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**SCOTT WAPNER, CNBC:**

Let's bring in Erin Browne now of PIMCO to get her playbook on what that firm is thinking about right now. It's nice to see you. Welcome back.

**ERIN BROWNE, PIMCO:**

Thank you.

**WAPNER:**

I think the last time you were on, you were pretty bullish. Do you remain so?

**BROWNE:**

I do. Like the panelists before me just stated, I do think that we're still in a cyclical recovery in the US economy in particular, and to some extent, the global economy as well, all of which is underpinning a really robust earnings environment for stocks. And I do think that ultimately that's going to be what drives stocks higher from here. I do think, though, that the last two trading days did underscore two points, which are important. First, rates are moving higher. We've seen a 45 basis point back up in the 10 year yields over the last month or so. And so what that does is, those who were calling for getting back into laggers, buying the small caps over large caps in a real rotation in the market I think are likely going to be disappointed. They certainly have been disappointed over the last couple of weeks. And I think that's likely here to stay. The Fed, I think, is likely not going to cut rates until the back half of this year. And I would take the under in terms of what the market's pricing in currently. And what that means is that small caps and those companies that are really leveraged to easy credit are likely going to be disappointed. I think the second point is that you are starting to see a broadening out of participation in the leaderboard for the equity market. And I think particularly for more industrial cyclical economies that have some leverage to inflation, I think that's a really interesting spot for the market right now.

**WAPNER:**

Okay, so what I hear you saying is that you can still be bullish, but you just can't express it perhaps as broadly as you once thought you might be able to do.

**BROWNE:**

Well, I think that you can start to express it more broadly across cyclical parts of the economy, but you want to stay large, you want to stay liquid, you want to stay up in quality, and really avoid the smaller cap laggers that have underperformed certainly over the last year or so.

**WAPNER:**

So you mean the broadening story can continue, just not with the Russell participating?

**BROWNE:**

Exactly, not with the Russell, not with certain segments of the market, but I do think you want to start expanding your exposure to industrials, to metals, to some extent energy if you haven't already, that are going to be advantaged by the manufacturing cyclical uptick that we're starting to see, not just here in the US, but also on a global basis —-

**WAPNER:**

I'm sorry. Finish your thought, Erin. I apologize.

**BROWNE:**

I was just going to say over the last year, you really just wanted to be in tech and tech only. Now you can start to expand that lens outward, but really focusing on the large caps.

**WAPNER:**

Yeah, I was just going to say even with energy and materials already up quite a lot, that trade has worked in large part on just the whole story coming into focus. Now if we're rethinking things, have those kinds of stocks moved too fast?

**BROWNE:**

Well, I think there's two things. First, you're seeing inflation tick up on the US. Second, you're seeing manufacturing surveys also tick up in the US, but also globally And then you really haven't seen any participation from the global stage in terms of commodity demand, particularly out of China over the last year or so. And you're now starting to see that slowly begin to turn as well. So I think that that trade does have legs over the medium term.

**DAN GREENHAUS, SOLUS:**

So Erin, I would just add to your point, something that I've been discussing with Scott as well. I would largely just want to echo what you were saying, which is this narrative that in order for the rally to broaden, it's got to be exposed or expressed in the Russell 2000 is an idea with which I totally disagree. And you see it sectorally within the S&P 500 and certainly in the mid cap space as well. And there's no better example as you mentioned and Scott alluded to, which is energy. A name that lagged for quite some period of time. Big cap tech is obviously running into trouble now, but when you look at the refiners, you look at some of the integrators, even some of the other riskier sectors, energy's done incredibly well. And again, if you're looking for evidence of broadening, I'm not saying you said this, but why isn’t energy sufficient evidence for that broadening?

**BROWNE:**

Yeah, so I would absolutely agree with that. I'm still keeping long my tech, large cap tech names. I still like the AI trade. I still like things that are levered to large cap tech, but not telling that portion, but where I'm buying right now is more in the sort of industrial cyclical sectors.

