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**JOE MATHIEU, BLOOMBERG:**

Kaley, we've been talking about the beginning of the fiscal year and whether the government will be open when that happens.

**KAILEY LEINZ, BLOOMBERG:**

Yes.

**MATHIEU:**

That'd be August or rather October 1st. Uh, but the latest note from Libby Cantrill at PIMCO, gives us some hope that we might survive the holidays before that actually happened.

**LEINZ:**

Yeah, maybe October 1st isn't the real deadline we're working with here, Joe.

**MATHIEU:**

Right.

**LEINZ:**

We know that Washington loves a deadline. Perhaps operate best close to a deadline.

**MATHIEU:**

Don't make me pull out the doomsday clock again.

**LEINZ:**

Right. So the idea here, oh no.

**MATHIEU:**

This is what happens at the end of the year:.

**RECORDING:**

*“At the tone, 20 hours and 48 minutes of coordinated universal time.”*

**MATHIEU:**

Right. Ready? January 1st. The real deadline says Libby Cantrill. That's thanks to the CR that is inevitably going to come, right?

**LEINZ:**

In theory, yes.

**MATHIEU:**

Did I scare you, Libby? I don't know.

**LIBBY CANTRILL, PIMCO:**

A little bit. It's really impressive. Sound effects. Wow.

**MATHIEU:**

Yeah, it gets people's attention because this is big stuff. Hey, thanks for coming to talk to us as always. We try to stay in touch with Libby Cantrill every couple of weeks here on Bloomberg Radio. And, uh, well, your whole point is that they're going to kick the can on this, right?

**CANTRILL:**

Yeah, well, my whole point is that there's no- there's nothing to discourage them from doing exactly that. And the January 1st is the more likely hard deadline because as you all remember, as part of the debt ceiling resolution, if they do not have all the appropriations bills passed by January 1st, not October 1st, which is the typical start of the fiscal year, then there'll be a 1% across the board sequester, basically forced budget cuts that are indiscriminate across both the defense and nondefense and both sides of the aisle don't like that. So I just think practically speaking, given that Congress hasn't passed, you know, all 12 appropriations bills since like the mid-1990s, probably we should, you know, not expect them to do so by October 1st, which is of course just in a little bit more than two months. But more realistically, there's probably more incentive to do this by January 1st, because again, there's that, um, you know, there's those real, direct consequences if they do not do that.

**LEINZ:**

So we get to talk about it for an extra three months.

**CANTRILL:**

Isn’t that great!

**LEINZ:**

Merry Christmas, Happy New Year to all of us.

**CANTRILL:**

I get to hear that countdown clock or whatever the heck that was!

**LEINZ:**

Yeah, we're going to have the chance to do this at least 15 more times between now. But I guess the question is if the whole idea is that they can do a continuing resolution and by time to the start of 2024, do we get a government shutdown in between, or can they pass the CR before we get there?

**CANTRILL:**

Yeah exactly. I’m sorry I should have put- So that it does seem like by the 11th hour, like we are also very used to these days of Congress, you know September 30th, or what have you, um, that they then passed some short-term resolution to buy them some more time. And now there is, of course, the- as we've already talked about, the possibility of a government shutdown, um, you know, I just would say, you know, from our lens as, as investors, you know, while a shutdown is not great, and certainly, again, it does not sort of endorse the-I think, the global perception of the function of the U.S. Congress. And it's not, it's nothing like what a debt default would have been like. So it really isn't- neither a market event or an economic event at the end of the day. It doesn't mean that it will be a distraction, especially if the economy is already slowing then. It could be, you know, add some noise, but in terms of actually being sort of the same type of deleterious impact that a debt ceiling, you know default would have had. It just, it does not have that. Um, so moving a shutdown at the end of the day, though, it's still unlikely. Um, and the reason I say that is because it's really in no one's political incentive to shut down the government, usually both parties are blamed. And so I think like we've seen before, as you well know, um, probably, uh, incentive to pass a short-term resolution, again, to buy some more time so they can pass those other funding bills by that January 1st deadline.

