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**FRANCINE LACQUA, BLOOMBERG:**

Now, let's bring in Mohit Mittal, he's a Chief Investment Officer, Core Strategist at PIMCO. Mohit, first of all, congratulations. You've made it to Friday. You must have had quite a week with everything that we've seen in bonds. Is there more to go in the bond correction?

**MOHIT MITTAL, PIMCO:**

Thanks, Francine. Thanks for having me. Yeah, I think this has been quite a busy week with the US CPI data coming above expectations. I think what this means for the bond markets is, bond markets have repriced the outlook for rate cuts. In the US, at the beginning of the year, markets were pricing in close to six rate cuts for this year. That seemed a little bit excessive to us at the beginning of the year. Where we are now, we are pricing in closer to two rate cuts for this year. That looks closer to fair. Similarly, on the ECB side, we are now pricing in closer to three rate cuts this year. That again looks closer to fair, given our expectations that inflation in the Eurozone will come closer to 2% by the end of this year. I think in that backdrop, now that the market pricing has adjusted to reflect what we would think, kind of expected path of rate cuts, the bond market is looking quite attractive. There is a scenario where the central banks don't have to deliver as many cuts if inflation continues to come in above expectations, but generally given the cheapness, the bond market is starting to look quite attractive.

**LACQUA:**

But, Mohit, in a week when traders bet on fewer and slower interest rate cuts globally, you're absolutely right. The European Central Bank really stood out and buck the trend. But the hawkish policy from the US really poses a challenge for policymakers, including the ECB, does it not?

**MITTAL:**

I think not as much. I think, you know, post-pandemic, what we saw was a global surge in inflation. Central banks across the globe hiked rates in a coordinated manner to address those inflationary pressures. Where we are now, we are likely going to see a little more divergence in the trajectory of inflation. And given that divergence in the trajectory of inflation, central bank policies can also diverge. So in that scenario, you could see ECB deliver cuts when the Fed does not or even ECB can deliver cuts at a pace that is somewhat faster than the Fed because of the differences in the inflation trajectory in the Eurozone versus the US

**LACQUA:**

So, Mohit, what is exactly the right way to play this ECB / Fed divergence? And actually, I know you were making the case also for owning treasuries, but what's the case against it?

**MITTAL:**

Yeah, I think the case against it would be just if the inflationary pressures persist in the US It can certainly happen. I think for now, we are modeling closer to 3.5% inflation in the US by the end of the year. If that happens, Fed Funds at, you know, 5.5% still look high relative to longer term neutral. So, central banks can still cut rates even if inflation is above the central bank's target. But, you know, if we start to see more reemergence in inflation, particularly on the service side, that could lead to a little bit more weakness in the treasuring markets. On the ECB side, I think there is a little more divergence in the data you can see from the inflation trajectory, likely by the end of the year inflation in the Eurozone would be closer to 2% and that should give the ECB the confidence to deliver cuts. Now, if the incoming inflation and the wage data comes out stronger than forecasted, then the ECB may not need to deliver those cuts. And the way to play that would be just a little–

**LACQUA:**

Is the Euro headed to pari- Sorry.Go ahead, please finish.

**MITTAL:**

To your question on how to participate in that, I think from a bond market perspective, global bonds start to look attractive in opportunities in the Eurozone, opportunities in the UK, even Australia or Canada, that start to look attractive at the margin versus the US Treasuries.

**LACQUA:**

Mohit, does the Euro head to parity?

**MITTAL:**

I think it's a possibility, you know, if inflation in the US stays somewhat stronger, which keeps the US Fed somewhat more elevated as far as rates are concerned relative to the ECB, you could see some further weakness in the Euro. Now, I think the ECB, what ECB would focus on is the inflation effects of some weakness in the Euro currency. And that, you know, at another six, seven percent weakness in the Euro doesn't necessarily change the inflation outlook in a meaningful manner. I think the other area where the ECB would continue to focus is commodity prices. If that starts to flow into inflation, but certainly a scenario where Euro currency weakens further versus the dollar.