**WAPNER:**

Is that where you think, Erin, that earnings are really the rubber that is going to meet the road once these large cap tech companies start to report? They're going to basically give the market all of the signals as to why they've worked from a year ago until now. They've been able to be offensive and defensive. And if people are going to get a little bit more defensive in the here and now, it's yet another reason why those stocks may continue to work.

**BROWNE:**

I think that's right. First of all, they are defensive. They have large cash files that they're sitting on and they continue to invest and deploy that capital, but they're not required on the market broadly for financing. So that insulates you a little bit from the rate move versus the smaller cap tech names, which are very leveraged to rates in particular. Second, they are able to grow in absence of strong GDP growth. And so they grow somewhat in the overall economy, but there's a very strong secular growth trend that's underpinning what I see is increasing quarter over quarter earnings growth. And so I think you have strong growth, a defensive sector that's going to do well because of the secular drivers that are underpinning this. And I really think that when you look at valuations, the valuations of these stocks really haven't moved over the last two, three years because they're growing into their earnings. I think that's likely to continue.

**WAPNER:**

Lauren, Erin makes the case much like Tony Pasquariello at Goldman is now, keep your eye on the ball. Stay large, go big or go home. And stay with those types of stocks, mega caps, for all of the reasons that Erin just articulated.

**LAUREN GOODWIN, NEW YORK LIFE INVESTMENTS:**

I think that it's very clear that though the market performance has been broadening lately, quality is still the trend among the leaders. And so that, yes, points to large cap, it points to free cash flow, it points to good fundamentals. And if we were expecting to see a really broader equity market performance, you would expect to see the junkier, more cyclical things really expand, which is not what we expect. I want to just re-emphasize something that Erin’s pointing to around structural trends, bringing it back to what you were asking earlier around geopolitics, because the US has become the biggest energy producer in the world, and because structural trends around AI and digitization and the energy transition, supply chains, all point to an inflationary impulse. The cyclical element of what Erin is describing, if you add a macro volatility component to that, so your oil, your gold, your dollar, your tenure, you now need materials and industrials to support that macro volatility trend. So for different reasons, I completely agree with those investment themes, especially as the US economy continues to reform.

**WAPNER:**

Why don't you also give me a thought, Lauren, before I wrap this up on bonds? Where do I want bonds to be? If you're nervous, you're buying bonds, yields go down. Well, today yields are up, even though we're nervous, 10 years at 463, we'll call it.

**GOODWIN:**

I love a duration barbell in this environment. So you and I have talked time and time again about if the market believes, as I do, that the Fed's next move is a cut, then inching into short duration credit helps to manage some of that reinvestment risk on the short side. But because of the volatility that we've seen in bonds, we don't like duration as a major bet in our portfolio. So we balance with longer duration, actually in the municipal curve, which is not inverted.

**WAPNER:**

Erin, PIMCO obviously has a view on how to play credit right now.

**BROWNE:**

Yeah, I think that the next move, I think we all agree here is a cut. The question is when. Historically, you want to start turning out your duration at the point that the Fed starts cutting. So right now, I think it's comfortable to start setting your target levels to start buying duration, particularly longer duration for every 10 basis point move higher that we see in the 10 year yield. But I do think if you're a medium term investor or a longer term investor, buying duration is going to pay to own now. So you can start inching into that trade as we move higher in yields. But I do think that from a risk adjusted basis, duration will pay out dividends for investors. The question is when you start to get that. And I think at these levels, it's a pretty good time to start to buy.

**WAPNER:**

Greenie, you have a view here?

**GREENHAUS:**

Yeah, if the Fed's going to start cutting later this year, then you could pretty much make money everywhere, obviously, duration adjusted. It's going to be better for you at the longer ends. But at the end of the day, for me, risk assets are where you're going to get this tail. And if they're threading this needle, if inflation is going to come down, if they're going to tolerate it north of 2%, while they're cutting, that's a pretty good mix for the stock market.

**WAPNER:**

All right, we'll make that the last word. Erin, I appreciate it. It's good to see you, as always, Lauren, thank you so much. Dan Greenhaus, thank you as well.