**MATHIEU:**

Well, so Libby, if you're Joe Biden, you're feeling pretty good right now. “See, I survived the debt ceiling thing. I didn't get rolled as many predicted that I would. I set a framework here to, to most likely avoid a shutdown or at least an extended one by the end of the year with that, that 1% cut in there. Uh, CPI is moving in the right direction. In fact, gosh, the Fed might be done hiking in a couple of meetings, maybe even sooner by the time I'm running for reelection for real next year. The economy could be buzzing along here, cutting interest rates. We're not debating spending now. And I'm hearing from corporate America in this earnings reporting season that we're likely to avoid a recession.” Libby, that all comes together pretty well, doesn't it?

**CANTRILL:**

I mean, if it turns out that way, it's brilliant. Uh, and it is, and you would just have to think that, you know, given what his economic advisors have said, both publicly and privately, that they're not expecting a recession, or at least the chances of recession have receded significantly. And that's the reason Joe, while we see, you know, Joe Biden, really, you know, embracing this idea of Bidenomics. Now, of course, that can cut both ways. Again, it could be brilliant if we do avoid a recession and things, you know, interest rates stabilize, inflation continues to go down, unemployment is- you know, continues to be low and what have you. However, you know, there is a risk to that. And we are 16 months out from the election. And I think the risk is that there could be some downside. And I think our view here at PIMCO is that there's still chances of a mild recession, despite some of the, you know, the happier talk, just in terms of, you know, where the consumer is, some of the headwinds that we're expecting in the fall, particularly as it relates to the resumption of student loan payments. It could be a head of $300, $400, $500 per month for folks who have not had to pay anything for three and a half years. So a long way of saying, yes, I think that's exactly what he's thinking and what his economic team is thinking. But there are some downside risks that the economy does slow. And then he owns it on the downside as well. So it's, you know, it's a little, it seems a little premature to be spiking the ball. But again, it's, you know, the, all the economic indicators are from his perspective pointing in the direction where, you know, it's justified.

**LEINZ:**

Yeah. Libby, I'm really glad you brought up the student loan repayments because I noticed this morning a new study by TransUnion that said millions of Americans can face a hit of at least $500 a month to their household budgets from the restart of those payments come this fall. So if we're talking about a consumer that's doing okay, but still kind of teetering on the edge as they cope with higher prices because just because the pace of inflation is cooling still means prices are going up. I just wonder if we haven't fully reckoned with the economic consequences of that potentially.

**CANTRILL:**

Yeah. And I think that's, you know, that's exactly our view is that, you know, it will, it will, it will certainly be a headwind. And you probably saw from that same study, Keiley that, that, you know, a lot of those folks have taken debt out elsewhere. And so not only have they not had to, you've had the sort of payment moratorium on student loans, they've also, you know, increased their exposure to auto loans and the other type of, you know, consumer, consumer loans. So you just think, it comes at a time where it could be sort of a double whammy. At the same time, and this is something you're starting to see a little bit in the data is that, you know, some of these regional banks are cutting back on originating consumer credit as well. You know, regional banks in some cases are getting out of, you know, say, auto loans, all, you know, wholesale. And that, we think, we'll also, you know, bite the, bite the consumer as well. So all these things were we're, you know, our, again, our anticipation is that, you know, there may not be as soft landing as the market is romancing at this point, and that they're still, you know, risks lie you know, risks lie ahead, particularly come, you know, come this fall for these very, for these very reasons.

**MATHIEU:**

I have to ask you, as we spend some time with Libby Cantrill, you're writing about the campaign trail as well on the Republican side, the primary campaign, and the big reset for Ron DeSantis. It was really something to watch this happen. Libby, I'd love your insights on what took place yesterday because we woke up in the morning, the tip sheets were all pointing to this Ron DeSantis interview on CNN at four o'clock. “The most important political event of the day”, said one of them, was his first mainstream media interview. After firing some folks on his staff, they had to lay off. We're talking about a cash crunch and a drop in the polls. And it's time for a new approach. And what happened? Donald Trump stole the day from him. The first questions that he got on CNN were about Donald Trump in the indictment. By the way, here's what his answer sounded like:

***RON DeSANTIS (RECORDED):***

*I don't think it serves us good to have a presidential election focused on what happened four years ago in January. And so I want to focus on looking forward. I don't want to look back. I do not want to see him. I hope he doesn't get charged. I don't think it'll be good for the country. But at the same time, I've got to focus on looking forward. And that's what we're going to do.*

**MATHIEU:**

Can't even take the opportunity to knock the former president, Libby, is this reset already on the rocks?

