**MEDIA: Radio**

**STATION: Bloomberg**

**MARKET: National**

**DATE: 2023-10-18**

**TIME: 02:06 PM ET**

**PROGRAM: Sound On**

**SUBJECT: Libby Cantrill - US Public Policy**

**PAGE COUNT: 7**

**JOE MATHIEU, BLOOMBERG:**

It's essential to stay in touch with Libby Cantrill who's been writing about all of this. She joins us now from New York, PIMCO’s Head of US Public Policy. Libby, welcome back. It's great to have you here as we consider the idea of empowering Patrick McHenry. You wrote about this in your most recent note to clients which have been flying lately. We're always keeping an eye out for your most recent thoughts on this because it's pretty important. Is this something the market would be comfortable with? Is it the best-case scenario? How do you see it?

**LIBBY CANTRILL, PIMCO:**

Yeah, I mean, there's been a lot of material, needless to say, to write about, Joe. I think the ultimate, I mean, our view is that the ultimate endgame here is likely some sort of compromise where Pro-Tem Speaker McHenry actually gets elected. And as you point out, he may not be able to do that with just Republican votes. That might mean that Democrats will have to vote for them. And just to be clear, it's not necessarily for a permanent Speaker position. It's just to effectively give him more authority in his current seat. The House rules, as you all know, when people's eyes glaze over, but they're actually important, that an appointed Speaker Pro-Tem can do very limited things. However, an elected Speaker Pro-Tem can basically function as for, you know, for all intents and purposes, just a normal Speaker of the House, including really importantly, bringing legislation to the House floor. However, I do think it may take a while to get there. I do think Republicans are likely inclined to exhaust all options on the table. That may include Representative Jim Jordan going for a third ballot. We'll see, but it also may include, as you mentioned, some other folks being nominated to the floor and sort of going through this again. So it feels like all arrows are putting in the direction ultimately of a Speaker Pro-Tem being elected and, as a result, having more authorities, but it may take a while to get there. And again, I don't think this is necessarily an ideal solution for many Republicans. So they will try to avoid it if possible.

**KAILEY LEINZ, BLOOMBERG:**

Well, Libby, is this kind of like a continuing resolution, but instead of being about funding, it's about who has the gavel, right? You just give a set date that Speaker McCarthy can, or Speaker McHenry, Speaker Pro-Tem McHenry can act with more powers. And then eventually you are still going to have to deal with getting someone permanently the gavel, and that's still going to be just as hard, however many days or weeks from now?

**CANTRILL:**

Yeah, that's a very apt analogy. And that's exactly what this is. It's basically just to buy more time for the Republican caucus to sort of coalesce around one candidate. That may ultimately be Speaker Pro-Tem McHenry. He's well-liked among various different factions within the GOP caucus. He's actually well-liked on the other side of the aisle as well. That could ultimately be sort of the resolution here that he becomes the permanent Speaker. But again, it may have to kind of go through this sort of first step in order to get there. But I don't want to prejudge this because as you guys have pointed out, there are a lot of moving parts here. It does seem like just talking to folks on the Hill that Republicans don't want to go towards the Speaker Pro-Tem enabling them, enabling McHenry. It's sort of a first step, though. I think there will be more steps in between now and then.

**MATHIEU:**

If you're with us on YouTube, you see Patrick McHenry just dropping that gavel with the force of nature behind there. I don't know if he's going to break that thing, if he ends up getting it for real, Libby. But let's back up to what's actually happening today. Your note to clients made it pretty clear. Jim Jordan's Speaker bid is likely toast. Is that still how you see it after round two?

**CANTRILL:**

Yeah, I maybe should have softened that a little bit, but it is.

**MATHIEU:**

Hey, you're honest.

**CANTRILL:**

Yeah, I'm honest. I'm not pulling any punches here. And no disrespect to Representative Jordan. It is difficult when you go on a second ballot, and instead of gaining votes, you actually lose net votes. And as Kailey points out, while he gained two folks, he lost four. So net, net, he lost two, meaning that he's 22 votes away, sorry, 18 votes away from getting that magic 217. That's a pretty big hole from which to dig out of. And then Joe, we've talked about this before. If he were to try to dig out of that, meaning twisting arms, what deals does he have to make? What promises does he have to make? And that could get him very much in the same situation that former Speaker McCarthy found himself in. So it doesn't feel like a very clear path to getting those 217 votes. So at this point, I would say that yes, his Speakership chances are probably toast.

