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## **Pimco: Treasury Rally Signals Economic Pessimism**

The rally in Treasury bonds is nothing to be happy about, because it indicates investors are pessimistic about the U.S. economy, says Anthony Crescenzi, a money manager for Pimco.

The 10-year Treasury yield has dropped to a 14-month low of 2.88 percent. That move has flattened the yield curve, which measures the difference between short- and long-term rates.

“The flattening of the yield curve has been the worst kind,” Crescenzi wrote in a note to clients obtained by several news services.

“The curve has flattened because investors have become less optimistic about the outlook for both the U.S. and global economy, enough so to alter expectations about the outlook on both inflation and monetary policy.”

That pessimism was reinforced by the June jobs report showing that private payrolls gained only 83,000 in the month. Overall, payrolls fell 125,000, the first drop this year, as the government began eliminating temporary census jobs.

“Investors are increasingly of the belief that the inflation rate could continue to move lower and that the Fed will keep interest rates low for a prolonged period,” Crescenzi said. Others agree with him.

**“The plunge in yield (in the second quarter) tells you that the bond market has priced out of a strong recovery,” Mark MacQueen, a portfolio manager at Sage Advisory Services, told The Wall Street Journal.**

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