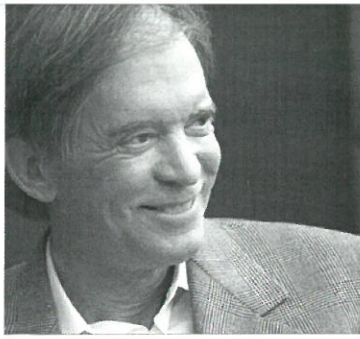
PIMCO

Your Global Investment Authority



Investment Outlook

August 2014

Bill Gross

Goodnight Vietnam

It was a matter of happenstance I suppose – certainly not serendipity. Our meeting may have been an inevitable coming together, but it was certainly not initially welcomed by me. Happenstance is the better word. Fateful happenstance.

Serendipity rarely happens in a cab and it was in a San Francisco cab – not an Uber – where I confronted my ancient past. Sue and I were headed back to the Four Seasons after a brief glimpse of the city at dusk from the "Top of the Mark." The driver appeared to be Vietnamese, and having had a margarita or two, I unfortunately stumbled into the emotional jungles of Vietnam to which I had come, and from which I had safely departed nearly a half century ago. "You're Vietnamese," I said, "how old are you?" "53," he said. "I grew up in Da Nang and escaped when I was 8 with my mother, after my father and older brother were killed." I subtracted 8 from 53 and quickly placed him in Vietnam at the same time I had been, in 1969. "Have you ever been there?" he queried. "Well yes," I stuttered, "about the time you left, but I was in the Navy" – an excuse that supposedly cleared me of direct involvement, but in reality was not the case. An awkward silence followed. I wanted to say, "I'm sorry for what we did. I/we shouldn't have been there." I desperately wanted to say that. But I didn't. I missed my moment of atonement and we continued on to the hotel. Getting out I gave him a $20 bill for an $8 fare – a weak apology to be sure, and he knew it. "No," he said, "that is too much, take back 5 dollars." I did – apology accepted – flawed as it was. He and his mother had survived and moved on. Perhaps I have too. "Goodnight," I said. Goodnight Vietnam ….

Don't say "goodnight," but say "good evening" to the prospect of future capital gains in asset markets. Investors won't be getting much of them. Financial markets have had nearly a half century of peaceful (sometimes volatile) asset appreciation fueled particularly by the decline in real and nominal interest rates from 1981 onward. We know that bond prices go up when interest rates go down, but somehow have to be reminded of a similar effect on stocks, real estate and commodities. Almost all commonsensical and historical financial models tell us interest rates are a key asset price driver.