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Treasury Rally, Low Rates Key to Stock Gains, Bill Gross Says

Onetime 'bond king' sees sign investors should abandon expectations for double-digit returns for stocks

By Daniel Kruger
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Bill Gross, Pimco co-founder, says, 'In the absence of substantial fiscal stimulation, the economic and asset boost from negative interest-rate yields may have reached an end.' PHOTO: PATRICK T. FALLON/BLOOMBERG NEWS

About 15% of the stock market's gains this year are attributable to the rally in U.S. Treasurys, a sign that investors should abandon expectations for double-digit returns for stocks in the future, according to the man once known as Wall Street's "bond king."

The bond rally has pushed as much as $17 trillion in global bond yields below zero, boosting stock prices as lower bond yields have fueled economic growth and made stocks more attractive while narrowing the amount of extra yield that investors receive for owning riskier debt, Bill Gross, co-founder of Pacific Investment Management Co., said in an investment note published on his website Tuesday.

"In the absence of substantial fiscal stimulation, the economic and asset boost from negative interest-rate yields may have reached an end," Mr. Gross said, in his first market commentary since retiring in February from Janus Henderson Group PLC.

The S&P 500 has climbed about 20% this year. The movement is supported by continued economic growth and investor expectations that supportive central-bank policy will sustain the current expansion, analysts said.

The decline in Treasury bond yields, which fall when bond prices rise, is important because the yields are a key reference rate that lenders use to set interest rates on other debt, such as consumer mortgages and corporate bonds. Lower bond yields and central-bank interest rates typically stimulate economic growth and support stock prices.

Mr. Gross, however, expects slowing growth. He said further efforts by central banks to ease monetary policy probably won't push stocks higher because of the harmful effects of negative interest-rate policies.

Those policies "literally rob small savers and larger financial institutions such as banks, insurance companies and pension funds of their ability to earn" interest on the bonds they purchase in order to match assets and liabilities, Mr. Gross said.

Mr. Gross recommended that investors own "high yielding, secure-dividend stocks."

U.S. government-bond prices declined Tuesday after reports that negotiators for the U.K. and European Union were making progress toward a preliminary Brexit agreement. The yield on the benchmark 10-year Treasury note rose for a fourth consecutive session, its longest such streak in a month, settling at 1.773%, compared with 1.748% Friday. The yield ended last year at 2.684%.

Federal-funds futures, which investors use to bet on the path of the central bank's interest-rate policy, show a 75% chance that the Federal Reserve will cut interest rates at its meeting at the end of this month, compared with an 83% probability a week ago, according to CME Group data.