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December 5, 2012

Monthly Commentary: Pimco, WAMCO, BlackRock

Bill Gross – PIMCO

In his December 2012 commentary, he stuck to his thesis of a new normal, a slowdown of the US economy due to structural problems and overleverage. Look at the chart below, which shows growth slows down when debt is a large % of GDP. We have been proposing a few years of deleveraging for the excess to flush out of the system, but Mr. Gross assumes a DECADE. Think more about 2017 being full recovery. Slow down in China, not just losing steam, but the Chinese market is more mature today, than 10-20 years ago. So the momentum has lessened, which contributed to the slower recovery. Technology is replacing jobs, faster than job creation, which hurts consumers' pockets and investor sentiment. Aging demographic slows demand and supply. Older people spend less than those who are in 30s-40s, who are raising a family. Also, older people are less productive, since they may not be adept with the newer technology and may not be able to work the long hours.

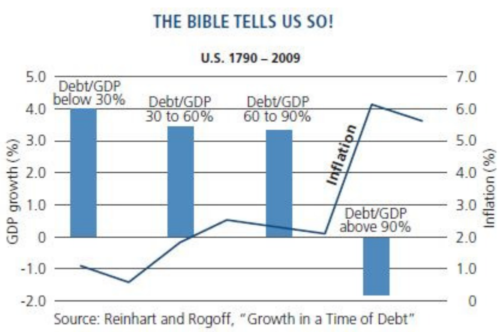


Chart 1

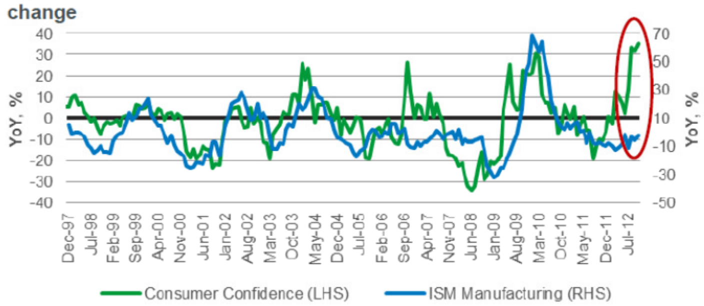
WAMCO Q2 Global Investment Report

I love how they break down their report with 1) Thought, 2) Action, 3) Result. For example, 1) they saw a divergence between US and European growth rate, with Europe facing a mild recession. 2) They overweighted (Buy) US Treasuries, and chose long duration, or typically longer maturity bonds which would react with more volatility. They underweighted (Sell) German duration but moved toward neutral position by end of the quarter. 3) US Treasury bond yields declined, which was prompted by an appreciating US Treasury bond price from flight to safety, and the higher duration bonds would have responded with a more pronounced movement. German Bunds didn't move down as anticipated, so they lost a little money there, but they also underweighted Spanish and Polish bonds. On the corporate side, the firm placed their bets on financials, but stayed away from select European finance firms. The financials underperformed the sovereign securities as the spread widened, in particular, fear over a contagion effect.

BlackRock

Consumer confidence, which can be seen in the retail store numbers and consumable goods, may be benefiting since 1) 2011 figures were very pessimistic, so even a slight improvement would have been a marked difference. With the 2012 presidential election, consumers may have been more consumed with politics than the economy, and 2012 saw some closure to unraveling problems in Europe and QE3 and ECB's monetary policies provided downside support. 2) Consumers confidence is more sentimental while business sentiment is more based on underlying economy and continued uncertainty related to Europe is making any lasting growth fickle at this time.

Figure 1: Consumer Confidence has Run Well Ahead of PMIs, YoY % change



Source: Bloomberg

The Barclays Index has a higher percentage of Treasuries, which is paying out low coupons, but duration, or volatility related to interest movement, is rising. Since many funds track the index, they are taking on more duration risk.