Rates Won’t Rise for “Two to Three Years,” Gross Says

By Editor Test *Wed, Aug 11, 2010*

PIMCO's $239 billion Total Return Fund, which Gross manages, has returned 13% in the past year, beating 71% of its peers, according to Bloomberg.

PIMCO’s well-known bond fund manager, Bill Gross, said in a Bloomberg radio interview that the Federal Reserve is unlikely to raise interest rates for two to three years as it seeks to prevent a double-dip recession.

Treasury two-year note yields dropped below 0.50% percent for the first time last week after a Labor Department report on July job losses. The spread in yields between 2- and 10-year notes is 2.34 percentage points, more than double the average of 1.11 percent over the past 20 years.

“When you analyze that portion of the curve, it says the Fed is on hold for a long, long time,” Gross said. “When you get down to 50 basis points on two-years, that’s giving you a signal that there’s not much left on the table.”

Gross’ $239 billion Total Return Fund has returned 13% in the past year, beating 71% of its peers, according to Bloomberg. It has benefited from the steep yield curve by buying five-year Treasuries and holding them for a year before selling to pick up capital appreciation and interest income.

“Hopefully as long as the curve stays steep and as long as the Fed stays where it is, then you produce two- to two-and-a- half returns as opposed to 50 basis points,” Gross said.

The Fed has maintained a range of zero to 0.25 percent for its benchmark rate for overnight loans between since December 2008 to encourage the economic recovery.

The two-year note yield fell two basis points to 0.51 percent after falling to 0.4977 percent, the lowest level since the Treasury began regular sales of the securities in 1975. The 10-year note yield touched 2.8398 percent, the lowest level since April 2009.

Companies in the U.S. added workers in July for a seventh straight month at a pace that suggests the labor-market recovery will be slow to take hold.Gross believes the U.S. faces long-term structural unemployment near 7%. “The jobs that were will not be coming back and the unemployment rate of 4.5 percent is really a fiction of the levered era,” he said.

Economists on average projected a 90,000 rise in private jobs in July, after a 31,000 gain in June. Instead, the overall employment fell by 131,000 last month and the jobless rate held at 9.5%.