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June 25, 2020

Charts: Financial Violence

Nowadays, the saying is that a picture is worth 1,000 words. One recalls from a long time ago it was considered as a Chines observation and it amounted to 10,000 words. In looking it up, the latter was used back in the day.

Of course, charts are pictures and some can be worth millions or even tens of millions, depending upon the size of the account.

Interestingly, in a couple of generations of everything inflating, the common usage has deflated to only 1,000 words. What will the next decade bring?

To be serious, the financial world has been recording two significant things.

A natural peak in intense speculation was accomplished in January and with the collapse an immediate start of a financial and economic contraction was possible. Which we noted in early January.

The other aspect is that this natural event has been made at least 10,000 times worse by the instantaneous shutdown of the global economy by authoritarian bureaucrats within all levels of government. The objective has been one-world-government. And physics provides an elegant description of an authoritarian system: ***"That which is not prohibited is compulsory"***.

With the understanding that the rules do not apply to the governing classes and their supplicants.

Quotations

> ***"Wall Street Feasts on Federal Coronavirus Aid While Main Street Starves"***
>
> – *New York Post*, April 14, 2020.

> ***"The Federal Reserve Act does not…contemplate the use of the Federal Reserve System for the creation or extension of speculative credit."***
>
> – Statement by the Fed on February 2, 1929.

The problem with the latter intention has been that while a central bank can inject excess credit, it is the public that decides where the leverage will be employed. When the Fed raised its rate to 6% in August 1929, The New York Times explained that the policy was to tighten credit to Wall Street and ease it to Main Street. Nothing could go wrong.

The irony was that market rates of interest such as for T-Bills had peaked in May 1929 and in turning down signaled that the boom had maxed out. Six months before the first "Fed-Cut". Going into the peak in 2007, the Street in September was euphoric about the first "Fed-Cut". The rate plunged to effectively zero. The T-Bill Rate turned down 4.5 months before the celebrated "First Fed-Cut!".

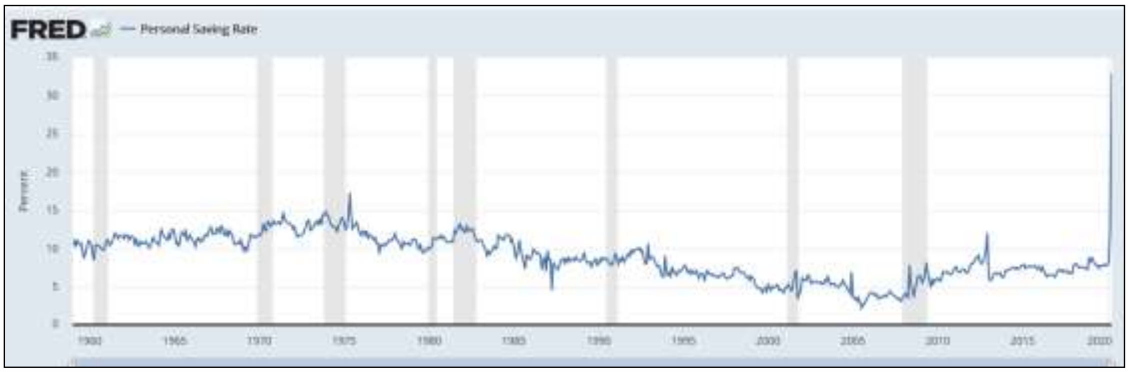
"Lowering interest rates will certainly help the stock market. There is no question about it."

– CIO Harris Private Bank, *Bloomberg*, September 4.

