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**TOM KEENE, BLOOMBERG:**

Joining us away from a longer view of economics and really on short-term paper, truly owns the high ground, Anthony Crescenzi with us of PIMCO. Tony, should I be nervous about a 5% 2-year yield?

**TONY CRESCENZI, PIMCO:**

Hey, Tom, hey, Damian. No, you should be happy. You should be pinching yourself. You should be blissful. We haven't seen these yields in quite a long time. And it's one of the reasons why many people think that the U.S. economy is faring better. There’s a story on Bloomberg today about it. Interest income in the United States is about $1.8 trillion today. That's up $300 billion from two years ago. It's $300 billion that we can all go out and spend.

**KEENE:**

But the ambiguity is down slightly. I'm going to blame the media for this. Interest rates are high. OMG, price down yields up.

**CRESCENZI:**

Yeah.

**KEENE:**

But you know, and you've codified in all your books, including the great “Stigums”, 2000 pages- you've codified that there's an ambiguity here. Explain the ambiguity that “price down, yield up” can be good for our listeners.

**CRESCENZI:**

Well, here's the statistic going back several decades. The 5-year, looking out five years, in terms of what you're likely to get in terms of a total return, looking at the Bloomberg aggregate, which is pretty much a compilation of– Let me tell you what that is.

**KEENE:**

Excuse me, Sassower’s here, so we’re calling it “The Lehman Aggregate”.

**CRESCENZI:**

By the way, on Lehman. I worked for Lehman Brothers in the 1980s in the World Trade Center, 104th floor, with a view of uptown, a remarkable period that was. But looking back at the Bloomberg aggregate today, which is 40% US treasuries, 25% mortgages, 25% corporate bonds, the yield is five and a quarter percent. Now, if you take that figure, that starting yield, should be the return you get the next five years, based on the 30 year history of it, the rolling return over a multi-year period should equate to what you see as a stated yield today. So five and a quarter percent, is that good enough? For some investors, maybe not. That's why yields are rising. Prices are falling, they're selling. They think yields will go higher. But I would suggest to investors that they be careful about the story now, and what I would suggest is thinking about three don'ts about what to do in terms of investing in that. We're often next about what to do, what not to do. For one, “Don't try to time the market”, awfully difficult to do. Secondly, sure, perhaps “Don't catch a falling knife”, but do catch these yields while you can. These yields could slip away. And finally, “Don't fight the Fed”. And Tom and Damian, you might think this means well, the Federal Reserve is keeping policy tight, so it's a bad thing. But it's tough love. The more it stays tight, and it is getting tighter based on the definition of what is tight, a falling inflation rate, and it is falling, the 2.8% PCE versus a 5% yield. They were almost equal last year. Fighting the Fed today means believing the central bank will be successful in its quest to bring inflation down. It has every means of an ability to do that.

**DAMIAN SASSOWER, BLOOMBERG:**

Tom, did you see Tony wink at me when he said, “Don't be a short termist to actually invest for a long term”?

**KEENE:**

He knows your act.

**SASSOWER:**

He winked at me. I'm reading your note, Tony, and I got to say, “Don't fixate on the Fed's 2% objective, focus instead on the notion of price stability”.

**CRESCENZI:**

One of my favorite ideas.

**SASSOWER:**

That reads like the South China Morning Post, “price stability”. What is price stability?

**CRESCENZI:**

Well, Damian, so I'm really old. Tom is much younger than me, but I recall a period before 2012, and I'm going to tell you what that means, when we didn't have a 2% price objective to go on, we had to go on something else. What was that something else? A notion that prices are stable or they're not. So it was in 2012 that Ben Bernanke, the former Fed chair, implemented the idea of a price objective. Prior to that, the 1960s, 70s, 80s, 1950s, what did an investor have to go on to drive prices higher or lower? They had to decide: are prices stable? Now, if we fixate as investors on the 2% target, you could miss a great deal of return in your investment portfolio. And many that have fixated on the 2% target in the past six months have lost a significant amount of investment turn in their portfolios, because we haven't got into 2%. But we might be achieving price stability, which Alan Greenspan and Paul Volcker defined as, “A level of price changes or degree of price changes that ceases to have an impact on business and household decision making.” And that's where we're moving, and that's why the equity market is feeling better, because we're getting closer to the, in the era of price stability, even if it's not 2%.

**SASSOWER:**

Tony, behind closed doors, some of the conversations I have with the people I know and I respect, we talk about that 2% inflation target, and we try to determine what it would take for the Fed to consider removing that target. Now, I know it's far-fetched, but do you feel that the Fed in this environment can even remotely consider that if inflation stays persistently high?

**CRESCENZI:**

It's highly improbable. Now, they can't walk back on the notion, especially with the inflation rate higher, because then market participants would lose their senses as to where the anchor is, because it's become ingrained in thinking.

**SASSOWER:**

I agree with that.

**CRESCENZI:**

But again, as investors, we have to take a step back and decide, “Is the inflation that we're experiencing enough to get in the way of future cash flows for businesses to pay you back at maturity, to pay the interest on your bonds, et cetera”.

**KEENE:**

Give us the- and this goes to economics, and I want to go to Staten Island and Richmond County. I'm sorry, but if I'm at the Fed and I'm looking at Crescenzi’s Staten Island, it's a great labor picture. Overlying your brilliance in the financial space, is there this huge elephant in the room, which is the labor economy of America?

**CRESCENZI:**

The story for the 2020s, which is a lot different than the 2010s, is a story of retirements and immigration, with retirements outweighing the immigration over the longer span of time. There's a shortage of labor, and the context is this notion of “stakeholder capitalism”, which is different from the notion of “shareholder capitalism”, which Milton Friedman shepherded in the 1970s, when he said, “The sole purpose of a company is to grow its profits”. No company can say that today. They have to be seen as a partner with the community, seen to be helping with climate change, and also contributing to a diverse and inclusive workforce. And so in that context, it's more likely that companies, given that these labor shortages, will want to share income more. And final stat, Tom is; think 1957, the biggest birth year last century. 65 and a half years later, they're receiving security by retiring. And this wave lasts until the last boomer born in ‘64 of retirees in the early 2030s. So we've got a shortage of labor that'll last a while, but the final, final word is immigration's helping lift GDP potential.

**KEENE:**

Tony, thank you. He is with PIMCO, Tony Crescenzi.

**CRESCENZI:**

Thank you so much for having me here today.

**KEENE:**

I can’t say enough about his different books, but “Grabbing the coupon” is really what this is about.