an asset allocation standpoint, we find fixed income really attractive. And again, if we just sit here and rates don't really do a whole lot, you'll get that 4.75 to 5% return on treasuries and even more than that with some spread product in your portfolio. So really a lot to like about fixed income relative to risky assets.

**BOSTICK:**

Yeah, definitely a case to be made here that the real Goldilocks moment right now is playing out in fixed income. Mike, we’re going to have to leave it there. Mike Cudzil over at PIMCO.