Central banks

Investors lulled into ‘dreamland’ by central banks, warns Bill Gross

Pimco founder says stimulus and low interest rates have created ‘dangerous’ situation

Bill Gross's comments on financial exuberance echo a call from Christian Sewing, Deutsche Bank chief executive, who said on Monday that central banks should tighten monetary policy © Patrick T. Fallon/Bloomberg

Robin Wigglesworth 8 HOURS AGO

Investors are living in a “dreamland” brought on by global central banks’ decision to continue pumping up the world economy even as it has rebounded sharply from the pandemic, Bill Gross has said.

Historically low interest rates and mammoth bond-buying programmes, which are only now being cautiously scaled back, have nurtured a widespread bout of financial euphoria in everything from stocks to digital assets such as “non-fungible tokens”, the founder of bond investment group Pimco told the Financial Times in an interview.

“It’s dangerous,” Gross warned of accommodative central bank policy. “It’s all dreamland that’s been supported by interest rates that aren’t where they should be.”

The US inflation rate, which was already running hotter than the Federal Reserve had been expecting, accelerated to a three-decade high of 6.2 per cent in October. Price growth is also running well ahead of target in other global economies, including the UK. That has exacerbated concerns that central banks will need to act sooner and more aggressively than previously indicated.

Gross's comments on financial exuberance echo a call from Christian Sewing, Deutsche Bank chief executive, who said on Monday that central banks should tighten monetary policy to provide "countermeasures" against surging inflation.

Gross, who is now retired, said he was sceptical inflation would stay this high or accelerate further. He predicted, however, that it was likely to stay well above the Fed's 2 per cent target for the foreseeable future.

Nonetheless, Gross questioned whether the Fed and other central banks will — or even can — meaningfully tighten monetary policy to tame financial excesses and inflationary pressures because of the risk of causing market damage sufficient to imperil the economic recovery.

"They can't do much," he said. "I think [Fed chair Jay Powell] is captive to the financial markets, and so he will gradually creep out of buying bonds, and next year he maybe gradually raises interest rates."

Despite inflation picking up pace in most leading nations as a result of disrupted supply chains and a strong economic recovery from the Covid-19 shock, the global bond market has largely remained sedate.

Short-term government bond yields have shot up in recent weeks as investors have started to price in the possibility or likelihood of interest rates rises, but longer-term yields have stayed largely rooted at near record lows.

"Near-term inflation readings may be intimidating to 'inflation fighters' . . . which could press central bankers to at least discuss a faster reaction-function versus the slower reaction-function of this year thus far," Rick Rieder, chief investment officer for fixed income at BlackRock, said last week. "Still, it is likely that in time pandemic distortions and extreme base effects will ease," he added.

The yield on the 10-year benchmark Treasury note has nudged higher in response to vigorous US inflation data released last week, but at about 1.6 per cent it remains exceptionally low, indicating that many bond investors still think the current inflation rate is a spike that will pass eventually.

But Gross — who now primarily manages the money of his own foundation — still worries about the long-term effects of the past decade's monetary experiment with low or even negative interest rates, along with vast bond-buying programmes that now total $23tn since 2008.

The extended period of low interest rates has inflicted serious pain on savers, Gross said. "One of these days, one of these years, or one of these decades, the system will collapse, because capitalism depends on savers saving and investing."

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