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**JONATHAN FERRO, BLOOMBERG:**

Libby Cantrill, Head of Public Policy at PIMCO joins us now around the table together with Priya Misra of JP Morgan Asset Management. Libby, good morning to you.

**LIBBY CANTRILL, PIMCO:**

Good morning.

**FERRO:**

You sat through that, I'm sure. Is this going to be the strategy for the year ahead? Just talk about the predecessor but never mention his name?

**CANTRILL:**

Well, this was a very partisan state of the Union speech for sure. This effectively was the opening salvo for the Presidential Election. Biden really was trying to establish a contrast between him and the “predecessor" on things like abortion rights, fiscal policy, and on foreign policy. But do I actually think more importantly than what he said was how he said it. It was “spirited”, to use your adjective. He was very energetic. And given the questions around his age and his mental competence, I think they should assuage, particularly his base, who I think was getting a little bit more concerned that potentially he wasn't up for the job.

**FERRO:**

Lisa's least favorite topic was always going to be the performance question, wasn't it? The reviews. It's like gymnastics at the Olympics.

**LISA ABRAMOWICZ, BLOOMBERG:**

My issue is- that’s so true, right? People holding a “9”, “10”. My issue is, you know–

**FERRO:**

A summersault with a half twist.

**ABRAMOWICZ:**

People will say it's “spirited”, some people say, “Good. It shows the energy”, other people say “it's screaming into the mic.” And it's sort of, again, it just gets into partisan back and forth. How does that help some sort of market perspective?

**FERRO:**

Libby policy, what came out of this? Do you think it's instructive about what the next term, if it gets one, could look like?

**CANTRILL:**

Yeah, so actually I think there was more about fiscal policy than I think what we were expecting. Actually, the White House had released a fact sheet about some of the fiscal policy priorities of a second Biden administration. Really the most detail that we've gotten from the White House or from the campaign in terms of what a second term agenda would look like. He really did lean in to this idea of raising the corporate tax rate and that fact sheet, he actually, that he advocated raising it from 21% to 28%. He also talked about the expansion of the child tax credit back to 2021 levels and in addition to a whole host of issues. I think, though, really importantly, this is what we're guiding our clients, is that we need to sort of separate the rhetoric from the reality. And the reality is really in terms of if he does get reelected, what does the composition of Congress look like? This is where everyone's eyes glaze over, but it is actually really important. Because if we have a split Congress, if the Senate flips, for instance, from Democratic-controlled to Republican-controlled with the House flips from Republican-control to Democratic-control, which looks like a plausible scenario, really very few of these things will actually get passed. So I think it's really important to, again, at this point, sort of separate the rhetoric from the reality and understand that we will depend on the composition of Congress.

**ABRAMOWICZ:**

Which is the reason why arguably, I found the most interesting part of the speech, what he said about China. The fact that this is the one area that is almost certainly going to continue heating up regardless of who is President in a way that maybe we haven't fully appreciated. He said, *“I've made sure that the most advanced American technologies can't be used in China's weapons. For all his tough talk on China. It never occurred to my predecessor to do any of that. I want competition with China not conflict.*” What does that tell you about how much this is going to heat up at a time when we see China already saying it's going to strip American technology from some of their government programs or all of them in the next decade or so?

**CANTRILL:**

Yeah, so I think the Biden administration has really tried to put a floor under this relationship. I think they were alarmed by how quickly it was degrading over the first two years of the Biden administration. However, and you bring up a very good point, that doesn't mean that they're not going to continue with some of their more tactical measures against China, including export controls, including a continuation of tariffs and what have you. I do think though that there will be a big contrast between Trump and Biden on the campaign trail around China. So Biden was quick to say that he wants competition, not conflict. President Trump has a very much louder bark, so to speak. He is talking about, you know, 60 percent tariffs. I think we have to take him at his word. He does have the unilateral authority to do that if he were really elected. So I do think that, like, while we are, we should continue to see these tensions between the U.S. and China. I do think that the Biden administration would look quite different than the Trump administration.

**ABRAMOWICZ:**

At least on a rhetorical level. But I do wonder whether you can have a real calibrated kind of response without a more aggressive tit-for-tat. Can you control how far this goes? Given the fact that it can escalate pretty quickly, given that both sides are doing the exact same thing to cater to their electorates?

