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**MANUS CRANNY, BLOOMBERG:**

PIMCO's Tiffany Wilding is in the wings. As we start the new year, writing this, “With the global economic outlook still clouded and equity markets priced for a soft landing, bonds offer attractive yields and resilience across multiple possible outcomes.” Tiffany joins us now, weigh in. Good morning, Tiffany. Good to see you. These bond markets have been shaken a little bit. We're above 4%. I hear the supply issues you raised in the autumn time. But the gross doesn't think that they offer value at this point. On sovereigns in the US at around 4, 4 and a quarter percent, do you want to scale back into this kind of sovereign debt at these kinds of levels? Good morning.

**TIFFANY WILDING, PIMCO:**

Well, good morning. Thanks for having me. Yeah, I mean, so we think for longer term investors, the bond market still provides a lot of value. If you look at high quality credit, securitized markets, you're still getting relatively elevated yields. Especially if you think as we do, that ultimately the underlying neutral interest rate in the US economy is probably still around zero to 2% on a real basis. And if we compare that to longer dated real yields, for example, they're still elevated. But nevertheless, and this is where it's important to have an active and active bond manager. Nevertheless, when we look at the front end of the interest rate curve, the Fed funds futures strip, we do notice that there's a lot that's already priced in in terms of central bank cuts just in the near term. So I think over the longer term, bonds provide value. Kind of as a tactical trading perspective, though, the bond market's priced a lot in terms of cuts.

**CRANNY:**

And to a certain extent, we've discussed that now for six, seven days in a row. We've seen this retracement. You tilted your piece at the start of this year, “Navigating the Descent.” And I'm curious, the kind of rate cuts and the rationale for rate cuts this year. You've looked at history and you talk about rate cutting in recession-like environments, a rate cutting in non-recessionary environments, the 1995 style soft landing. So what will we get from the Fed, three or six, or something a little bit even more muted than the three than the market has priced in?

**WILDING:**

Yeah, well, what we find when we look historically is that central banks tend to lag in their cuts. In other words, they don't start cutting until they're pretty certain that their economies are in recession. Now, nevertheless, and then when they do cut, they cut much more than what the markets priced in or what forecasters are expecting. Now, nevertheless, there's a handful of cycles historically, where central banks have managed to cut without an impending recession. In those, quote, soft landing cutting cycles on average, the central banks tend to be cutting about 200 basis points. So that's in the first year after the cuts start. So that's about twice the pace than what's currently in the SEP, for example, than what Federal Reserve officials expect. Overall, we take a look at it. We think it's a reasonable baseline to think that probably the Fed is gonna be a little bit more delayed than what the markets are currently pricing. But again, nevertheless, when they do start cutting, they'll probably be a little bit more aggressive than maybe what they're forecasting. But when we look at what the bond market is currently pricing, we're pretty much priced for a soft landing outcome. And that's the case, when we look at equity, we think that's the case when we look at equity valuations or riskier credit, lower quality credit as well. So to us, when we think about longer term valuation of the bond market, it still looks good relative to your risky alternatives, even though, from a near-term tactical trading perspective, we could see some of those cuts getting priced out. Of course, the path from here to there is never a straight one. It'll probably continue to be bumpy.

**CRANNY:**

Yeah, I think that's the building consensus, which is trim your risk, bumpy ride ahead. Tiffany stays with us, Tiffany Wilding from PIMCO on her cause, “Navigating the Descent”.

**CRANNY:**

Tiffany Wilding is still with us. When we talk about US debt, we've gone through a number of fixating moments last year, credit reviews, ratings reviews. You talk about 15 years, yields at a 15-year high, creating a ray of opportunities. But what is the fiscal risk here? Is that one of the imminent risks on the cards? Or is that something that I look at in three years, five years? Do I just kick it into the long grass for the US?

**WILDING:**

Yeah, well, obviously, I think that understanding the point in time where the bond market really starts to get worried about longer-term fiscal sustainability issues is obviously very difficult to forecast in any given year. What we would say is that the types of numbers that Congress is looking to pass for this year's government spending levels will basically keep spending levels a little bit higher than last year on a nominal basis, but not that much. So overall, we think actually spending, government spending, in terms of its impact on the economy for this year, for 2024, will be much more muted than some of the stimulative trends that happened last year. But nevertheless, the path of US deficits that are projected as a result of demographics and some of the Medicaid, Medicare, and the non-discretionary programs, that path, obviously, is unsustainable. And when we look at the election that's coming up, for example, this year, the candidates, likely candidates for either Biden or Trump, neither of those candidates in terms of what they're telling us are really going to change that longer-term trajectory. So of course, that's something that Congress and the government is going to have to deal with at some point. When the bond market decides to really push them on that, obviously, it is uncertain, but as a result, we like to maintain positions in our portfolio for a steeper interest rate curve. We think when investors look to increase duration, move out of cash, we think there's enough to do in the intermediate sector, not go all the way out to the long end.

**CRANNY:**

OK, keep it in the short end and look for receiving on the curve again. Another consensus narrative that is building from the various bond guests. Tiffany, thank you so much, Tiffany Wilding of PIMCO.