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**JONATHAN FERRO, BLOOMBERG:**

With us around the table, I'm really pleased to say here in Washington, Tiffany Wilding of PIMCO. Tiffany, good Morning to you.

**TIFFANY WILDING, PIMCO:**

Good morning.

**FERRO:**

Let's talk about Miki Bowman, because I think Governor Bowman on the FOMC seems to be the only one exploring whether we are truly sufficiently restrictive or not. Why is she so lonely?

**WILDING:**

It's been so funny that you haven't had more people talking about this. I mean, you can literally just look at the growth numbers and know, we're kind of running 3% on a final domestic demand, so core growth. It looks like we're going to run that in the first quarter, maybe even in the second quarter. We haven't had four consecutive quarters of that kind of final domestic demand growth since the 2000s. We have a lot of growth in the United States. I would, I would even venture to say the US is quite booming right now. That does not seem like an economy that has restrictive monetary policy. And of course, in that kind of environment, you would expect inflation to re-accelerate. So I'm, I'm with you. I'm surprised she's the only one talking about it.

**FERRO:**

So we've heard cycles this week, some big changes. The likes of Bank of America, Deutsche Bank now say, “December”. There are some banks who are saying, “No cuts whatsoever this year”, including the likes of SOC Gen and Apollo's another name, Torsten Slocke, who's basically saying, “No cuts in ‘24”. Where are you being the team now on that issue?

**WILDING:**

Yeah. I mean, so, so we agree. So we think that ultimately they will, they are not going to be cutting in the middle of the year as they had previously been, clearly telling us they were going to do. But I think what they will do at that June meeting, which will be important, is they will show us their new SEP. And that is where we will get, I think, clear guidance on when exactly they expect to cut. I think there was like a quick rule of thumb that they were using in January, which was that we needed to see two more consecutive quarters of “two-point-something” inflation. Inflation was 3.4. It will likely be 3.4 in the first quarter, and our own forecaster says that it's going to be three in the second quarter. So if they still need to see two quarters of “two-point-something”, then that kind of suggests December might be the first time that they're looking to potentially cut. I think it all depends. They have wiggle room. They can- monetary policy is more of an art than a science, in some sense. but I think there's definitely a clear message that's coming from them, at least, that they're not going to be cutting mid-year.

**LISA ABRAMOWICZ, BLOOMBERG:**

If Miki Bowman has lunch with Neel Kashkari, maybe even has lunch with Fed Chair Powell, and starts to talk about “sufficiently restrictive", that starts to put the idea of a rate hike back on the table. Because if you're not sufficiently restrictive and you're looking at inflation, it's running hot. Well, as Jonathan Pingle over at UBS says that raises a specter next year of additional rate hikes, that he sees potentially even going to 6.5% for the Fed funds rate if we don't get an inflation rate below 2.5%. Do you agree?

**WILDING:**

Yeah, I mean, so we think that, again, that 3 is a big number, that 3% threshold. So “two-point-something”. So if they're seeing inflation that's re-accelerating to above 3 and looking like it's going to hang there, yeah, I certainly think that that'll be a problem for them. In terms of how they message it, I think it has to be a message of “Policy is not as restrictive as we thought. Therefore, the underlying neutral rate in the economy is maybe a little bit higher than we thought.” That's a longer-term issue. And by the way, they have a longer-term review of their monetary policy strategy coming up in 2025. So, going through the academic exercise of reviewing all these models, and thinking about that, it's kind of an opportune time if the economy is behaving like that if inflation is still above 3 to really start to talk about maybe neutral interest rates or higher.

**ABRAMOWICZ:**

It becomes incredibly difficult as an investor to understand how to play this, especially when the relationship between stocks and bonds has gotten so confusing over the past few years. You believe that eventually we're going to see a sort of going back to the old normal of bonds and stocks moving inversely. How long will it take to get there? Given that we don't really even understand what “sufficiently restrictive" means, if you get higher yields, that might not be positive or that might be really negative for stocks. We just don't know.

**WILDING:**

Yeah, I mean, so we think that we're getting closer to that kind of environment now. And the reason is just because we're not at 8% inflation anymore, right? So, I mean, at the end of the day, we're talking about, are we going to get “two-point-something”? Maybe we get a little bit above three. But I don't think anybody is really estimating, with absent some supply shock, the inflation really materially reaccelerates. So in that kind of environment, the Fed can still be as reactive to unemployment rate increases and additional evidence of potential economic downturn as they are to inflation. And it's really that balance of risks being more balanced that gets you that negative correlation between stocks and bonds. So we still think bonds are going to be a good hedge for equities here.

**ANNMARIE HORDERN, BLOOMBERG:**

Do you think the Fed needs to start thinking about just targeting two to three percent instead of talking about going right back to laser precision two?

**WILDING:**

Yeah, I mean, I don't think they will ever admit to that. I mean, certainly that will be more of a discussion in 2025, I think, during their monetary policy review. Powell, it seems like from his conversations, has sort of taken that off the table. They are really worried about a credibility issue with raising the inflation target when you can't get it back to two, which is understandable. but I think if you take a step back, there's just not a lot of academic discussion around, “What are the cost benefits of two versus zero versus three?” And like I said, there's some wiggle room here, I think. So, I mean, I think what could play out is that they're willing to tolerate a little bit of above target inflation for a while. I still think that threshold is three. They'll always forecast it getting to two in the future, but we'll just realize, some higher inflation than target. And by the way, when we look at the TIPS market, we don't- I know a break given inflation rates have increased a little bit, but, that does not seem to be priced into the psyche there.

**HORDERN:**

Then when you look at some of the language coming out of the Fed and we heard from Powell this week, he's almost implying that the latest hot prints we saw in inflation are not just bombs, and you're almost saying this is the new trend. Is that correct?

**WILDING:**

Yeah, I mean, I think our, in our minds, it's always been, you will probably need to see more easing in the labor markets, some higher unemployment. The Fed is basically saying, “We can achieve all of this, without higher unemployment”. And we've sort of been skeptical of that. And I think what you're seeing play out in the economy right now is that you're getting a hot economy, and that is actually putting upward pressure on inflation. You're seeing it in the Core Services Ex. Shelter category, the Fed's super core measure that they like, but you're also seeing it in shelter. shelter has really stalled. Part of that is just because we have the supply of houses we've underbuilt for the last 10 years. And the fact that you've had a price, a level adjustment that's happened in the housing market, in the rental market, that just the OER has not caught up with, you're just not going to see a fast deceleration there. So all of that sort of suggests to us that, “Yeah, we are kind of in this prolonged period of higher than target”.

**FERRO:**

Tiffany, this was great. It's great to see you on tour as well, here in Washington.

**WILDING:**

Thank you.

**FERRO:**

Thanks for being with us, Tiffany Wilding there of PIMCO.