**CANTRILL:**

Yeah, and I think it's a great point, because rhetorically, while Trump was very strong on China, really what he was focused on, of course, was the trade deficit and on tariffs. Whereas President Biden, maybe a little bit softer on the rhetoric, at least in the beginning, he was focused not only on continuing the tariffs, but then also on these export controls and the outbound capital Executive Order that we've seen from that administration. So in some ways, actually, from a policy perspective, he's been almost tougher on China. But I do think, though, that the temperature of this relationship will matter on the rhetoric, and will depend on the rhetoric, and I do think the Trump rhetoric is going to be hotter as we get closer to the election.

**FERRO:**

Priya, this sounds like inflation. It sounds like big-a-budget deficits, and it sounds like a problem for the Treasury market. Is it too early to think about those things?

**PRIYA MISRA, JP MORGAN:**

I think it is. Political risk is binary, very hard to price in. But on your inflation point, I'm not so sure. I mean, if you look at the CPI basket, 75% of that is services. So it's going to be driven by what's happening on rent inflation, which is actually slowing. I know the last CPI report had this owner's equivalent rent that went up. We think it was a one-off that's going to continue to come back down. It's going to be about housing. It's going to be auto insurance. You have to look at all of those components of service inflation and wages that we're going to get another report very soon. You know, I think if that continues to slow down, goods inflation has gone back to pre-COVID levels, where we're essentially in deflation. There's a little bit of a move up on that front, and maybe it's a price level move rather than continued inflation. I don't think that actually changes overall inflation, because we're still a very service-driven economy.

**ABRAMOWICZ:**

Which raises this question, and Libby, I'm curious what you're telling clients. Is this decoupling of the US and China disinflationary or inflationary?

**CANTRILL:**

We just had our cyclical economic forum in Newport Beach, which Jon is familiar with, and we had this exact discussion about the US-China relationship, about potential immigration reforms if Trump were elected on potential tariffs. Is this just inflationary? Or does this actually have consequences for growth as well? Because what you could see, if there were some draconian tariffs on China, if it's a 60% across the board, tariff on all China goods, I mean, that could arguably be inflationary. But it also, from a growth perspective, could actually impact GDP. So I think the jury is still out. I will just say, though, that the market likes to sort of extrapolate from these headlines. Again, the devil will be in the details under either administration of President Biden or President Trump. So I think we are cautioning clients that it is actually too early as well to sort of make any sort of market adjustments.

**FERRO:**

How engaged don't they? At the moment.

**CANTRILL:**

Oh my god, they're so engaged.

**FERRO:**

Are they really?

**CANTRILL:**

They are so, oh my gosh, sorry. They are so engaged. They, they, everyone wants to talk about this.

**FERRO:**

They're too engaged.

**CANTRILL:**

They're too engaged. They're too, honestly, for my purposes, they're too engaged. We love our clients–

**ABRAMOWICZ:**

Libby’s like, “Stop calling me!”

**CANTRILL:**

We love our clients. We love our clients. We love talking to our clients.

**ABRAMOWICZ:**

Libby, you’re doing it great.

**CANTRILL:**

But usually, at this point, we usually will have a primary cycle continuing. So we are not already pivoting to the general elections. So the fact that we're already talking about market and policy implications of this general election rematch, it is very, very early. And that was another thing that we're telling our clients. It is still very early. So don't extrapolate too much from the head-to-head pulling or what have you.

**FERRO:**

Well, it's also that so many people got it so wrong in November of 2016. I always go back to that morning. Overnight, equities are down hard. You get that acceptance speech. She mutters the word “infrastructure spending”. And all of a sudden, equities start to pick up. Is it going to be that story again? Focus on the policy and not the man and the policy is good for the market. So is the policy no longer good for markets?

**CANTRILL:**

I mean, that's a great question. In some ways, I think there's less uncertainty because we know what a Biden 2- We know we're familiar with what President Biden means and represents. We're familiar with what sort of President Trump represents. So I think in some ways, it's going to be a close election. So we could have that sort of market uncertainty as we go right into the election. But in terms of sort of policy implications, I think this is, and we're talking about it so early on. I think we're actually going to be sort of, well, a sort of scenario playing this out pretty well. So I don't think we're expecting this to be kind of the big shocker that it was in 2016.

**FERRO:**

Can you feel Lisa's pain because she doesn't want to talk about it?

**ABRAMOWICZ:**

Honestly, I love this. She's basically saying “Stop calling me. No, Michelle Obama is not running. Please, guys, cut it out”.

**FERRO:**

Just to clarify, Libby loves her clients, right?

**CANTRILL:**

I do love our- we do love our clients! Thank you.

**FERRO:**

Libby Cantrill of PIMCO. Priya Misra of JP Morgan. To the two of you, thank you. From New York City. This is Bloomberg.