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Post-corona, markets become even more visible oddity

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The global financial crisis of 2008 was a direct byproduct of the housing and credit bubbles crashing, which had taken root when then Fed Chairman Alan Greenspan kept lending rates too easy for too long following the crash of the tech bubble. The roots for the current ready made financial crisis can be found mostly in the policies applied in the immediate aftermath of that 2008 global financial crisis and the decade that followed. The excesses of the 2008 crisis, however, were never allowed to clear naturally. Instead, the remnants of those excesses, having never been allowed to be expunged, were henceforth rolled into the post crisis recovery. Accordingly, the post crisis recovery was meek and stuttering because the excesses of the prior era were never allowed to clear and thus weighed on the post crisis expansion from ever gaining that elusive escape velocity. The overhang of that prior period's excess debts and imbalances effectively became a drag on the real productive capacities of the post-crisis economy. Because the post-crisis expansion was so meek, for reasons described above, the Federal Reserve and it's global brethren of central banks continued to apply what would have been described in any prior era as emergency and unprecedented forms of stimulus indefinitely. When the S&P 500 hit its all-time high on February 19th of this year, the average benchmark interest rate being applied by the Federal Reserve, Bank of Japan and European Central Banks was under 1% and all three of the globe's most prominent central banks were still engaged in some form of previously unprecedented crisis fighting policy with all administering some form of quantitative easing simultaneously. Alas, the U.S. Federal Reserve's Chairman, Jerome Powell, asked us not to described its latest policy implementation as "QE," but in so far as the Fed's balance sheet had been expanding at a monthly pace never before seen since last August up thru February, that's what it was.

Index	Apr. 30 2020	YTD%
S&P 500	2912	-9.3%
Dow Industrials	24346	-14.7%
Nasdaq Composite	8890	-1.0%
Value Line Arithmetic	5384	-19.1%
Russell 2000	1311	-21.4%
U.S. Dollar Index	99.01	+2.4%
Gold (ounce)	$1685.10	+11.1%
Silver (ounce)	$15.92	-10.7%
Amex Gold Bug Index	267.40	+10.5%
Oil (NYM Lt Sweet/barrel)	$18.84	-69.1%
30 Year Treasury Yield	1.266%	-1.12%
10 Year Treasury Yield	0.622%	-1.86%
2 Year Treasury Yield	0.20%	-1.38%

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So, let's get one thing perfectly clear. The economic and financial fallout being blamed on the global pandemic was a ready-made, pre-packaged financial crisis. So pristine, so pure and so *poppable* even before anyone had ever heard of Covid-19, i.e. the coronavirus. With interest rates near zero and even negative for an entire decade, and amidst a relentless decade-long regiment of a particular form central banking monetary device, quantitative easing (QE), previously beta-tested by the likes of John Law, the Weimar Republic and Zimbabwe, the prices of stocks, bonds and real estate responded in kind with a subsequent unnatural decade-plus duration of price kiting and thus effectively becoming untethered from any fundamental grounding.

By many measures, at the *pre-coronavirus panic peak* for the S&P 500 on February 19th, stock investors essentially had the least room for error in all of history based on such key market valuation metrics as total U.S. market-cap-to-GDP, and the S&P 500's Price-to-Sales ratio. By those measures, the U.S. stock market had *never been more expensive* to own a unit of the S&P 500 relative to total corporate revenues and relative to the size of the U.S. economy (GDP). Its my belief that its increasingly likely that what we may have seen up through Wednesday, February 19th, was a classic parabolic blow-off of perhaps history's single most prolific global "everything" asset bubble. I had described the deleterious symptoms and common anecdotal characteristics with which we were witnessing in my February letter, [Need We Really Wait For How This Ends?]

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This pandemic of extreme market overvaluation and symptomatically congruent levels of speculation marinated in a toxic dose of debt was then met head-on with the emergence of an exogenous event, the coronavirus pandemic. However, its my opinion that it could have been almost anything to have come along around this time to have eventually pricked this epic bubble and it just happened to be something capable of accelerating the eventual market dislocation for which the seeds had already been planted.

