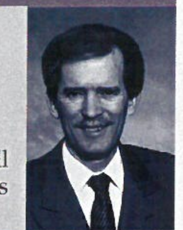
Bill Gross



Investment Outlook

PIMCO

February 2000

Extra! Long Yields Peak

Lost Relatives Appear At Gross Doorstep

By MATTHEW HODGE

Laguna Beach, Feb. 3 – After decades of self-imposed estrangement, as many as fifteen distant relatives of William Gross, the often described "Baron of Bonds," have renewed contact with the portfolio manager, sources claim. Gross, whose salary and future retention bonuses were disclosed in the national press in early January, refused to comment, but friends claim he has been inundated with "best wishes" and "good luck" messages from at least 4 uncles, 6 aunts, and numerous nephews and nieces whom Mr. Gross claims to have never met. All reportedly expressed awe over Mr. Gross' recent achievements in connection with the sale of his interest in PIMCO to Allianz, a German insurance company, although Gross claims he had never received as much as a phone call from any of them prior to the announcement of the acquisition and the sizable sums he is expected to receive. "Money makes the man," one relative was heard to remark, "so this must be quite a man. I regret not having sent Bill and his lovely wife Sue a Christmas card these past several decades but it's time we all came together as a family now in celebration of...

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Yield Curve Dynamics Said Responsible

By WILLIAM GROSS

Newport Beach, Feb. 3 – Long-term Treasury yields have peaked due to a rather complex set of "yield curve" dynamics which may "invert" standard curve relationships for years to come. During the space of a few trading days in late January, interest rates for long-term Treasuries dropped over 30 basis points, while yields on shorter maturity T notes were rising. This inversion, while typical of late business cycle interest rate behavior brought about by Federal Reserve tightening of monetary policy, had additional dynamics behind it this time around.

Granted, with inflation accelerating and the U.S. economy experiencing 5%+ annualized growth rates, the market's expectation of future Fed behavior played a part in the sudden inversion. Instead of two future hikes, continued strong growth suggested there may be additional ones beyond that. Short-term Treasuries therefore rose in yield to reflect that possibility. But the dramatic drop in long-term Treasury rates was almost inexplicable in the face of poor inflation news and the resultant rise in short-term rates. However, there are several major secular, rather than

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