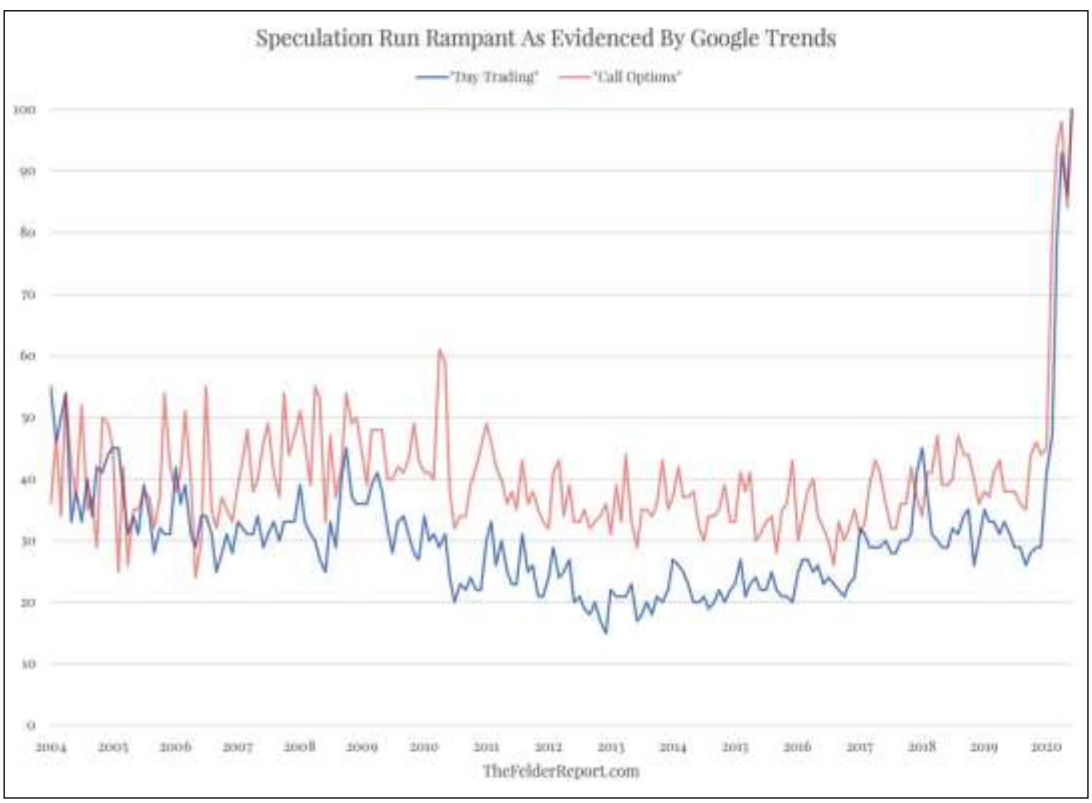
Charts

And in contractions the public as well as big and conservative accounts go to the liquidity of cash. And/or gold.

Personal Savings Rate



The next chart shows a Google means of determining speculation:



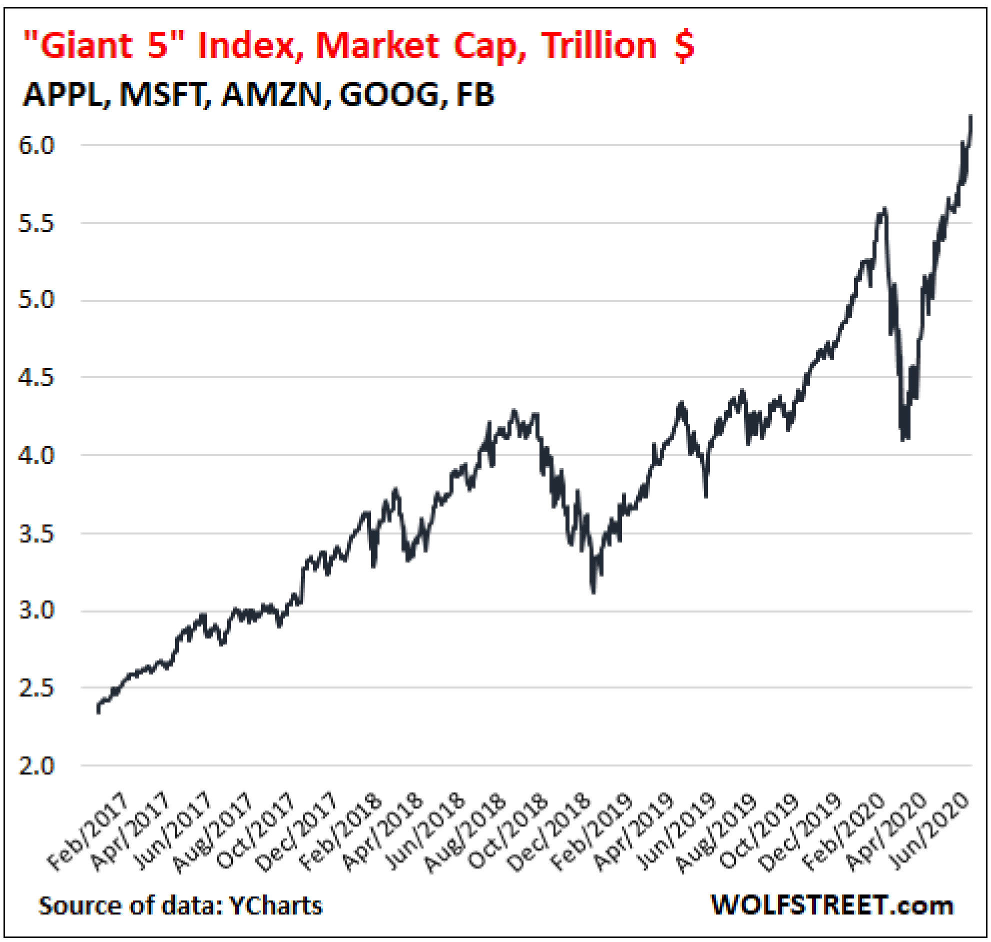
The next one is an outstanding graphic on today's stock market phenomena. As Wolf calls it, the "Giant Five", which reminds of the "Nifty Fifty". That was the phenomenon of the late 1960s bull market. Couldn't go wrong with these one-decision stocks.

And you had to be there for the reasoning. Hitherto, investment funds mainly weighted in fixed income. But "modern portfolio theory" persuaded that equities would show better returns.

What's more, the increasing numbers of "professionals" in equities would reduce the swings in the stock markets. Such competence would buy low and lighten up at high valuations. Wonderful in theory but the S&P deflated by the CPI peaked in the late 1960s and plunged 73% to the dismal low in 1982. Fund managers we knew then were seriously considering going to 25% cash. At the bottom.