Alas, collectively, central banks were still administering crisis-like policy and were never able to normalize policy 10-years removed from the original crisis that they apparently were seemingly still fighting. As recently as February, Greek sovereign debt had traded with yields under 1%. The Greek government has been bailed-out by the EU three time over the past 10-years and Fitch Ratings agency currently rates Greek sovereign debt below junk with a BB rating. Such meager yields backed, contrarily by a woefully financially compromised sovereign entity, amidst everything else, might have been among the more clarifying characteristics of a global financial system which had essentially been reduced to a hall of mirrors by its central bank sponsorship. As recently as February some $13-trillion of global sovereign debt still traded with negative yields. There's probably no better testament to highlight to just what extent global capital markets had become disengaged with any and all tenable underlying fundamentals and the fact that the presiding President of the United States had continually used this prime example of the era's malfunctioning global monetary system as something the U.S. Federal Reserve should aspire to (negative German sovereign bond yields) is someday going to be such delicious irony.

To summarize, western governments were treating the ongoing global expansion in the 10th year of the expansion, from both a fiscal and monetary standpoint, as if they were trying to dig their respective economies out of recession. Just as markets were going parabolic in mid-to-late February stock traders had simultaneously accumulated the largest net long exposure to stock index futures in history. The level of unabashed bullishness and speculative fervor occurring simultaneously with such unconnectedness with the underlying fundamentals and simultaneously with the accruing pandemic risks might go down as among history's best example of how the delirium of unrelentingly rising prices are capable of literally writing its own headlines.

The suddenly conspicuous and still accruing damage to financial markets and economies, should not be blamed specifically on the unexpected outbreak of the coronavirus. But rather, the unpreparedness with which the world's policy makers had positioned global economies and markets ahead of this event. Ten years removed from the global financial crisis, a crisis basically predicated on there being too much debt, central banks only encouraged the proliferation of even more and more debt and then failed to normalize interest rates nor their bloated balance sheets amidst its 10-years of non-stop quantitative easing (money printing). Also, western governments continued to run up fiscal debts aimed at keeping the party going. Alas, the U.S. government ran a trillion-dollar deficit in fiscal 2019 and even absent the pandemic was already on track to record another trillion-plus deficit in fiscal 2020. Running a roughly 5% deficit (relative to GDP) in the 10th year of an economic expansion was profligacy in its purest form. Non-financial corporate debt to GDP had also reached an all-time high relative to GDP.

One of the more obvious pox upon the post 2008 financial crisis recovery was the deleterious rise in student loan debt. The alure of a college degree, for too many had sent them off upon a path for which the cost/benefit equation had subsequently become so drastically misaligned. For my generation and before, the reward of earning a college degree, masters or doctorate was almost always worth any levels of debts accumulated during the process. For too many Gen-X'ers and millennials, however, that equation changed dramatically as the cost for many college graduates will never pay for itself. Student loan debt has since soared from just $260-billion a few years prior to the onset of the 2008 financial crisis to over $1.6-billion just as the current financial bubble was reaching its apex. According to census data, between 2007 and 2017, the United States added less than 1 million households in owner-occupied homes, but 6.5 million in renter-occupied homes. I believe this last cycle, having effectively been short-circuited by the Fed's overt interventionist policies, disturbed the manner by which traditional housing formation amidst a post-bust cycle should've normally functioned and thus effectively tilted the eventual accrual of benefits of recovering housing market disproportionately to corporate interests instead of the burgeoning generation of first time home buying candidates. The post-crisis radicalized policies implemented by the Federal Reserve essentially rigged the benefits in favor of Wall Street and its sponsored entities at the expense of younger generations as we are now able to understand with more clarity how these policies simultaneously acted to tilt the advantage, unnaturally, to speculators and those giant business interests residing closest to those massive Fed credit and liquidity spigots. Encumbered with record levels of post secondary education debts such ongoing policies favored speculators while simultaneously hindering savers and the ability for individuals to build household wealth amidst depressed post-crisis income growth, suppressed rates of interest on savings (non speculative investments) while artificially re-kiting home prices beyond the stretched budgets of prospective first time homebuyers. This all short-circuited the natural business cycle and the ability for individuals to reap the majority of the rewards which used to spawn from the previous cycle bust and instead accrued to the more nimble credit worthy, propped-up central bank-favored Wall Street interests.

