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**JOE MATHIEU, BLOOMBERG RADIO:**

I told you Libby Cantrill was coming in. She's with us now, the Head of US Public Policy at PIMCO, on the line. Libby, I saw your note to clients, and I guess we're feeling pretty good about things here, but nothing's changed, has it? Don't we just shut down in January?

**LIBBY CANTRILL, PIMCO:**

Yeah, good afternoon, Joe. Basically, Congress has done what they are very good at, which is just kicking the can down the road. As you know, there are now two deadlines. With Congress, this should be more simple. Two funding deadlines, January 19th, as you just mentioned, and then also February 2nd, which happens to be Groundhog Day. Maybe willingly or not, they made that deadline.

**MATHIEU:**

Good lord. Is that real? Did they do that on purpose?

**CANTRILL:**

I don't know. Maybe it's a wink and a nod. But I think the most important thing here, and you're right, markets have sort of shaken this off for the most part. I think there was more focus at the end of September. I think then there was just the assumption that this will get resolved this week, which, of course, it looks very likely to. We would be surprised if we didn't see a big bipartisan vote in the Senate and then President Biden quickly signed this into law. But we will have to revisit this, come January 19th. And it looks like, while the House Freedom Caucus, the right flank of the House Republican Conference, is giving Speaker Johnson a break for now, they will not come January. They are insisting that there has to be spending cuts or else. Representative Chip Roy, who is part of the House Freedom Caucus, has indicated this is strike one and strike two, for Speaker Johnson. So it does seem that the stakes will be much higher as we go into January. And in terms of the markets,again, the markets haven't really been focused on this. However, you could argue that some of this increase in the term premium, basically the premium that the US government has to pay investors in order to take on their debt, maybe has something to do with just questions around functioning and governance in Washington, but it's difficult to know to disentangle all the reasons for why the term premium had increased over the last six weeks or so.

**KAILEY LEINZ, BLOOMBERG RADIO:**

Yeah, well, if you ask Treasury Secretary Janet Yellen, she doesn't think that has anything to do with the debt and deficit. It's just the idea that the economy is really strong and rates are gonna stay higher for longer. So I guess Libby, it depends on who you ask. To the point you were just making, though, about maybe the House Freedom Caucus, some of these ultra-hardline conservatives aren't gonna be giving Mike Johnson as much of a break come early next year. We also heard from Congressman Bob Good of Virginia. He was speaking to reporters earlier and he said “the Speaker has said he wouldn't do another CR. We’re going to hold him to that.” So Libby, with the passage of a clean CR now, does it only intensify the idea that there will be a shutdown next year because Speaker Johnson is gonna have played that card already and not gonna have an option between shutdown or spending cuts that Democrats won't go for?

**CANTRILL:**

Yeah, I think that's exactly right, Kailey. I think it sounds like the release valve that both Speaker McCarthy and that Speaker Johnson have used will not be available to Speaker Johnson if he wants to keep his speakership. It sounds like that is the implicit threat here that come January 19th if the funding bills for that part of the government that that deadline applies to, if that hasn't passed then folks will threaten his speakership if he has to use another CR. The thing is that practically speaking, you already just saw this today in the House. This is sort of noise I think to investors, but it's sort of important in Washington is that the appropriations bills have not been able to pass even on a partisan basis. I think this is kind of the big takeaway and sort of revealing in terms of the Republican caucus that there are obviously lots of different factions. They call it the five families on the Hill within the Republican conference and they're not necessarily getting along very well right now and that does not necessarily portend well to meeting that January 19th deadline as passing appropriations bills even if it's just relying on Republicans. So I think the bottom line here is the stakes seem higher going into January. The chances seem higher of a shutdown honestly in January but as we've just been talking about, does this really matter to the market? Probably not unless it's a sustained shutdown and then there's another shutdown deadline February 2nd. So the full government shutdown then, I do think new markets will be taking notice.

