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**MANUS CRANNY, BLOOMBERG:**

Let's bring in my guests to the conversation. We have Invesco's Kristina Hooper, PIMCO's Erin Browne. Erin, let's start with you, Bond House. It's a Bond day. It's a Bond two days. Do you think we've just had a sort of a reawakening of enduring higher inflation? And now the market is ahead of the Fed at less than three cuts.

**ERIN BROWNE, PIMCO:**

So firstly, I think this is the first time, certainly year to date, but even going back into late 2023, that the bond market is now probably fairly priced relative to its expectations for future rate cuts. And so we've been in an environment where I think the market's been overly optimistic about the pace of cuts that we'd see, certainly in 2024. And I think now we're getting back into really the sweet spot of what I think is realistic in terms of market expectations. With respect to the data, yesterday's ISM certainly was a bit of an awakening, but it wasn't the first print that we've seen year to date that's been better than expected. In fact, I think it continues along a line of both a cyclical upturn, not just in the US, but really on a global basis, where we're starting to see even recession risk priced out of Europe and other economies in the developed market. And we're starting to now see a more robust outlook into the second quarter and the second half of the year. In addition to that, we're also seeing very sticky inflation, and we continue to believe that this last mile of inflation normalizing is going to be the most challenging, and it's also going to be the most volatile with speed bumps along the way. So we're really now in what I think is going to be a more challenging, less directional macro environment going forward, which I think is why we're seeing more volatility, and certainly in the bond market, but in markets more broadly as well.

**CRANNY:**

And Erin, if I take it back to you, you talk about the final mile. And I get this, the final mile on inflation. But that core of 2.5% to 3% on core inflation is the underlying trend. And the question becomes: IIs the Fed OK with that? And the same to you. Powell did use the word “restrictive”. And I think this is a much overlooked issue from later last week. He used the word “restrictive". And so therefore, do you see comfort at the Fed, cutting in the bandwidth of 2.5% to 3% on core PC, even on a three and six month basis?

**BROWNE:**

So I think “restrictive” really is the key word. And where we stand today, rates are north of 250 basis points, if not more, in excess of what they would see as the long term neutral rate. So even cutting into a still elevated inflation level is going to bring rates still staying within the restrictive territory, but just a little bit lower. And so they still think that given that we're cutting into what will still be a restrictive environment, it still is going to put a dampener on growth and certainly on inflation and eventually normalize inflation back down to a level that they think is reasonable. So I do agree that they'll likely start to cut rates at the middle point of this year, concurrent with the summary of economic projections, which is in September. But I think that the pace is going to be much more moderated than what you would expect during a traditional, more normal rate cutting cycle.

**CRANNY:**

And Erin, let's close it off with you. I know that you're bullish on equities, but from the duration point of view, what do you want to be? Outright ong duration or do you want the steepeners?

**BROWNE:**

So I think right now, we're a little bit more neutral in the short-term training range for duration and think until we really start to see the Fed underway with respect to rate cuts, you're probably going to be in a fairly narrow band. I think over a longer-term horizon, I do think that duration is incredibly attractive right now. And certainly on a risk-adjusted basis, if you're in this for a one, two year time frame, I think now is the time to start to get longer duration. And not just longer duration outright, but also start to term out your duration more into the belly of the curve, continue to remain optimistic, equities- I would look for any type of pullbacks to get long equities. But I think this is an environment, as you start to see the cyclical upturn, you are going to see people pile back into risk if they're sitting on the sidelines, and there's still a lot of cash keep in mind, that is either on the sidelines or is in short-term duration assets, which are going to be extended.

**CRANNY:**

Okay, ladies, thank you very much, Christina Hooper, and Erin Browne, my guest this morning.