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**ALIX STEEL, BLOOMBERG:**

So let's put this all together for you. You got the jobs number, you have an ISM services number. Let's go now to Tiffany Wilding. She joins us from PIMCO. Tiffany, always good to see you. What is your biggest takeaway from all the data that we got this morning?

**TIFFANY WILDING, PIMCO:**

Yeah, I mean, I think if you kind of look through the details and under the surface, obviously, any one data point is going to be noisy, but I think that the aggregate data basically tells you that the economy is slowing. And I think a lot of commentators, a lot of economists, including us, expected that. There were a lot of known headwinds going into the back half of this year. Obviously, we talked a lot about the student loan payments that were picking up. You obviously also had some tax payments, some tax deadlines that were delayed. All of that sort of takes money out of the economy. And that will cause things to slow. In addition to that, you have just tight monetary policy that's impacting credit flows and the cost of credit for the economy. So all of these things are finally coming together to slow things down. And that's, by the way, exactly what the Fed wants. So I think all of this, to us, also suggests, or at least confirms, at least for now, that the Fed is going to continue to pause.

**GUY JOHNSON, BLOOMBERG:**

Okay, for now, Tiffany, which is the greatest risk? A hike or a cut at this point?

**WILDING:**

I think I see the risks as broadly balanced, but what I would say is that obviously the US economic data looked really good in September coming into this FOMC meeting. The October data has definitely slowed a bit, but going into that FOMC meeting, the economy and the data looked pretty strong, but I think the market priced that in. And there's a lot of this resilience theme at this point that is priced in, and what we don't think is priced in is the fact that, “hey, monetary policy is tight, and historically, in periods when monetary policy is tight, that also tends to increase the probability of slowdown and even recession.” So we don't think that's priced into markets at this point.

**STEEL:**

So there's been a 33% move, basis point, move in the 10-year this week, in five days. If we had talked last Friday, it would have been about “5% or higher?”, “how long?”, et cetera. When does this kind of move in the bond market become a rate cut? When it gets to five, we talk about a rate hike. Why isn't this now kind of a de facto rate cut?

**WILDING:**

Well, yeah, exactly. So the Federal Reserve, one of the reasons why they suggested- they didn't nudge or lean in towards another hike in December, was that they said you had financial conditions that had tightened a lot. The broader bond market had done a lot of the work for them. So I absolutely agree. If you get too much easing here, then ultimately that potentially brings a hike back on the table. But that's all else equal. You have to also look at what the data is telling you. And I would suggest that if you continue to get data that suggests the economy is slowing, then it could still, that will also be a factor for the Fed. And sorry, one last point. But on the labor market data, if you look at the unemployment rate, Claudia Sahm has a very nice rule of thumb for looking at when the economy is in recession using the unemployment rate. And the rise that we've gotten over the last six months or so of the unemployment rate is getting very close to triggering her rule. So we don't think we're in a recession now. But I mean, there's definitely some indicators that are starting to get concerning.

**JOHNSON:**

Yeah, and her kind of rule of thumb. Very few false positives, in fact, I think none. So it's probably a useful thing to pay attention to. Tiffany, there's an awful lot of supply coming next week. Isn't that going to put paid to this yield drop that we're seeing right now? Isn't the market just kind of, we're in a false kind of narrative because technically driven, this market looks like it's probably going to have to deliver higher yields?

**WILDING:**

Well, I think a lot of that has been priced in. You know, the increase in yields that we've seen, you know, call it over the last couple of quarters, has been led by a bear steepening. So it was led by the 2’s, 10’s curve also steepening out. Usually that's consistent with just investors needing more yield to take down additional supply. So I think a lot of that has already been priced in. You know, of course, there can be some concession dynamics around treasury auctions as we usually see. You know, but I think at this point, you know, the supply story, at least in our minds, is probably largely in the price.

**STEEL:**

Okay, so Stan Druckenmiller's conversation about how Janet Yellen just messed up this whole thing. You don't believe that. You believe everything is going to, we can take down the supply, et cetera.

**WILDING:**

Well, you know, I look, I certainly think that, you know, this has been a concern for the markets, you know, but ultimately the yield now, you know, looks attractive. And I think it's attractive enough to potentially bring people back to the market. You know, the one other thing I would just say on this is that I don't think it's all the treasury. The Federal Reserve is also reducing the size of its balance sheet, quantitative tightening. And, you know, if as the market reduced recession risks, then basically that suggests maybe the Fed's not hiking more, but they're continuing to reduce their balance sheet for a longer period of time. So I think the other thing that investors were reassessing was that, “hey, maybe that two trillion balance sheet reduction that the Federal Reserve says they're going to do, they're actually going to do that.” And by the way, that's two trillion that the treasury is going to have to finance. But I think a lot of this is probably in the price, probably that was driving some of the term premium expansion that we've gotten. And you know, probably we're now getting to levels that make more sense.

**JOHNSON:**

Tiffany, I spoke to the governor of the Bank of England yesterday. He says that it's too early to talk about cuts. Does the governor of the Bank of England have the same credibility when he says those words as Jay Powell?

**WILDING:**

So, you know, what we're looking at to think about, to think about recession risks, to think about, you know, how much inflation can actually moderate. You know, the key area in our minds is “what is the labor market doing?” We've said kind of the last mile on the inflation fight is going to be the hardest. And it's going to require some labor market easing. You know, I think you are actually starting to see that labor market easing in the UK. You know, unemployment rate, you know, is starting to tick up. You know, I talked about this Claudia Sahm rule, if you applied that to the UK. You know, certainly looks like the UK is very close to recession if not already in one. You know, and so ultimately that will start to, you know, start to moderate wage inflation. You know, that happens with a lag usually, but that's ultimately good news for the central bank. And we think central banks will start to think about easing as you get more labor market weakness. So, you know, based on that, you know, maybe the UK is a little bit closer, you know, than the United States, but that's what we would be watching.

**STEEL:**

Okay, so we're going to go from thinking about it, to talking about it to doing it. So as long as it actually goes, at Tiffany, thanks a lot. We really appreciate Tiffany Wilding of PIMCO. Thank you very much.