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**SARA EISEN, CNBC:**

Our next guest is predicting three rate cuts this year and says markets are currently pricing in too much easing. Joining us now is Richard Clarida, Global Economic Advisor for PIMCO and former Fed Vice Chair. Rich, you're not at the Fed anymore. You don't have to do the Fed expectation. They say three cuts.

**RICH CLARIDA, PIMCO:**

Well, that's right. And that lines up really with our outlook. The soft landing runway is in sight. But I think in order to get the six cuts that the markets have priced in, you either need a pretty deep recession that we don't see or you need to see inflation falling even faster than we expect. So we do think the Fed thinks they're done. It's appropriate to start to lower rates as inflation moves towards the 2% target. But the baseline for us would not be six cuts in 2024.

**EISEN:**

When do you see that process starting?

**CLARIDA:**

I think March is potentially in play, but really too soon. So I think if the inflation data continues to improve and the economy evolves as we expect, the conversation could begin to engage I think in May or June. Remember at the March meeting, they won't even have the February data on PCE inflation. So there's not a lot of data to get between now and then.

**EISEN:**

So what is your concern around inflation? Sounds like you think it may be stickier than the optimism in the markets right now.

**CLARIDA:**

Well, I think you have to acknowledge the progress, Sara. I think the progress on inflation for the last six months is definitely there. I do think for everything you care about in life, there’s always good news and bad news. And I think maybe markets are a little bit relaxed about a situation where inflation is sticky and stubborn. But the data is definitely going in the direction that's favorable for the economy and for the Fed. And that's a good place to be, I think, compared to a year or so ago.

**CARL QUINTANILLA, CNBC:**

Rich, how do you square real income growth right now and the spread between inflation and wage growth? Obviously some renewed momentum behind capital markets gains and the decline in inflation expectations. Wouldn't you expect a more confident consumer to drive prices?

**CLARIDA:**

Well, yeah, there's the old saying which is don't bet against the American consumer. And we certainly saw that very much in 2023. Income gains, we do think, are going to shift down. The economy grew above trend last year, so that was great. It was unexpected, but slower growth. And there was a big pile of accumulated excess savings from all the checks that got sent out in 2020 and 2021. And most of that has been spent through. But the real wage gains are welcome, certainly, to workers. And Carl, one thing the Fed's going to have to be considering is, are those wage gains consistent with the 2% inflation objective?

**QUINTANILLA:**

Do you buy the notion that corporates are hoarding labor or at least are in a better position having their interest expense down and their profits up in the course of this tightening cycle that they can afford to have unemployment rise a little more gradually than in prior cycles?

**CLARIDA:**

I think that is there. We have seen in the past that companies do hoard labor, especially when it's scarce and expensive as it has been. That's why historically, the labor market data tends to be a lagging indicator. And of course, the other thing now is we have a pretty big divergence between the household survey and the payroll survey, which is, again, not all that unusual as well. So I think the labor market is slowing. That's certainly positive. Job gains are welcome. But we are getting into the range where we do need to be watching it closely.

**EISEN:**

So, Rich, are you guys bearish on bonds If you think that the market has overdone it on pricing records?

**CLARIDA:**

Oh no. Perhaps not surprisingly at PIMCO, we're bullish on bonds. We think valuations are attractive. What we have highlighted is that getting a lot of your bond exposure at the very front end of the yield curve, we think there are better opportunities, opportunities in credit, opportunities globally. And certainly, the returns last year were quite healthy. And we think with more to come. But in terms of valuation, we do think, technically, the front end of the curve is a little expensive right now.

**EISEN:**

Right, okay, so there's where you're expressing now. My other question to you is on recent Fed communication. A few of them, Lorie Logan mentioned this. I think Michelle Bowman mentioned concerns about financial conditions loosening, which we've certainly seen. Stocks are up, bonds are up, and the dollar is weaker. And whether that risks sparking inflation again. Are those valid concerns?

**CLARIDA:**

I would put it this way, Sara. The Fed in November indicated that tighter financial conditions were doing some of their job for them to slow demand. Since the November Fed meeting, financial conditions have eased. What President Logan said in her speech recently is that they do need to consider that as financial conditions continue to ease, then it is less likely that inflation falls to the zone that they want. So I think we're not at that point yet. But it's certainly, I think, appropriate for the Fed to be following financial conditions as they assess the chances that inflation eventually returns to target.

**EISEN:**

Really quickly, when do you think QT ends?

**CLARIDA:**

Well, I think QT continues for the rest of this calendar year. Again, President Logan indicated that at some point this year, they may do a taper on QT where they're reducing the pace. But we do expect QT, in some form, to continue throughout the rest of this year.

**EISEN:**

OK, so tapering is back. Remember that word?

**CLARIDA:**

Yes, and of course, they want to avoid another taper tantrum. That's for sure.

**EISEN:**

Well, it would be the opposite, right? The market wants them to taper.

**CLARIDA:**

Yeah, exactly.

**EISEN:**.

All right, Rich. Thank you. Always valuable to speak with you. Richard Clarida, the former Fed Vice Chair.

**CLARIDA:**

Thank you.