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**LISA ABRAMOWICZ, BLOOMBERG:**

Joining us now, someone else who can join us in the peanut gallery to try to understand exactly how central banks are going to deal with this, Tiffany Wilding Economist and Managing Director at Pimco. So glad to have you on the show. We were talking earlier, and Gina made this great point about how she thinks the pain trade is actually to the upside in equity markets, things go better than expected, earnings come in stronger than expected. Is it the same with economic

projections? The economy, if it re-accelerates, that's almost the pain trade right now, given where people are situated.

**TIFFANY WILDING, PIMCO:**

Yeah, I mean, I think some of that has been quote-priced into the economics community's forecast. I mean, you saw many economists that were penciling in a recession earlier in the year. You know, and obviously if you look at the consensus numbers, those have come up.

I mean, certainly that can continue. It's definitely been a risk that we've been highlighting as well. In particular, the consumer, you know, it's certainly possible the consumer remains strong. The consumer did basically re-accelerate their consumption and their purchases into the back half of this year. It's a question of how interest rate sensitive the consumer is, and it's proving to be not that interest rate sensitive right now.

**ABRAMOWICZ:**

Which raises the question also Tiffany, what's the connection between growth and inflation? Is there a sense that if growth accelerates, you can still see the disinflation continue that we've seen so far this year?

**WILDING:**

Yeah, I mean, so this has been a point that we've been trying to really hammer home. Which is that there'll be some continued disinflation as a result of the fact that you're still getting the product market side of the economy. So the side of the economy that was impacted by some of these supply chain snacks, you're still getting some normalization there. But labor markets are incredibly tight. And you are still seeing a pretty decent amount of nominal income growth as a result of that labor market improvement. And so we think you probably still need some labor market softening in order to just get inflation kind of more truly back down to target. Yeah, so if you have an economy that's re-accelerating in a labor market that's strong, you know, not services, ex-shelter, kinds of metrics that the Fed is looking at, those probably will start to re-accelerate.

**GINA MARTIN ADAMS, BLOOMBERG:**

Tiffany, what is the most important economic indicator you're watching this week?

**WILDING:**

You know, obviously the jobs number is going to be incredibly important. Now there's going to be some noise around that, because there is some strike activity. But I think everybody's trying to figure out what the underlying trend in the labor market is. And as I mentioned it’s growth, so the Federal Reserve needs to target growth that's under potential. So that, call it around 1%, is what the Fed is hoping to target in order to cool the labor market off. You know, growth right now looks like it's running at two and a half, three. So it is well above that, which suggests the labor market is going to remain strong. Obviously we'll be looking at that wage number within the labor market report is obviously going to be very important as well. But overall we've said if the data flow continues to be as strong as it was in September, certainly the Fed is probably going to want to keep its options open to hike more. We think the SEP could maybe even take out cuts for 2024 just to try to keep those financial conditions tight.

**ADAMS:**

And then where do you think this, what does the impact on financial prices then? So you've got the Fed likely to pause. You've got data still coming in reasonably strong. What are financial markets to do with this kind of data?

**WILDING:**

Well I think obviously kind of good news should be bad news in some sense, right? Because the Federal Reserve is trying to cool off the economy. And ultimately the way they do that is through tighter financial conditions. And whether that's higher interest rates or a decline in equities, maybe wider credit spreads, all of those things, that's how you cool off the economy. And so if the economy remains strong, then that's what we need, more pricing like that in order to cool things off.

**DAMIAN SASSOWER, BLOOMBERG:**

Tiffany, there's been a lot of focus on the quarterly refinancing announcements. My question for you is a simple one: Is the supply story in US Treasury already reflected in the price?

**WILDING:**

Yeah, I mean, I think this is a key question. I think it's actually broader than the refunding. I mean, clearly Treasury has had a big refunding need. They've been trying to increase coupons as a result of the fact that they have this bigger need and they were really ramping up bills. Now they're moving into coupons. I think the bigger issue here is that good growth, better growth expectations is actually increasing people's expectations for supply. And that's counterintuitive relative to usual experience, because usually you have higher tax revenues and that reduces financing need. But right now, you have central banks that can just continue to reduce their balance sheet for longer or, you know, the Bank of Japan, which really pulls away from buying JGBs. That results in more expectations for supply globally. And that's increasing term premiums. So I think that is going to continue with the refunding.

**SASSOWER:**

I mean, Tiffany, you're right in the wheelhouse here talking about the crowding out effect from Japan to the US. I mean, foreign buying of Treasuries, where does the demand come from, the Fed’s no longer backstopping things? Talk to us about demand for US Treasuries on a forward basis. You know, who is that marginal buyer? Who's that marginal risk taker?

**WILDING:**

Yeah, I mean that's what everybody's trying to figure out, right? And the problem, I think, well, one of the issues is, is that you kind of go back to 2014, 2015, 2016, where you had a good amount of bond yields that were negative. And really the US was the only game in town. Well, now with interest rates just across the world much higher, it's possible to get positive

yielding assets outside of the United States right now. Some diversification of portfolios as a result of that is probably reasonable. So I think it is the question of who's the marginal buyer, but not only who's the marginal buyer, but what price are they willing to pay? And what yield do they need to get in order to come back into the bond market?

**ABRAMOWICZ:**

Tiffany Wilding of PIMCO, thank you so much for being with us.