Morgan Stanley Counters Bill Gross Over Bond Bear Market Call

By **Wes Goodman**
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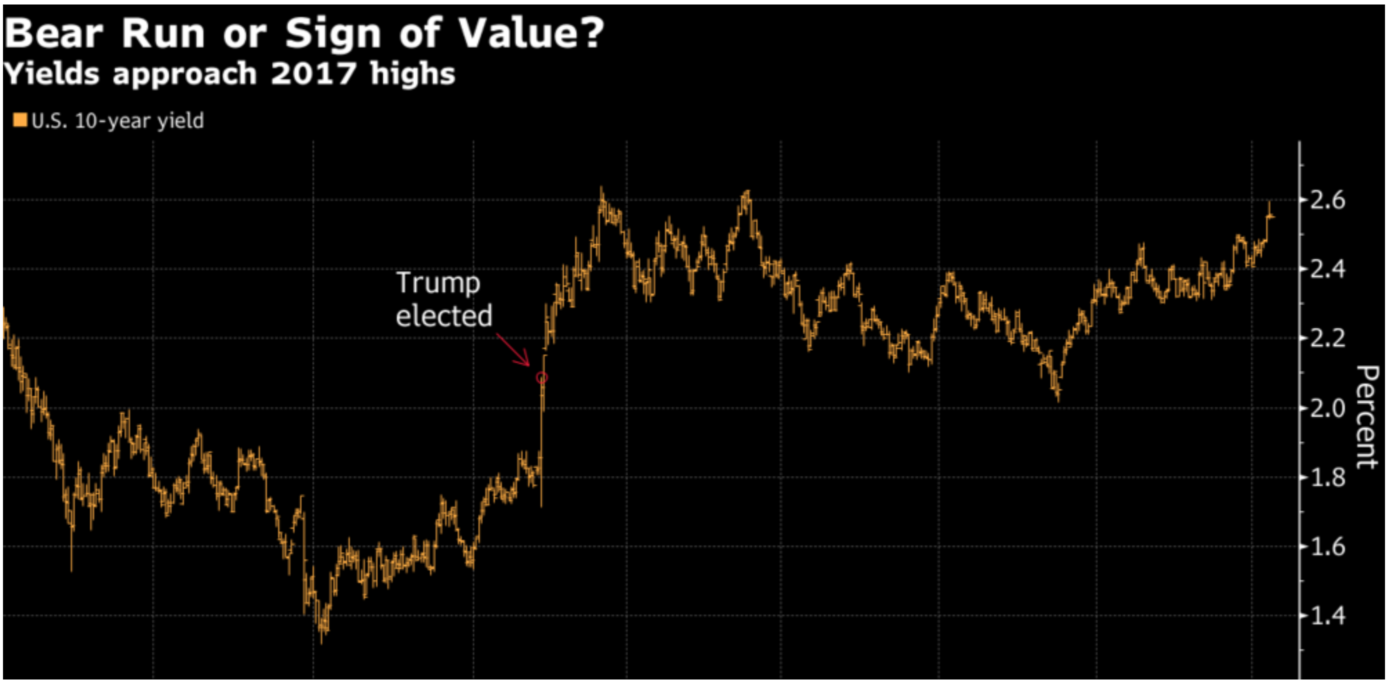
- Gross says he's short bonds in his global unconstrained fund
- Morgan Stanley analysts say Treasuries still offer value

Morgan Stanley countered Bill Gross's call that Treasuries are in a bear market <https://www.bloomberg.com/news/articles/2018-01-09/u-s-10-year-yield-climbs-as-boj-action-spurs-exit-speculation> .

"Don't worry, Treasuries continue to offer value," Morgan Stanley strategists Matthew Hornbach and Guneet Dhingra in New York wrote in a note Thursday. "This isn't the bear market you're looking for," according to the firm, one of the 23 primary dealers that underwrite U.S. debt securities.

A jump in yields prompted Gross, at Janus Henderson Group, to declare a bear market in a tweet Tuesday, raising concern among followers of the veteran bond investor that Treasuries are headed for a tumble in 2018. The billionaire based in Newport Beach, California, qualified that "the bear market that I'm talking about is a mild one," in a Bloomberg interview Wednesday.



The latest move up in 10-year Treasury yields have been driven by concerns about China's purchases of U.S. securities and the potential for the Federal Reserve to adopt a price-level -- rather than inflation rate -- targeting approach in setting policy, according to Morgan Stanley. Any such switch by the Fed could see it fail to react aggressively, at least for a time, to a jump in the inflation rate past its 2 percent target.

Neither of those factors are likely to sustain the recent move, Hornbach and Dhingra wrote.

Chinese officials have recommended slowing or halting purchases of Treasuries, Bloomberg News reported Wednesday <https://www.bloomberg.com/news/articles/2018-01-10/china-officials-are-said-to-view-treasuries-as-less-attractive> . But investors shouldn't expect the country to stop buying or start selling, the Morgan Stanley report said. Other sovereign markets with comparable liquidity don't offer comparable yields, it pointed out. China's State Administration of Foreign Exchange said yesterday's story might have quoted a "wrong source," or be "fake news."

As for a switch in the Fed's targeting approach -- something aired at a conference <https://www.bloomberg.com/news/articles/2018-01-08/bernanke-sees-powell-s-fed-studying-new-inflation-target-regimes> this week at the Brookings Institution in Washington -- "these views have been in the public domain for some time," Morgan Stanley said. "It takes many months if not years for theoretical concepts to find their way into actual monetary policy statements."

"You can go about your business... Move along," Hornbach and Dhingra wrote. Morgan Stanley's base case is for 10-year note yields to drop to 1.95 percent in the fourth quarter of 2018, according to a report dated Jan. 6.

Gross said he's short bonds in the Janus Henderson Global Unconstrained Bond Fund.