Pimco’s Gross Warns of Risk Assets as Aberdeen Avoids Stocks

By Masaki Kondo and Susan Li - Jun 22, 2012

Bill Gross, who runs the world’s largest mutual fund at Pacific Investment Management Co., warned against risk assets, as Aberdeen Asset Management Plc (ADN) said it’s underweight on stocks.

Asian shares extended a global rout after manufacturing gauges for the euro area, China and the Philadelphia region signaled contraction. The Federal Reserve this week refrained from introducing a third round of so-called quantitative easing even as the central bank cut its U.S. growth forecast.

Gross, who manages $261 billion for the Pimco Total Return Fund (PTTRX), said in a Twitter post that risk markets are vulnerable as the “monetary bag of tricks empties.”

The Stoxx Europe 600 (SXXP) Index of shares declined 0.8 percent as of 8:52 a.m. in London, while the MSCI Asia Pacific Index lost 1.3 percent, following a 2.2 percent slide in the Standard & Poor's 500 Index in New York yesterday. Treasuries were little changed with 10-year yields at 1.62 percent. The rate reached a record-low 1.44 percent on June 1.

“We’re still certainly very comfortable running our underweight equity positions that we took out in March,” said Peter Elston, the Singapore-based head of Asia-Pacific strategy and asset allocation at Aberdeen, which oversees about $270 billion. “Economies will continue to contract. There will be this realization that the governments are not perhaps as able to act as they have been in recent years,” he said in an interview with Bloomberg Television today.

Shrinking Manufacturing

An index of euro-area manufacturing fell to a three-year low of 44.8 in June, London-based Markit Economics said yesterday in an initial estimate. A purchasing managers’ index for China’s manufacturing was 48.1 this month in a preliminary reading, HSBC Holdings Plc and Markit said. A reading below 50 indicates contraction.

The Fed Bank of Philadelphia’s general economic index fell to minus 16.6 in June, the lowest since August. Economists forecast the gauge would improve to zero, the dividing line between growth and contraction.

“If the numbers continue to be as poor as they are into July and August, we’ll probably revise” U.S. economic forecasts, Bob Baur, chief global economist at Principal Global Investors, which manages about $231 billion, said today in a separate interview with Bloomberg Television. “Right now we still think there’ll be some pickup.”

Stock Returns

Global sovereign bonds have returned 1.9 percent since the end of March, according to an index compiled by Bank of America Merrill Lynch. The MSCI World Index of equities has lost 7.4 percent during the period, including reinvested dividends.
The Fed cut its forecast for the U.S. economy on June 20, saying the lower range of its 2012 growth estimate is 1.9 percent, down from the April forecast of at least 2.4 percent.

The U.S. central bank extended its “Operation Twist” of selling shorter-term securities and buying the same amount of longer-term debt to lower borrowing costs. The $400 billion program, which had been scheduled to end this month, will be carried out until the year ends.

**Shorting Stocks**

A challenging economic environment has made Goldman Sachs Group Inc. analyst Noah Weisberger recommend shorting the S&P 500, or betting on further declines. He has a target of 1,285, or 3.1 percent below yesterday’s close.

“With incremental U.S. monetary policy on hold, the market will need to confront a deteriorating growth picture near term,” Weisberger wrote.

Investors should favor debt of nations such as the U.S., Mexico and Brazil, and emphasize intermediate maturities over the next few years, Gross said in his investment outlook posted May 31 on the Newport Beach, California-based company’s website. Equity investors should seek companies that produce stable cash flow and that are exposed to high growth markets, he advised.

Gross boosted the proportion of U.S. government and Treasury debt in the Total Return Fund to 35 percent in May, the first increase since January and up from 31 percent of its asset holdings in April, Pimco said on its website.

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