The era also gave life to a totally bifurcated but parallel universes of two distinctly different credit systems. One which is profoundly forgiving for severely compromised sovereign debtors and unprofitable zombie start-ups and one for everyone else, many of who were never able to escape the hardship of living paycheck to paycheck. Meanwhile, the manner in which credit gets doled out, one class, the corporate and sovereign class can borrow at rates virtually oblivious to any realistic and calculable risks of default, thanks to the implicit backing of their sponsoring central banks, while at the same time, its never been more expensive for the U.S. consumer to roll credit card balances from one month to the next per recent data from the Federal Reserve.

And again, it wasn't as if the global economy and corporate earnings growth, pre-pandemic, were exhibiting the kind of robust growth that one would think might run congruent with a 30+% year for the S&P 500, as was seen in 2019. In mid-February, prior to any widespread U.S. acknowledgment of the growing coronavirus threat, US Industrial Production for January had reportedly fallen again for the 4th of the previous five months. Capacity Utilization of the nation's factories had also peaked al-

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most 2-years ago and had been declining since. Also in February, the percent of all outstanding subprime auto loan delinquencies, past due 60-days or more, had reached its highest level since 1996. Japan's official bean counters reported that its economy had shrank at an alarming 6.3% rate in the final quarter of last year and Germany's GDP in the final quarter of 2019 printed a Blutarski, zero-point-zero!! Even before the outbreak of the coronavirus, the Wall Street Journal had reported that global trade for all of 2019 grew just 1%. This was down from 4% in 2018 and 6% in 2017. Alas, the Journal lamented that this marked the 4th worst year-over-year increase in global trade over the past 40-years, and that includes the years 2001 (post tech bust), 2003 (invasion of Iraq) and 2009 (credit crisis). Again, this is all pre-pandemic stuff. Not exactly the foundation supportive of the most expensive U.S. stock market in history, at least by some key historic metrics and not the kind of global economy obliging to schlep around the most relative debt-to-GDP in all of history.

Remember that ballyhooed trade deal with China signed in the middle of December of last year, and how it had acted as pretty much the only justification, as flimsy as that logic was, for why stocks staged their biggest rally in any prior year going back to 2013 and only the second 30+% gain for the S&P 500 since 1997? This was even as year-over-year earnings growth for the S&P 500 recorded its weakest year-over-year growth since 2015 and year-over-year real GDP growth stalled to its second slowest annual growth rate since 2015. And now, per a recent Wall Street Journal article, *Trump's Trade Deal With China Is Another Coronavirus Victim*, and the author points out that virtually all those Chinese import bogeys laid out in that "greatest trade deal of all-time" are already so far behind the curve that, "*U.S. farm exports to China need to more than double this year,"* in order to meet those trade deal parameters. And, "*Given such an inauspicious start to 2020, it's difficult to see how this year's trade-deal targets can be hit, particularly with global transport networks barely operational*." So, even the primary reason for why stocks seemingly had rallied so hard and furiously last year, amidst that perpetually dangling trade deal carrot, even that catalyst appears now to have been more or less a mirage. Henceforth, the valuations reached in mid-to-late February, appear to have been centered even more on fantasy than fact as I described in my February letter. And to add insult to injury, henceforth, the U.S. economy has since suffered the equivalent of a heart attack.

