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Gundlach: Don't 'Fight This Rally' in Bonds



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DoubleLine CEO says rate hike predictions are 'almost comical' and holding currencies other than the dollar is 'foolish'



Gundlach says sectors that suffered in 2013 are

having a better year.

DoubleLine Capital CEO Jeffrey Gundlach sees interest rates holding steady in 2014. The bond guru also says yields on 10-year Treasuries are poised to hit 2.65% and should stay in the 2.2% to 2.8% range this year.

"This has been a really interesting year for investors, because there have been really no problems, only the smallest bumps in the road," Gundlach said during a webinar on Tuesday. Interest rates are down, along with volatility, he notes.

The bond guru, who also is trying to buy the Buffalo Bills, outlined these and other thoughts on the market during his "Fixed Income Playbook" event, along with an interview earlier in the day on CNBC.

The [big winners](#) in fixed income this year, he says, are those that had a bad 2013 (and vice versa for the big losers in 2014): Hybrid convertible bonds are up, along with emerging markets, corporate, international developed markets, mortgages and government bonds.

"It's almost comical" that economists continue to predict a rise in U.S. interest rates, Gundlach says. That forecast has been a real money loser, he says, but people continue to "fight this rally."

Global investors are happy with U.S. yields, Gundlach notes, since they look better than those on Japanese and European bonds. Rather than being "foolish" and owning currencies other than the U.S. dollar, "Dollar-denominated is the way to go," he said.

Fed Chairwoman Janet Yellen is very [unlikely to raise rates](#) due to issues in the labor market, according to the bond expert. Along with the declining share of wages to GDP and the drop in the minimum wage in real terms, many workers face higher rents and other costs, a situation the Federal Reserve does not want to exacerbate.

Furthermore, forecasts for U.S. GDP have been downgraded for the past three years. Still, “hope springs eternal” that each year will see 3% GDP growth, Gundlach notes.

“It doesn’t seem like the economy is exhibiting the type of acceleration that so many people are talking about,” he said. Hence, the Fed is unlikely to embrace any quick raise in rates.

DoubleLine’s Total Return Bond Fund ([DBLTX](#)) has returned more than 5.3% this year vs. 4.3% for PIMCO’s rival product, the Total Return Fund ([PTTRX](#)). DoubleLine says DBLTX had net inflows of \$562 million in August vs. outflows of \$3.9 billion for the PIMCO fund.

“People who believe rates are about to go out of control could be right in the long term, but could be at least five years too early,” he explained. A strategy that targets higher yields and lower durations is advisable in his view.

The bond expert noted that investors should keep an eye on European bond yields, which must rise for U.S. yields to rise. French 10-year yields would have to go over 1.75% for U.S. 10-year Treasuries to get over 2.80%, he says.

The DoubleLine Core Fixed Income Fund ([DLFNX](#)), for instance, has boosted its high-yield allocation to 5% from 2%.

Other Bets

On the flip side, Gundlach says investment-grade corporate bonds are overvalued. He prefers dollar-denominated emerging market corporate debt.

“I would rather own a mix of non-high yield bonds than high yield, and sprinkle in stocks for that higher-risk, lower-in-the-capital-structure type of exposure,” he said.

In the short term, Gundlach like Chinese stocks. Long term, he’s bullish on India.

As for housing, he says the market for new homes “appears sick.” The price of new homes has gone up, but homeownership rates have fallen due to demographic changes.

[Commodities](#) are generally flat. “They are not signaling global growth,” Gundlach said, noting that there was such a concern about six months ago. In contrast, the U.S. dollar “has made powerful move higher after consolidation.”