

# Value Stands Out in Our Macroeconomic Research

## Transcript

**Daleep Singh, Vice Chair, Chief Global Economist, and Head of Global Macroeconomic Research:**

Prices in fixed income are expressing a point of view about how the world is going to change and where and how much. So, value in the context of economic research is identifying where we have a disagreement with what the market is implying about how the world is changing. And when the disagreement is large, there is a relatively large amount of value to be captured. That's what we focus on.

**Tom Porcelli, Chief U.S. Economist:** An economic model is useful anchoring, but it will only take you so far. I think ultimately you also need qualitative information. You need to know what corporations are saying and what they're thinking, how they're responding to the economic backdrop. And what we try to do is we try to take this quantitative and qualitative information and build this mosaic of what's happening from an economic perspective.

**Daleep:** We have lead economists for each of the major economic regions of the world. Each produces a cyclical forecast and then we stress test those forecasts. What could go wrong? What are the assumptions that could change? And if those assumptions change, what are the risks to our forecasts? We try to connect the dots between shifts in the geopolitical backdrop to the economic cycle, and therefore to markets.

**Katharine Neiss, PhD, Deputy Head of Global Economics and Chief European Economist:** The combination of the depth of expertise at the regional level together with that breadth of knowledge on thematic issues means that we're kind of seeing the problem from all sides and are best able to serve our internal stakeholders, who are the risktakers and who need this information in order to make appropriate asset allocation decisions.

**Daleep:** We imagine the entire distribution of possibilities. That helps us not to get flat-footed when the world changes abruptly.

**Katharine:** We don't want to just tell the story as it's happening or tell you the story that happened yesterday. We want to be able to anticipate. We want to be able to be flexible and nimble. Central banks don't have a crystal ball—nobody does. What we can do, though, is we can set out scenarios based on our experience and then overlay that with our experience and understanding of how we think policymakers are likely to react. And both of those things mean that we can adapt, and we can flex much more quickly when the world starts to evolve in ways that we didn't anticipate. Because we have to look after people's money even when the world is going through these really difficult periods.

**Tom:** Very few people have made money knowing what a GDP forecast is going to be. What people appreciate and I think I how sort of, you know, money is earned is in the narrative. And I think that that's what our probabilistic approach I think really tries to capture the essence of. And what I think is really

important about this process is it's living and breathing. We're not dogmatic about that. We'll happily adjust our view if the data on the ground are suggesting that we need to.

**Daleep:** And the goal is to avoid failures of imagination. It's not going to be that we fail to remember. The challenge for us is to consider what shocks are coming next. We have to synthesize what we're observing in the economy but also in policy changes and in the geopolitical backdrop in a way that keeps us ahead of how the world changes and how markets will evolve.

[ Music ]

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