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**ROMAINE BOSTICK, BLOOMBERG:**

All right, let's get some insights out of our first guest, Tiffany Wilding, joining us right now. Economist over at PIMCO, helping us kick things off to the close here. And on the heels of that outlook for 2024, basically over the next six to 12 months, did anything actually change in your mind after seeing the CPI report this morning?

**TIFFANY WILDING, PIMCO.**

Not really. I thought this report was pretty much in line with expectations in the sense that the broad themes that we've been highlighting I think were very much underscored in this report. Those broad themes include the disinflation that we saw in 2023, which was historically notable for how much disinflation we got.That was largely the result of supply chain normalization, energy shocks which were fading, things of that nature. Just some normalization in things after the pandemic and those related disruptions. And that resulted in a very quick disinflation, but nevertheless, additional disinflation from here probably will be much slower, a little bit more nuanced, and definitely will also rely on the labor market cooling a little bit. And I think this report sort of underscored those themes. We're not going to get the tailwinds from supply chain normalization forever. You can't go to heaven twice as they say. And obviously, this will complicate the message for the Fed.

**BOSTICK:**

Well, does that complicate the investment strategy for investors out there who, of course, had been betting on a pretty persistent bond rally this year?

**WILDING:**

When we look at the front end of the interest rate curve, the Fed funds futures strip, basically what we see is that the markets are currently already pricing a cutting cycle that is historically very consistent with other soft landing cutting cycles that we've seen. So for the market, the bond market at least, to price in more cuts from here, we've argued that you need to actually see data that's confirming that recession risks should be more elevated. And the other thing that we've just been highlighting is that it can certainly happen, but there's also a fat tail on the other side of the distribution here. It's possible that you could see some re-acceleration in inflation. The markets seem to be discounting that kind of risk as well. I think the risk to the bond market here is more asymmetrical, but nevertheless, the other thing I would just highlight is that neither of those scenarios are particularly good for risky assets, and I think those are some of the things that we're seeing in the broader price action for equities right now.

**KATIE GREIFELD, BLOOMBERG:**

Well, that's what I wanted to ask. The risks are asymmetric in the bond market, but then you take a look at risk assets, and it sounds like the bond market is still the place to be, especially when you think about where yields are.

**WILDING:**

If you take a broader step back and zone out — what we've been talking about is more near-term tactical trading evaluations in the very front end of the curve, but if you look further out the intermediate sector, when we look at intermediate real rates, for example, they're still elevated relative to what we think is kind of that new neutral range. We see the five-year real rate, for example, 175 or whatever it's trading at today. It's elevated versus the zero to one percent new neutral range that we've highlighted. So the Federal Reserve is restrictive. There's definitely still some value there that we see. But again, if you look out further to credit, high quality credit as well as securitized products, there's even more value. So, there's definitely still more value in the bond market, even though there's probably some tactical trading opportunities as well in the front end.

**GREIFELD:**

I also want to talk a little bit more about what's priced in. Of course, you mentioned that you take a look at markets and they're pricing in pretty significant rate cuts when it comes to the Fed. The first coming in March, you think about what we learned this morning about inflation and this economy, does March seem realistic?

**WILDING:**

Well, I think that one of the benchmarks here that we're looking at is that just optically, we think core PCE inflation needs to be running below 3% for the Fed to feel more comfortable starting to cut rates. And it's going to be pretty close. We still think it will be running a little bit above that, maybe more in line. So, our expectation has been that it's probably more reasonable for the Fed to start cutting closer towards the middle of this year. March is maybe a little bit too aggressive. But nevertheless, there's some data between now and then. Obviously, it's certainly possible. I think Fed Chair Powell put it in play. It's a live meeting, if you will. But nevertheless, we're just not convinced that the inflation data is going to fully cooperate with that.

**BOSTICK:**

Tiffany, always great to catch up with you. Tiffany Wilding, PIMCO’s economist, helping kick things off to the close here on this Thursday afternoon