**CANTRILL:**

Yeah, it was interesting. Actually, Joe, if I was in I was just in Asia meeting with some of our clients there. And you know, among other things, there are lots of questions, understandably, about President Trump, not so much about Ron DeSantis, not that that’s any indication. But yes, certainly, I think his hopes for the debut and mainstream media, quote-unquote, were maybe sort of dashed. And yet again, upstaged by the former president. They did a message that we're saying, and we've talked about before, is that even though there will be kind of these twists and turns and headlines, and lots of folks will extrapolate from these sort of idiosyncratic events, it’s still just way too early. And what we see with the primary polling is at this stage, it's really not predictive. You know, you can be up, you can be down. We, you know, there's lots of models that show that the polling error actually kind of peaks right now, sort of the summer before when the year the primary starts. So we would take this with a massive, you know, massive grain of salt. With that said, you know, President Trump still has a very commanding lead. And I think as we've also discussed, just the structure of the primary, is on the Republican side, the way that many states allocate delegates. It sounds sort of like a snooze fest, but it's actually really important because a lot of these states allocate on a winner-take-all basis. And that means that as long as President Trump is getting more votes in the next person, as long as he's winning a plurality of votes, he can win all the delegates in a given state. And that's the way that he was able to get such a commanding lead in 2016. And potentially he could get a commanding lead in 2024 when those primaries actually do start. But you know, we're talking about- you know, January 15th is still very far away. That's of course when the first primary is. So we're just cautioning our clients just to, you know, to kind of ignore things. Until, you know, until, really, those primaries. And that's when you actually, actually, we actually see pollints or firm up as well for the primaries. It's kind of after that that first primary is when things are becoming a lot more predictive.

**LEINZ:**

Well, to the point, Libby, on your clients or just market participants in general, it does kind of raise the question on when they really need to start paying attention. And you're suggesting, you know, after the primaries. But even if ultimately Trump comes out on top of the primary process, he's kind of a known quantity as much as he can be a known quantity for market participants. Same with Biden. I wonder, though, about the risk of a third party entering. I was just looking at a new Quinnipiac poll that dropped at the top of this hour that found nearly half of the registered voters they surveyed, 47 percent. So they would consider voting for a third party candidate in the 2024 election. How risky is that?

**CANTRILL:**

Yeah, that's interesting. I haven't seen that poll, but I will make sure to look at it after I, you know, after I finish here. That's, yeah, and I, that's not super surprising. As you all know, I mean, honestly, that if you just look at what kind of Gallup has had this, you know, longitudinal pulling on how Americans self-identify from a party perspective and almost a majority of Americans now identify as either centrists or independents. I think that's just indicative of the fact that folks are sort of disillusioned by both of the established parties. With that said, you know, the kind of infrastructure, the electoral college process and all of these things, still very much benefit a two-party system. And as a result, you know, third parties usually just function as spoilers. But they don't necessarily even win electoral college votes. And so I don't think we should expect a different outcome this time around. However, you know, what we've seen at least in 2016 and 2020 is that a third party candidate, at least in 2016, really did hurt the Democrats. And Biden was very much helped by the fact that there wasn't really a credible third party candidate in 2020. And so if you extend that logic, you know, you would think that the presence of no labels candidate or a green party candidate could hurt, you know, could hurt the president. So Democrats are really, as you all know, in DC really focusing on trying to sort of stand out any of these efforts to get a credible kind of third party candidate off the ground. It just remains to be seen, you know, how successful they'll be. And then to your point, though, you know, this is kind of where the electorate is. We folks are going to set up and they want an alternative.

**MATHIEU:**

Boy, well as we heard this week from no labels on this very program, Kaylee, they're going to wait till super Tuesday to decide whether they run a candidate or not. And I'm still not sure how that works.

**LEINZ:**

Same.

**MATHIEU:**

Libby, thanks as always. We'll have spent time with you. Libby Cantrill from PIMCO helping a us get rolling here in Hour Two of sound on.