Call me Ken

By William H. Gross | September 21, 2023

What kind of a man watches Barbie? Not me. But wait – I was watching Sports Center like the macho male I thought I was when my wife Amy announced that Barbie was out of the theater and streaming on TV, so I reluctantly switched to Apple TV and forked over the $24.95 rental sans popcorn. The cost to buy it was $29.95 which suggested to me that the movie was not a keeper but more like a one-time overpriced thing. I was wrong. Being a "Ken," my first impression was that I could mute the sound and just watch Margot Robbie for an hour and a half which wasn't a bad idea but Amy thought otherwise. I, however, like all Kens, have always had a firm grip on the remote for 100% of the time but I decided to let her have her way just once.

Well in the movie, it seems that Barbie was fleeing her cellophane encased "box" to mingle in the real world, and she was rather shocked to view the patriarchy characterized by Mattel, Century City, The LA beach crowd, and the world in general.

One of the characters described the society as "fascist" which I thought was going just a little overboard, but I dismissed it because Barbie's outfits were so cute and of course, so was Margot Robbie. Still, as the movie wound down Barbie's high heels were exchanged for flat-foot sandals, her pink outfits turned to khaki, and the movie's message became more important. And what was that? Well, it's a little dangerous to opine in this day and age and at 79 I still have a little Ken left in me. We might all agree though that the new Barbie is gaining ground. She's out of her cellophane box and never going back. Still I'm nominating Margot Robbie for an Oscar for best looking actress and/or costume design. Hooray for Hollywood. Not sure about the $24.95 though. At least an AMC theatre would have served popcorn.

Ken, (your author) was interviewed by Bloomberg's Tracy Alloway and Joe Weisenthal during an appearance at a "Future Proof" live conference on the beach in Huntington Beach, California, just over a week or so ago. My spot – sunglasses and all – was heralded as "Bill Gross on the end of the Great Bond Bull Market." While the topic was a layup, the bond market's future is anything but. A majority of vocal professional investors seem to expect a peak in short term rates in the next few weeks and for the Fed to lower yields several times in 2024, perhaps initiating a mini-bond bull market in the process. While I agree that the Fed is done at 5½%, I think that bonds are headed for a third straight year of losses and that portfolios should own more pipeline MLPs (Master Limited Partnerships) and fewer Treasury and corporate bonds. Here's a few excerpts from my presentation that may explain why:

1. We have a negative yield curve and perhaps one of the reasons why is that fiscal policy has been so expansive. I mean we're looking at a $2 trillion deficit this year. It was $3½ trillion during Covid and when you have such deficits, the recipients (namely consumers) spend lots of money. It was like Bernanke andt his helicopter. The government first threw money out of a helicopter and almost all of it has been spent, sending inflation beyond all prior expectations. Taming it and lowering it to 2% will be most difficult and a bond bull market under those circumstances is hard to envision in a 3% future.

2. About 30% of existing Treasuries ($32 trillion) will mature over the next 16 months. Who's going to buy them at existing yield levels? The Fed itself is selling $1 trillion or so out of its QE portfolio. While the Fed may hint at a time in 2024 where they can reduce short term yields, it may not be enough to lower 10 year Treasuries below 4.0%

3. To my way of thinking, the 10 year Treasury is already priced for a 2% inflationary world. At 4.30% a possible 2-2½% Fed Funds rate plus what has historically been a 1.35% term premium (much like the equity risk premium to reflect the possibility of higher yields and lower prices) puts a 10 year close to 4% under the best of possible scenarios.

4. Foreign bond markets have their own problems with high debt ratios and still artificially low yields as in Japan.

So this Outlook movie is reaching a temporary conclusion. No pink colored 10 year here. Khaki markets (slightly higher yields) in Barbie's and (yours truly) Ken's future. A little popcorn would be a nice touch to ease the frustration of a changing world and financial market.