The initial 30+% market sell-off up thru March 23rd had essentially been real price discovery attempting to realign grievously kited prices with reality. But again, the Fed was able to arrest this attempted revival of price discovery. At least for now. As of late last month, the S&P 500 had again reclaimed roughly 2/3rds of that initial sell-off and was down mere single digits year-to-date. The Nasdaq had essentially recovered all of its year-to-date losses. Again, that magnificent rally of 2019 had been predicated on that soon to be signed China trade deal. That deal is effectively dead and top of it, we're now in the midst of a pandemic and the largest subsequent drop in GDP and personal income since the Great Depression as well as the largest spike in unemployment since the Great Depression. Alas, the economy and potential near and intermediate prospects for corporate America are now not only NOT anywhere close to being what markets had believed was forthcoming in 2020 amidst that dangling trade deal carrot, and beyond when we ended the year, but in fact, now it's a mere fantasy of whatever stocks thought would merit that 30+% rally for the S&P 500 in 2019. Again, I know I'm being way too logical for a market that has for all intents, constructions and purposes been effectively turned into some kind of fictional super hero avatar of itself by the egregious and newest radicalized policies of the Federal Reserve and its central bank brethren, but I would have to conclude that as it relates to the even more deleterious underlying fundamentals, which had previously been a debt-induced mirage anyway, spiraling amounts of even more debt and accumulating imbalances accruing at an even more rapid and perilous pace than what we had seen amidst the pre-pandemic build-up of this bubble, as well as the far more constrained U.S. consumer amidst the 30-million recently jettisoned from the ranks of employment, as of the end of April and its Fed-induced bounce, we have since eclipsed all prior boundaries of excesses beyond their even more compromised underlying fundamentals.

Again, the evolving damage to the economy and financial markets should not be blamed specifically on the unexpected outbreak of the coronavirus pandemic. But rather, the unpreparedness with which the world's policy makers had positioned global economies and markets ahead of this event. The most rapid 30+% collapse in history for the S&P 500 after reaching a fresh new all-time high on February 19th was effectively due to the unwelcome intrusion of real price discovery having been re-awoken from its 10-year slumber amidst the 10-year long Fed induced hibernation and the numbing of price discovery amidst its relentless morphine drip. The subsequent response, upon the pandemic's pricking of its myriad of bubbles by the Federal Reserve and other global central banks was as equally disturbing as it was massive and even more unprecedented. The collective responses of global central banks to the imploding real estate and credit bubbles in 2008 had been described as massive and unprecedented. The current fiscal and monetary response is nothing short of a blitzkrieg. Remember, the Fed was forced to ramp up its repo facility in late August when overnight bank liquidity began to seize-up last fall. Not exactly a customary characteristic of a well-functioning system to begin with. The Fed's huge repo operations from late August and up thru late February had already evolved into the most rapid monthly expansion of the Fed's balance sheet at any other time in history. We weren't allowed to call this expansion of the Fed's balance sheet, "quantitative easing" at the directive of Jerome Powell, when queried about this last fall. This had apparently resolved the issue of unseizing overnight banking credit, perhaps the most basic function of any financial system, but the excess liquidity again spilled-over into stock markets aiding that last final fundamentally challenged parabolic blow-off of the major stock market indices up thru mid-February. But now, this has since been followed-up with that blitzkrieg monetary and fiscal response upon the Fed's realization that pandemics aren't good for its debt impugned everything bubble. Combined, we have now seen the Fed's balance sheet grow by a breathtaking $2.9-trillion over the past 8+ months. In order to truly put this in perspective, the Fed's 2nd and 3rd QE operations combined ran from November 2010 thru October 2014, with its "Operation Twist" filling the void in between. Even after the official ending of QE-3, the Fed's balance sheet mysteriously kept growing up thru the middle of January 2015. So, effectively, those three operations combined ran for a combined 4-years and 1-month and combined, we saw the Fed's balance sheet increase from a post QE-1 level of $1.899-trillion to a post QE-3 high of $4.516, or $2.62-trillion. Well, the Fed has just force fed the near equivalent of QE-2, Operation Twist and QE-3 into markets in just over a month-and-a-half from March 11th thru April 29th.

