Bond Case Briefs

Municipal Finance Law Since 1971

Buy Short-Term Quality Bonds as Stocks Fall, Pimco's Browne Says.

- **Prepare for the S&P 500 to drop 10% more by the end of 2022**
- **Treasuries, investment-grade and muni bonds are safe havens**

Investors can make money owning short-term high-quality bonds as a refuge from stocks, which are likely to keep falling, according Erin Browne, a portfolio manager at Pacific Investment Management Co.

Two-year Treasuries, investment-grade corporate bonds and tax-advantaged municipal bonds offer higher returns than cash while avoiding the downside that stocks likely still face, Browne, who oversees multi-asset strategies at Pimco, said on Bloomberg Television's Wall Street Week on Friday.

"What we're looking at is fixed-income investments that we think are going to be able to stand the test of time," Browne told host David Westin. "It's a challenging time for investors where you have to skew more toward fixed-income in order to have stability of returns."

Stock and bond prices fell Friday after the Labor Department reported US non-farm payrolls increased 263,000 in September, reinforcing expectations that the Federal Reserve will continue aggressively raising interest rates to cool inflation. For the week, the S&P 500 Index eked out a 1.5% gain. Yields on 2-year Treasuries closed Friday above 4.3% while 10-year bonds ended the week at 3.88%.

Other potentially appealing investments include government-backed mortgage securities and stocks of companies with high cash flow and dividend growth, Browne said. She predicted the S&P 500 — already down 24% so far in 2022 — will drop a further 10% to about 3,250 by year-end.

A better option than bonds for qualified investors is putting money into private equity, real estate and other less liquid markets, Chris Ailman, chief investment officer of the California State Teachers' Retirement System, told Westin.

"It's going to have write-downs but its value is more stable than what we see in the public markets," said Ailman, whose pension funds held $304.9 billion as of Aug. 31.

For average investors, the best advice is to cautiously keep putting money into the market, because it's impossible to call the bottom, according to Ailman.

"You want return of your money rather than return on your money," he said.

Bloomberg Markets

By John Gittelsohn

October 7, 2022