**LACQUA:**

Mohit, what's the most contrarian thing that you would buy right now?

**MITTAL:**

I think there are a few contrarian things I would think of. I think first is just the broad fixed income. I think people have had negative returns for the last couple of years, or at least in 2022, 2023 was strong, but in 2024, year to date, you know, you have seen somewhat negative returns in fixed income relative to equities. So the contrarian trade here is to own higher quality fixed income, where investors can get six and a half to eight and a half percent yields. Under most states, they will realize that yield over the next one to three years, given the high quality nature of that fixed income. And then in a scenario, likely to me, the cherry on the top would be a scenario where any of the risk scenarios materialized, meaning growth comes out weaker than expected. And in that event, you could see double-digit returns on global fixed income markets. So at this point, you know, increasing allocation to global fixed income certainly seems like a little bit of a contrarian view.

**LACQUA:**

Mohit, thank you so much. Mohit Mittal, the Chief Investment Officer. The Core Strategist at PIMCO stays with us.

**LACQUA:**

Mohit, we were talking, of course, about the divergence between the Fed and the ECB. I mean, can the BOE actually cut rates before the Fed? Again, this gravitational pull, you know, from the Fed is not insignificant.

**MITTAL:**

The Bank of England can cut rates, even if the Fed doesn't. I think I agree with what Anna said, basically, you know, growth is picking up, but not going to be too high in the UK. Our view would be probably closer to about a half a percent real growth by the end of the year. And then inflation near two and a half percent. So in that scenario, certainly the Bank of England can deliver about two cuts by the end of this year. Gilts, you know, broadly speaking, four and a quarter percent to four and a half percent across, you know, five to 10 year, five to 30 year maturities,, start to look quite interesting, particularly also recognizing a little more orthodox fiscal policy, Post- the events of September 2022. In a scenario, this orthodox fiscal policy continues, which it likely will, irrespective of the election, I think that would be supportive for Gilts in the portfolios.

**LACQUA:**

But so, Mohit, what is it, are you buying Gilts right now? And again, is there an attractiveness to the UK compared to other parts of the world?

**MITTAL:**

Yeah, I think certainly we are increasing our exposure in Gilts, you know, real growth around half a percent, maybe a little bit below that, inflation around two and a half percent, maybe a little bit below that. So what you have is, you know, Gilt yields that are significantly higher or expected to be higher than the nominal growth rate of the economy, so that is supportive for Gilts. Also, unlike the US, you don't have continuously higher fiscal deficits, which we are seeing in the US. So at the margin, there is certainly increased attractiveness of Gilts versus US treasuries.

**LACQUA:**

And Mohit, I think the final question for you. It was really interesting, speaking to the Head of the Norwegian Sovereign Wealth Fund yesterday, the largest sovereign wealth fund in the world. And you know, there was, I guess, a question mark on whether inflation can really come down as we're expecting it. Larry Summers believes that we could see a hike from the Fed instead of a cut. Do you think this is a possibility, if not a probability?

**MITTAL:**

I think it's certainly a possibility. We would assign a little bit lower probability to it. I think inflation likely finishes the year around three and a half percent, but to an extent that inflation starts to reemerge, then there's a possibility that the Fed hikes instead of delivering any cuts. What we have seen is that inflation, you know, our inflation moved lower towards the end of the year to about three and a half percent on a three-month analysis basis. That number has picked up towards four and a half percent on a three-month analyzed basis as of quarter-end, this quarter. And that would put the year-end inflation at around, you know, three and a half percent. But to an extent, you know, we see inflation continue to move higher in the scenario where the Fed can hike.

**LACQUA:**

Okay. Thank you both for joining us. Mohit Mittal, there from PIMCO, and Ana Andrade from Bloomberg Economics.