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**DAVID WESTIN, BLOOMBERG:**

This is Wall Street Week. I'm David Westin. We have been doing a series of reports on Wall Street votes; that is to say, what difference the presidential election could make for Wall Street. To help us in that effort, we welcome back Libby Cantrill. She is PIMCO Head of U.S. Public Policy. Libby, thanks so much for being here.

**LIBBY CANTRILL, PIMCO:**

Thanks so much for having me.

**WESTIN:**

So we still don't know a lot about the election. We think it may be Donald Trump against Joe Biden. Assuming for the moment that those are the candidates come November, what could it mean for Wall Street? And let's start with fiscal policy.

**CANTRILL:**

So the first big fiscal inflection point that either Joe Biden or Donald Trump would have to address in 2025 outside of the debt limit, because remember the debt limits are now raised until the beginning of 2025, will be the Trump tax cuts on the personal side. If you remember, David, when the Trump tax cuts were passed in 2017, they extended the personal side through 2025. And so those all expire at the end of 2025. So again, the big fiscal inflection point will be that. And that will honestly depend a lot, of course, on who's in the White House, but really importantly, what the composition of Congress is. The Senate right now is controlled by Democrats. The House right now is controlled by Republicans. We actually could see both chambers flip. Just because of the Senate map, you could see the Senate be controlled by Republicans and the House be controlled by Democrats. And that sort of means a muddled middle in some ways. Trump will, of course, want to extend all of those Trump tax cuts on the personal side. President Biden probably would want to do a bit partial, but it will really come down to Congress. If either has a clean sweep, then what we could assume is that all the Trump tax cuts on the personal side would be extended under a Trump Republican Congress. For Democrats, probably about part of them would be extended if a Democratic Congress and President Biden's in the White House. So I think that the bottom line, though, for us as bond investors, is that both of them will likely extend at least some of those Trump tax cuts and probably be deficit financed. It probably will be paid for. That means that debt issuance will likely go up under either president.

**WESTIN:**

Well, let's go to debt and deficit because it's much talked about but not much is done about it. Is there much difference, do you think, between these two sets of policies, Biden and Trump, when it comes to that? Because mainly when I talk about this, people say it's got to be entitlements. You've got to address Social Security, you've got to address Medicare. I'm not sure that either one wants to address those.

**CANTRILL:**

Yeah, that's exactly right, David. So the deficit, I think, is the big loser here under either a Biden win or a Trump win for that very reason. Now, of course, you could increase revenues by increasing taxes. That's not usually very popular, though. And that's something President Biden has talked about. But at the end of the day, if you look at the fiscal trajectory of the United States, so much of the increase in the deficit and then our collective debt is because of entitlements. Of course, the country is aging. More folks are going on Social Security and Medicare. And as a result, if we don't do something in terms of reforming those benefits, not for current beneficiaries, but for folks who are 30 or 40 years old, really the deficit picture will not change and both candidates, both Trump and Biden, have basically taken reform off the table. They have both run on the mantle of actually preserving Social Security and Medicare. So again, bottom line deficits are probably going to be the big loser, at least over the next five years or so. And then there will probably be some urgency around reform of Medicare and Social Security, because actually those trust funds are going to start being depleted in the early 2030s.

**WESTIN:**

One place where I think there may be a difference between these two candidates' policies would be energy, because Donald Trump has said he wants more drilling. He really wants to go for more greenhouse gasses. Joe Biden clearly has a different policy.

**CANTRILL:**

Yeah, drill baby drill, right? Now, of course, ironically, in terms of both oil and gas production, we have seen some of the historical highs under President Biden. That's not something that he is touting, because he knows that that is not a real winning mantle or winning position with his environmental folks. But if Trump were elected, what we could see is probably what we'd expect: an undoing of much of what President Biden has done in terms of the drilling on federal lands and what have you. So the prohibitions that Biden has put into place, in some ways, the undoing of what Trump had done, will be the undoing of what Biden has done. So the pendulum just sort of keeps swinging back and forth. If President Biden wins, though, one thing that will be clear is that the Inflation Reduction Act, which of course has $600 billion in terms of green tax credits and subsidies, will be preserved. There is no way that he will sign anything into law that will dilute that. Now, I think, actually importantly, though, David, is that even if Trump is elected, there will be some lip service about rolling back the Inflation Reduction Act. But I actually don't think that will get a vote in Congress, because by that point in time, there will be lots of projects in Republican districts. I think a lot of Republicans will be loathed to undo that. So maybe you'll see some tweaking around the edges, but not a wholesale rollback.

**WESTIN:**

One of the things we've heard a lot about already are tariffs and trade, as former President Trump has been very outspoken about a 10% per-empts-tariff around the world. Certainly on China going up to 60% or more. Do we expect that there would be a big difference in trade policy between these two people?

**CANTRILL:**

Yes, so, of course, both gentlemen have shown that they are both protectionists. Of course, President Biden has kept on the tariffs that President Trump had imposed on China. I do think, though, that there will be some changes, particularly if Trump is elected, what he has already said on the campaign trails, this 10% flat tariff on all imports. I think there's a real question. Does he have the legal or statutory ability to do that? If you actually go back to President Nixon's administration, he did that same thing in 1971. He put a 10% import surcharge on all imports. Now, we'll see what happens. A lot of lip service doesn't necessarily translate into reality, but that is something that President Trump is talking about. And then a 60% tariff on Chinese goods. Now, he does have the authority to do that. He already has used part of the trade act Section 301 back in 2018 to impose tariffs on China. I think he would use that again. I do think we need to take him both seriously and literally, in terms of what he is saying about trade policy. He thinks tariffs are an effective tool. Some of us may disagree with that, but he likely will continue to pull that lever. And of course the President has a lot of unilateral authorities to do that.

**WESTIN:**

So you and I have been talking about the elective offices in the presidency and in Congress. What about the Federal Reserve? You might think that's off to the side, actually, its political presence. But we get a lot of questions about, is the Fed taking it into account and does it move them one way or the other this year?

**CANTRILL:**

Yeah, and actually, this is probably our number one question from clients. Outside of whether Biden and Trump are going to be in a rematch, this is their number one question. Will the Fed act in an election year? And particularly as they get closer to the election, or will they try to sway the election one way or the other? Now, if you look at data, the Fed has actually moved in every election cycle since 1980, either in terms of rates or with the balance sheet. And so what we know is actually they are not afraid of either cutting rates or importantly raising rates in an election year. Now, if you get closer to the election, the same thing. They still actually cut or raise rates. And so I think we need to take Chairman Powell at his word that he is data dependent. He really is looking at the health of the economy and inflation in particular. And he will adjust rates accordingly. And politics are really tertiary, I think, in his mind.

**WESTIN:**

One last quick one, I think. You talked to a lot of clients. Do you see places where Wall Street is mispricing the possible consequences of the election, where people may be underestimating or overestimating the difference?

**CANTRILL:**

Yeah, I think that's a good question. I think our foreign clients in particular are a little bit befuddled as to how in this big, diverse, young country that we have two folks who are on the older side and who have been around the block, so to speak. I do think, of course, there is some concern about the posture towards the external. We talk a lot about domestic policy here. But in terms of foreign policy, there are some big differences between the two presidents. And I do think some of our foreign clients in particular are concerned just about the general retreating of the United States, maybe under either Biden or Trump, but the retreating and the withdrawing from some of these multilateral organizations and what have you. So I think that's the big difference in terms of foreign policy. I think it’s a concern for some of our foreign clients.

**WESTIN:**

Libby, always great to have you. Thank you so much. That's Libby Cantrill of PIMCO.

**CANTRILL:**

Thanks so much.