**MATHIEU:**

I'm talking with Libby Cantrill at PIMCO on Bloomberg as the President today, Libby, sits down with Xi Jinping. The president of China is here in the US for the first time in six years. They're sitting down in San Francisco for what is described as a high stakes meeting based entirely on our lack of relationship over the last nine to 12 months here. Then again, expectations are pretty low and we keep hearing that this is a market positive, just the fact that they're sitting down together. Is that how you see it?

**CANTRILL:**

I think that's exactly how we see it, Joe. This is the first time that President Xi has met with a US President on US soil since 2017. This is the first time where both leaders are coming together with hands open a bit more than what they have during Biden's administration. So the meeting in itself is the deliverable. The meeting is what folks on both sides were trying to deliver. I think outside of that, we don't expect there to certainly be any kind of grand bargain on sort of the economic tool of statecraft, if you will, in terms of rolling back tariffs or anything announced of export controls or what have you from the US side. I do think though that one area of potential agreement that could come out in an announcement could be the reinstatement of military to military communications. That is something that certainly the US administration is prioritizing. Just remember that even during the Cold War, the US had principles of principle level, channels of communication, open with military folks and then with the USSR, so during the Cold War. So the fact that we haven't had that with China since August of 2022, of course, that's when Speaker Pelosi went over to Taiwan and then China kind of cut us off for all intents and purposes. So I know that is a priority of the US administration, I think for good reason, from a national security perspective. And so I would not be surprised if we saw an announcement around that, but outside of that, I doubt we see much coming out of this meeting. Again, the meeting itself is the deliverable.

**LEINZ:**

And of course, Libby, the meeting with Biden isn't the only meeting that Xi Jinping is going to have. He's dining tonight with a bunch of executives of big companies. We don't know exactly who is on that invitation list for dinner, but we know the likes of Jane Fraser, Elon Musk, Satya Nadella. They're all gonna be at the CEO summit that's happening on the sidelines of APEC. So it'll be interesting to see what the business oriented conversation is because we were having a conversation with Gerard DiPippo, who's one of our geo-economics analysts here at Bloomberg Economics last night. And he basically told us, look, whatever the messaging from the Biden administration is about whether or not there is a decoupling they're pushing for with China, ultimately a lot of these decisions come from what people do. And Libby, aren't we already kind of seeing that?

**CANTRILL:**

Yeah, that's an excellent point. I do think it's quite a tell that President Xi is meeting with these US-based CEOs. I think if you look at the most recent FDI, the Foreign Direct Investment data in China, it has sort of dropped off a cliff in many ways. And so I think that it makes sense that President Xi is trying to reaffirm or reassure in many ways that China is still open for business, that it is still open to US investment. But you make an excellent point that, regardless of what the public policy is around here, the political risk of investing in China has certainly increased from the US's perspective. We see that with some of our clients based in the US, and then, of course, there's some economic headwinds, as we all know, in China. So it's dovetailing at a time where investment may not be even that attractive going into China. But again, I think this is sort of a revealed preference, if you will, on President Xi's part, where he is showing that he does want to again reassure US and US business that China is still an attractive place to invest. Whether it resonates is the question.

**MATHIEU:**

Sure, do you have a feel for that, Libby? I just wonder if this is the new normal here, if there's going to be some thaw or a motivator to start investing in China again after so many people got burned.

**CANTRILL:**

Yeah, and you saw today that the federal thrift retirement plan is going to be moving away from some of their Chinese investments. There have been lots of US-based pension plans, big allocators of money that are not necessarily divesting, but they are not necessarily making new investments in China. And I do think this is sort of the intersection of investing and policy and very acute policy or political risk. A lot of those folks, a lot of those allocators, just think that the question is about, obviously, the economic attractiveness of China, but then also the destination, but also, again, just the domestic political risk. And what we've seen on the Hill, the House Select Committee on China, they very much are scrutinizing capital flows from the US to China. We also have seen the Biden administration put out an executive order in August basically looking at capital flows into very specific sectors. They try to be very targeted and very surgical, but still. So I just think in general that the threshold for investing if you're a US-based investor, especially a big one with the headline risk has increased.

**MATHIEU:**

We're just about out of time here, Libby, but I do appreciate you taking a swing at that question. I'm Joe Mathieu in Washington.