**LEINZ:**

Yeah, Libby, Congressman Womack, who has voted against Jordan, told our colleague, Jack Fitzpatrick earlier today, that what Jordan and his surrogates need to understand is that this isn't like January. In January, the holdouts were holding out because of policy concerns. Now they're holding out because of concerns about the individual himself, Jim Jordan. It kind of feels. Libby, like all of this is personal and it's personal for everyone who has tried and failed to be a Speaker at this point.

**CANTRILL:**

Yeah, as you guys know, the Speaker of the House plays lots of important functions. But one really critical function is a fundraising one. Speaker McCarthy was an incredibly productive and successful fundraiser on behalf of the Republican conference in the house. Folks would very gladly invite him to their districts. I think the hesitation, Kailey, and this is where the personal connection comes in, folks are hesitant about Representative Jordan coming to those districts that kind of are purple, if not lean blue, particularly here in New York or in California. And so I think there's some reticence about the person and some of his votes and some of his tactics previously. And how that will kind of go over with that with their own donors. Then I think that other folks do have personal issues with him just in terms of how Representative Jordan may have navigated when Steve Scalise was nominated. So yes, there are issues abound, needless to say. But again, I think from a market perspective, as we've talked about, this is mostly noise, mostly noise. But I do think as we get closer without a resolution, I think folks do start getting kind of nervous that things like the government funding though and what have you are just going to go by the wayside. And that may increase the chances of a government shutdown.

**MATHIEU:**

So that keeps the market on edge. Of course, and when you zoom out here, Libby, the news on the other end of Pennsylvania Avenue is just as difficult with President Biden landing in Tel Aviv in a much more complex region than it was even 24 hours earlier with the Summit of Arab Leaders being canceled, the blast in the hospital. The President is trying to deliver a message of restraint while also supporting Israel at the same time. It's getting pretty complicated here. There are a lot of concerns as we look at the oil market about what could happen in a widening war. When you consider both of these, and we can drill down on the President's trip a little bit more if you like, but the dysfunction on the Hill, the situation the administration of the US is involved in, two aircraft carriers steaming into the eastern Mediterranean. What does the market think?

**CANTRILL:**

Yeah, and it basically just adds yet another layer of risk. Clearly the market has been distracted with lots of things. The fact that treasury yields have backed up so much. The fact that their folks are concerned about the natural buyers of treasury bonds, not necessarily showing up to auction, and then you lay over the domestic dysfunction with the geopolitical tail risk, and it is a lot for the market to digest. You see the bond vigilantes yet again today rearing their heads once again while yields are continuing to back up. I think that the real concern of course for the markets, both from a risk perspective, but also from a commodity perspective is if there were an expansion or a broadening of this conflict. Obviously at a humanitarian level just pretty tragic all the way around, but I do think what the markets really care about is whether they're in sort of more direct confrontation, of course, between the US and either Hezbollah or Iran directly. That is when the markets I think will start getting very very concerned. I think that still seems to remain a tail risk. It seems that folks are being very careful in their language, very careful about who was responsible for those tragic terrorist attacks and then what have you, particularly as it relates to Iran's role, but this is I think yet another tail risk for sure that the market would have to price in if you if you will.

**LEINZ:**

Yeah, and we know that there are things that markets don't like. Libby, and uncertainty first and foremost is at the top of that list. So we have uncertainty with the geopolitical situation, uncertainty domestically. And yet you don't really see, outside of perhaps oil markets, much reflected in the markets yet. Do you think they're reading this correctly at this point given the risks known and unknown?

**CANTRILL:**

Oftentimes you do see your duration rallying, the Treasury rates acting sort of as a safe haven. And we did see that for a few days last week, but that is again, they're rewinding or reversing as folks start focusing on other things, including the strength of the economy with the retail sales and what have you this week that were surprisingly strong, just showing that the consumer remains incredibly robust here in the US. So I think it's a question of what markets are focused on right now. I think they’re much more focused on domestic economic data. They are much more focused on what the Fed is saying. We're going to have a lot of Fed speak this week. Chairman Powell will be making some remarks also this week. I think folks are really going to be focused on that. But all the other stuff, I think it's kind of noise until it's not, right? It's noise until it actually matters and I think the same thing goes for just the dysfunction or disunity on Capitol Hill, that it doesn't matter until it does. I think the markets are just assuming it doesn't matter. But again, as I said, if you get closer to that government shutdown, it may view it just not as much noise but more as signal.

**MATHIEU:**

We've got a month to go to chew on that idea. Libby, it's great to see you. Thanks for the analysis. As always, it's our pleasure to have Libby Cantrill from PIMCO.