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**AMBER KANWAR, BLOOMBERG:**

Let's bring in Tiffany Wilding, Managing Director and Economist at PIMCO. Tiffany, it is an art, perhaps, not a science, trying to figure out what the Fed is going to do, but certainly this is the direction that the market is betting right now. Well, we've done this before, right? Over the last two years, we have been on sort of this dovish turn. It hasn't always worked out. Is this time going to be different?

**TIFFANY WILDING, PIMCO:**

Yeah, I mean, I think obviously that's a key question for markets. You know, what I would say is that the United States has stood out in terms of its growth resilience this year, versus other developed markets, versus Canada, versus the European Union, and others. You know, so I think the question is, how long can that growth divergence continue? Because if it does, you know, then that's the kind of environment where you have inflation that's re-accelerating, and where the Fed is potentially, you know, talking about the need to hike again. And so I think the markets right now, you know, obviously we're getting data flow, and obviously valuations in the US bond market, you know, look still quite attractive. So the data flow is giving investors reason to come back to the bond market and buy bonds. Obviously, the Federal Reserve has, you know, in terms of its communication has marginally changed from a communication of, “we're still hiking”, to, you know, “we could still hike, but we probably think we're on hold.” So investors are taking this opportunity to just reap some value within the bond market.

**KANWAR:**

And I guess, so I'll put it in terms of what the market pricing is right now, a third chance that they cut in March. I think we're at 86% that they cut in May. Is that too aggressive? Where do your numbers suggest the first cut comes?

**WILDING:**

Yeah, I mean, well, so as a baseline outlook, you know, we think the first cut comes closer to the middle of the year, and that the, you know, the, the run of cuts, you know, kind of starts in that second half of this year. You know, and ultimately our view is predicated on the fact that the Federal Reserve, you know, needs to see, you know, needs to be sure, you know, that inflation over the longer term is going to be more closely aligned with their target. And they might not need inflation to get exactly their target to start cutting. But in order to be sure, we think they need to see, you know, some loosening in the labor market, you know, some more deceleration and wages. And we think that you will start to see more of that by the second half of this year. You know, again, I said growth of the US has been very strong, but we think there's a whole host of factors on why growth will probably stagnate in the United States next year, and you will get some more upward movement in the unemployment rate.

**KANWAR:**

Does that mean you're, you know, calling for stagnant growth, are you stopping short of calling for a recession?

**WILDING:**

Yeah, well, I mean, whether the economy contracts a little bit, you know, or you get stagnant growth, you know, unfortunately, it's kind of within the margin of error of the statistics that we get. And there's a bit of a lag to the data. So I mean, I think that's the kind of environment that we're in. You know, what we would call, you know, more elevated recession risks and, you know, a kind of stagnant growth outlook. You know, and that's going to be enough. We think in order to start to cool off the labor market, to really truly get inflation back to target. And so I think, you know, ultimately, the markets are, you know, are looking at, you know, kind of the most recent, you know, data inflation, you know, did decelerate quite a bit in the third quarter. You know, and they're getting more optimistic, you know, that the Fed can really pull off, you know, this inflation adjustment that we need without a recession. But of course, that's yet to be seen, you know, and we need to continue to monitor.

**KANWAR:**

Is the rally in the bond market complicating that tightening by us that the Fed would still like to at least show that they have because it has resulted in easing of financial conditions?

**WILDING:**

Yeah, I mean, I think one of the interesting things about, you know, the last FOMC meeting, you know, was that, you know, FOMC members pointed to the tightening of financial conditions that increase in longer term interest rates, you know, widening of term premiums that investors require to invest in bonds, you know, all those kinds of things, they pointed to that as further tightening financial conditions, and that was kind of doing the work for them. You know, I think what's been interesting is that, although we've gotten, you know, some mean reversion that like financial conditions had eased again, you know, the Fed obviously, in terms of the communication that we're getting out of them, you know, does on the margin still suggest that they are, they're ultimately on hold, and it's really the data, you know, that needs to continue to come and strong to knock them off that path. So yeah, I mean, I think it is interesting. It doesn't seem to be knocking them off the current path for right now that they're on hold, but obviously we'll want to continue to watch. Powell has a chance to change those perceptions when he speaks later this week. So we'll see what happens.

**KANWAR:**

And we will. And of course, we'll get a key read of inflation tomorrow, the Fed's preferred gauge, and that could affect the tone as well. Tiffany, thank you so much for joining us. That's Tiffany Wilding, Managing Director and Economist at PIMCO.