**MEDIA: Television**

**STATION: Bloomberg**

**MARKET: National**

**DATE: 2024-01-05**

**TIME: 01:35 PM ET**

**PROGRAM: Markets**

**SUBJECT: Tiffany Wilding - US Economy**

**PAGE COUNT: 3**

**AMBER KANWAR, BLOOMBERG:**

Let's bring in PIMCO economist Tiffany Wilding for some perspective. Tiffany, how did you make sense of the two conflicting data points on the jobs front this morning?

**TIFFANY WILDING, PIMCO:**

Overall, I think you have to be careful reading too much into any one report. I think the reports that we saw this morning, the jobs report, services data, I think there was a good bit of noise in that. On the one hand, the ISM, the services data suggested that many employers actually reduced employment. And that number fell quite a bit down into deeply recessionary levels, but obviously the headline number on the actual payrolls report presented a very different picture. It was a pretty resilient labor market and economy. So I think you just have to take all of this with a grain of salt, and I think that's what the markets are doing. They're not really reacting that much to these reports this morning.

**SONALI BASAK, BLOOMBERG**

Well, there are the reports this morning and then there's more data next week. And if you think about the path of inflation, there have been a lot of conflicting signals. You think about wages, you think about oil prices. How closely are you reading the numbers next week?

**WILDING:**

I definitely think obviously markets are going to care about any of the inflation reports. I think what the Federal Reserve cares about when they look at it is, are we coming down into levels that are more consistent with the Federal Reserve's mandate? And we've been saying the Federal Reserve probably will be okay with inflation on a year-over-year basis. They probably need it to be somewhere below 3% just for the optics of it to start cutting rates. I think we've seen quarterly inflation rates, especially in the core PCE measure, which the Fed cares a lot about. They've gotten into that two-point something range, but we're kind of still waiting for that year-over-year rate to get down there. Overall, we kind of think the Fed probably starts to cut closer to the middle of next year. But certainly, March is in play as the markets have suggested. But a lot's already priced into the market at this point.

**KANWAR:**

This morning, we had US Treasury Secretary Janet Yellen make comments after that job report saying the soft landing is here. She did kind of caveat saying, we'll see what happens for the rest of the year. Do you agree that much of that hard work and that slowdown has already happened? What's your base case for how things play out in ‘24?

**WILDING:**

So we've been calling our base case a “soft-ish landing”. Ultimately, we think if you do get any sort of mild recession or economic stagnation, it’s not going to be comparable to a 2008 recessionary experience or slowing experience or even a pandemic experience. And ultimately, with the unemployment rate, we don't expect it to rise in that kind of manner, either. But nevertheless, we think next year is going to feel a lot different than this year. We do expect growth to stagnate. I think the things that drove the outperformance and the resilience in the U.S. economy this year, and just including fiscal policy that was still sort of sloshing around the economy via excess real savings balances, those types of things are normalizing. And when those things do normalize, we're still ultimately left with tight monetary policy, even though financial conditions have eased somewhat. So we think growth does stagnate in the United States next year. That's going to feel a lot different than the two and a half percent growth we got this year. Unemployment rates will probably rise in that kind of environment. The Federal Reserve can start to cut interest rates.

**BASAK:**

So there's so many expectations for interest rate cuts. We have more and more investors telling us they're also preparing for a possibility in the other direction, almost just in case. How much risk is there that rates actually go higher from here?

**WILDING:**

I think the range of possible outcomes continues to be wide. With the pandemic and government support, it's very difficult to pinpoint with any accuracy more recent economic trends. So I think you have to be open to a wide range of outcomes. And I think that continues to include the potential that inflation could reaccelerate. And when we look at market pricing in the rates market, we look at what the Fed funds market, for example, is pricing in terms of Fed cuts. I ‘d compare that to equities and other risky assets. It looks to us like the market is very heavily pricing in that soft landing outcome. And that's not a done deal yet. Certainly the probability is increased, but as you say, there are other outcomes out there, like inflation reaccelerating as well as just the economy doing worse than expected. And it seems like the markets aren't really prepared for that. So when we think about the bond market here, I think that rates are at levels that suggest the risks are more symmetrical around whether they increase or fall. But we look at riskier asset prices like the high yield market or even equities, inflation reaccelerating or downside economic risk, neither of those scenarios are really good for those riskier assets. So ultimately, I think you have to think about the balance of risk in the scenarios here.

**BASAK:**

Preparation is key for 2024. I suppose people have lost money in bond markets as much as made money in them in recent months, haven't they? PIMCO’s Tiffany Wilding, we thank you very much for your range of outcomes.