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**ROMAINE BOSTICK, BLOOMBERG:**

Welcome back to Bloomberg Markets the Close. It's time now for our Wall Street Week daily segment. The host of Wall Street Week, David Westin, is joining us as he does every day at this time. The big news this morning, David, of course, was that consumer price index report here in the US.

**DAVID WESTIN, BLOOMBERG:**

Absolutely we were waiting for it. We got it. It didn't surprise us a lot. As you know, for investors, a lot of what happens in Washington really affects the rest of us, from The Fed as well as Congress. And the person we turn to when we need to know about that is Libby Cantrill. She is PIMCO Managing Director and Head of Public Policy. Libby, great to have you on Wall Street Week. So give us your reaction, PIMCO's reaction to the CPI numbers.

**LIBBY CANTRILL, PIMCO:**

Yeah, as you said, it was somewhat to be expected, a little bit better than I think our expectations in terms of softening CPI. You saw OER, autos going down. You saw some of the other services starting to soften. So in some ways, exactly what the Fed wants. I think our concern and sort of an open question is what happens with wages and whether wages remain sticky. And does that then translate into price inflation? And does the Fed then have to be even more hawkish, either at the end of the year or next year? So I think that's sort of the open question. But in terms of this actual CPI print, it was really what I think probably the Fed wanted. But I think a lot of open questions remain in terms of the trajectory of all of this.

**WESTIN:**

We're also focused on the Fed and what it can do and is doing to slow down the economy. One of the things that I've been curious about is some of the things coming out of Congress and the White House, things like the Inflation Reduction Act, things like the CHIPS and Science Act. There's a fair amount of money, I think, still to come into the economy. Is that right?

**CANTRILL:**

Yeah, David, we've been talking to our clients about this because of course a lot of this was signed into law last year, about a year ago. They're celebrating their year anniversary, both the CHIPS bill and the Inflation Reduction Act. And then the Bipartisan Infrastructure deal, if you remember that, was actually signed into law in November of 2021. So in many ways, I think for folks, this seems like it's in the rearview mirror, but just knowing how Washington works, actually there's a lot of fiscal in the pipeline. Much of this actually has not been distributed to the economy. You're starting to see some increases in terms of manufacturing, particularly in the semiconductor area. And that probably is as a result of the CHIPS bill, but we think more will come online, but probably not sort of ironically until after the presidential election. So you'll see a little bit more in 2024, an apex of this stimulus will be sort of hitting in 2026, but I think just to be clear, in a $27 trillion economy, we're talking about hundreds of billions of dollars, a trillion dollars. I mean, a lot, but not necessarily really big macro movers, it will impact these various sectors, green sector and chips, but in terms of the macro impacts still relatively de minimis.

**BOSTICK:**

The sort of drawn out nature of this, was that by design?

**CANTRILL:**

Well, some of this again is just how the government works. On the infrastructure side, a lot of this has to go through state and local governments. And so that can get slowed down by the permitting and what have you and the normal allocation process. In terms of chips and the IRA, a lot of this just takes time in terms of selecting the projects and what have you. So I think that President Biden would like to see this hitting the economy more likely sooner than not, particularly before the November election, but some of this is just the nature of this type of spending.

**BOSTICK:**

As it hits the economy, obviously the intent is to give the economy a boost. But is there an inflationary risk component of this as well?

**CANTRILL:**

Yeah, I think it depends on the private sector and how that responds and whether it crowds out other private investment. So I think it kind of remains an open question. Again, some of this was labeled the Inflation Reduction Act, as David knows, somewhat ironically. But you think the hope of the administration is that this actually increases productivity, whether it's infrastructure or some of these green technologies. And as a result, it doesn't necessarily have an inflationary effect. Certainly, and I think this is really important, it's very different from the type of fiscal stimulus that we saw during COVID, which was just direct fiscal transfers to people's pockets. And that was obviously very inflationary in retrospect. But this is very different, as we've talked about.