Upon the pricking of this magnificent 11-years in the making everything bubble, according to Deutsche Bank's (DB) Torsten Slok, the Fed is now on track to buy twice the amount of net U.S. Treasury debt issuance. Even during the financial crisis and the three post-GFC QE operations, the Fed's net purchases never surpassed the Treasury's net issuance. In a Bloomberg piece published last month titled, *The Money Taboo That Central Banks Have Shied Away From So Far* warns, *"The longstanding fear has been that handing this kind of money-creating power to politicians with short-term electoral goals will lead to over-spending that hurts economies in the longer run by fanning inflation."* Also, on the fiscal side of the ledger, the U.S. budget deficit surpassed $1-trillion last year for the first time since 2012 and is now expected to blow away the prior single-year deficit record of $1.413-trillion recorded back in 2009 amidst the global financial crisis. Even as Capitol Hill hints at even more "stimulus" and tax-payer funded

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corporate bailouts, the Wall Street Journal reports that U.S. debt issuance for all of fiscal 2020, ending September 30th, is now expected to more than triple the issuance levels of fiscal 2019, from $1.28-trillion to at least $4.5-trillion this fiscal year after the Treasury recently published its anticipated quarterly funding schedule. Also, to put the blitzkrieg of the *all-fronts central planning assault on price discovery* in perspective, in addition to the monster dose of the Fed monetary infusion, which was more than the combined total of QE-2 and QE-3 jammed thru a 6-week window of time from mid-March to the end of April, but also as a percent of current GDP, per Bloomberg, Congress has authorized Treasury to fund programs enacted over the past 6-weeks thru the end of April, which will have cost tax-payers the equivalent of what was spent over the five years during and after the 2008 financial crisis!

While Bernie Sander's bid for nominee of the Democratic party effectively ended on Super Tuesday, a little over a month ago, you gotta wonder what's going thru his mind after witnessing the whirlwind of events of the past month and a half. Corporate America had previously viewed Sanders policies as effectively the Chernobyl threat to Corporate America if he were to have been elected. So its mildly amusing to watch as in one frantic fell swoop, Corporate America and its elected shills have effectively thrown away its Gordon Gekko playbook of debt, leverage, trickle down and "greed is good," mantra and has hastily retrofitted the Bernie Sanders "socialist" economic template over that of its once beloved grossly mutated "*Everything Bubble*" capitalist model.

Over the past several years, we seem to have woken-up to a myriad of social injustices, the MeeToo movement, global warming, people with disabilities, social media and their control over our personal data, LGBTQ, etc., etc. Yet, how on earth are there not daily demonstrations taking place in front of the Eccles Building in DC aimed at underscoring and spreading awareness of the deplorable and immoral central banking policies that so adversely affect the globe's middle and under classes and the deleterious hinderances to their abilities to play a self-actualizing role in their own financial security?

I know we never really achieved that mythical escape velocity for the economy with all that urging and cajoling by the central banks from 2008 right up to the post financial crisis apex for the S&P 500 on February 19th, but for now it looks like its up, up and away for another massive financial bubble—the post coronavirus bubble, as we get to pretend at least for a while longer, that the prices of stocks, bonds and real estate are just discounting the same mythical escape velocity for the post coronavirus era economy. Alas, the accruing evidence, after a decade-plus of observations, for how vital and critical ongoing globally coordinated QE (artificial market propping) has become to keep markets, now so miserably over-priced and "quarantined" from their underlying fundamentals as well as the spectacular levels of debt this has also helped spawn, from merely collapsing on itself via the increasingly mutating imbalances. But it might also help explain why we have essentially just seen multiple times the monetary and fiscal response in a matter of weeks that had been applied to arrest the collapse brought about the 2008 credit bubble and its subsequent collapse spread over several years in its aftermath. But as Wall Street's algorithms and Wall Street itself attempts to pretend like the post-coronavirus financial system will be as equally as accommodating as the post 2008 financial crisis, I believe we are only getting perilously more close to some kind of breaking point for a miserably mutated and deformed form of capitalism which is totally unsustainable and one that is increasingly becoming a more visible oddity juxtaposed against a clearly more questionable economic future for an ever growing number of middle class American households.

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