The action had shifted to commodities, which seriously impaired returns from stocks and bonds. Of course at the commodity peaks in 2008 and 2011 the advice was that fund managers should hold a 6 percent weighting in commodities.

Now fund managers and central bankers are buying the "liquid" Giant Five.

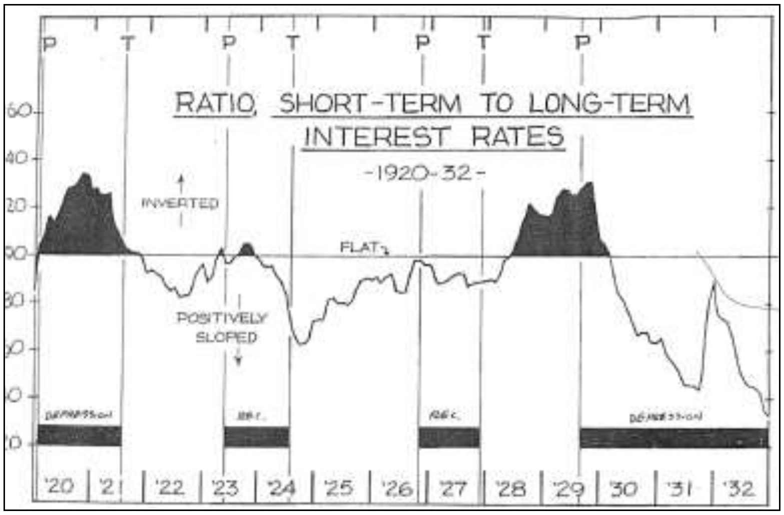


One of the most reliable indicators of change has been the Yield Curve, which we have back to 1857. And it is clear that every example of inversion has been followed by a recession.

The Curve inverted last summer foreshadowing the eventual disappearance of money market liquidity. Moreover, the Curve inverted again early in the year, establishing a Double Inversion. The last was in 2007 and of some importance occurred with the completion of the great bubbles in 1929 and 1873.

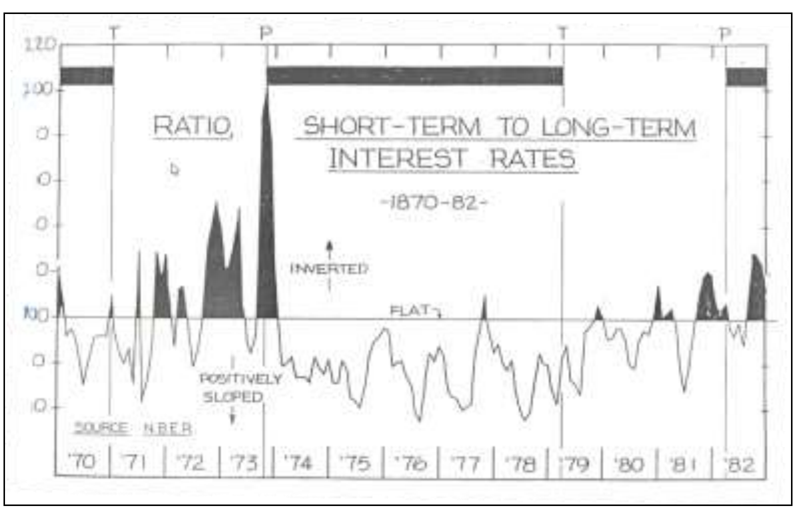
Current Yield Curve

1929


RATIO, SHORT-TERM TO LONG-TERM INTEREST RATES
-1920-32-
INVERTED
FLAT
POSITIVELY SLOPED
'20 '21 '22 '23 '24 '25 '26 '27 '28 '29 '30 '31 '32


Dow Industrials after ratio of short-term to long-term interest rates for the first time in 200+ days, once the yield curve was inverted.
-15%
-87%

1873


RATIO, SHORT-TERM TO LONG-TERM INTEREST RATES
-1870-82-
INVERTED
FLAT
POSITIVELY SLOPED
SOURCE NBER
'70 '71 '72 '73 '74 '75 '76 '77 '78 '79 '80 '81 '82

The stock market turning down again is an unpleasant prospect. However, it is methodical to have a "Line In The Sand". And that would be taking out the March low on the NYSE Advance/Decline Chart. That level and beyond could become compelling after August:

NYSE Advance Decline

Conclusions

The setup to this year's financial hit was methodical. In the first part of 2019, Argentina and Turkey suffered severe losses of liquidity. Then it hit India and China, such that we concluded that liquidity problems would be discovered in New York in the fall.

The "Repo Crisis" arrived in mid-September. But in early October Ross concluded that stocks could rally into the January "window", the time when many important bull markets have completed.

Measurable technical excesses in December into early January were strong enough for the advice to sell the rallies. And if the market rolled over it would take the economy with it.

This was before the Wuhan Virus became a deadly political tool by control freaks. We have maintained our stance that it was a natural speculative peak, followed by what could be a natural financial and economic contraction.

A practical approach.