**WESTIN:**

What about that productivity? You mentioned it. If it's going to take that long to expend the money, does it mean it's going to take that long to see any increase in productivity if there is? Because that would counteract the inflation.

**CANTRILL:**

Exactly. I think that was really the intent of many of these policies and one of the reasons why it was labeled the Inflation Reduction Act. Again, we think this will be longer dated. And you're starting to see some of this, but we really don't think you're going to start seeing the apex until 2025/2026. And if there is a productivity effect, that will probably be a similar timeframe.

**WESTIN:**

If we're on productivity, I always have to ask about artificial intelligence. What’s going on in Washington right now with artificial intelligence? A lot of economists are saying that could actually make a material difference in productivity. And maybe even sooner than we think.

**CANTRILL:**

So I do think that there's a collective understanding that there needs to be some regulatory framework around AI and majority leader Schumer has been really adamant that Congress actually does something in months, not the usual years. However, I think years is a more likely timeframe. But again, there is a bipartisan consensus that there needs to be some sort of regulatory framework and maybe an additional regulatory agency to actually oversee this. But in terms of actually getting that off the ground, passing a bill and getting it signed into law, I think we're seeing 2025 as a timeframe.

**BOSTICK:**

What happens between now and then? We have an election cycle and we know, of course, both sides don't want to give any other side a bone of any kind here. Should investors expect some degree of stasis?

**CANTRILL:**

So I would say from a fiscal perspective, yes, we don't anticipate any other big piece of fiscal legislation before the November election. However, David and I were just talking about this. We do think a shutdown is actually more likely than not at this point. In some ways, ironically, the downgrade by Fitch last week, we think, increases the chances of a shutdown because it will likely harden those views of the fiscal hawks who are holding out for some spending cuts. Now, of course, if you remember, the debt ceiling deal actually had spending limits. So the Senate is already passing the appropriations bills to adhere to those spending limits. House Republicans, however, want to actually see spending lower than that. And that's where the impasse is. And as a result, when folks get back to Washington, the House doesn’t get back until September 12, they'll have 12 days to pass 11 appropriations bills. Very unlikely to happen. And usually, you would pass this continuing resolution. That also looks unlikely. So again, we're telling our clients that the chances of a shutdown are higher than not at this point.

**BOSTICK:**

What leverage or political capital does Biden have left to maybe avert that?

**CANTRILL:**

Again, I don't think he wants it. And in terms of the political winners, there really are none. Basically both sides will lose if there is a shutdown. I think President Biden, the administration, is very aware of that. They want us to see spending levels at the agreed upon debt limit resolution. But again, in terms of leverage with the House Freedom Caucus, probably not very much. So again, I think unwittingly we may see a shutdown. I would just say from a markets perspective and investors perspective, that may be corresponding with some other fiscal headwinds. So we've talked about the fiscal stimulus not likely to come online for a year. But in terms of some fiscal obstacles, the student loan repayment we think could be a marginal headwind at the same time. We're going to see October 1st come by, which is the tax date for a lot of folks who did not have to pay taxes because they're the men in these emergency disaster zones. So from a consumer perspective, that could be actually a headwind. Plus if the government is shutting down, it could just be a noisy fall.

**WESTIN:**

Just one quick one on that, Libby, are those students actually going to have to start repaying? Because we had President Biden come out and say we've got ways around this. They have some various, I'll call them contraptions, maybe to get around the Supreme Court decision. Do we think they're really going to have to start repaying?

**CANTRILL:**

There are different income repayment plans that they're trying to kind of rejigger. They're trying to expand some of their loan forgiveness programs. I think the problem, David, as we all know, is that those things actually take some time to get up and running. And so it's just a question of timing. There is a grace period for some of those folks and we could see people using that. But for the bulk of borrowers, we're expecting that they're going to actually have to start resuming payments on October 1st.

**WESTIN:**

Time to get up and running. And then there are courts again. Don't forget the courts. Thanks so much. Always great to have you with us. She's PIMCO Managing Director and Head of Public Policy.