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"Worst Treasury Rout in Decades"
– Bloomberg, September 27

Indeed, whether looking at price or yield, there has been panic-selling which has been feeding upon itself. News or opinion sites that pay little attention to interest rates posted a piece on the alarm and another on "Inflation", which is the obvious explanation.

However, the "Rout", while dramatic is not historically exceptional. And perspective requires getting out of Orthodox Thinking and into Financial History, with the latter accomplishing the greatest inflation in stock and bond prices – ever. The jump in CPI inflation that everyone has been going on about is the rise in prices that goes with the final phase of the financial bubble, made worse by the Fed humping the money supply during the Global Lockdown.

A piece sent out on September 22nd, included that yields for the 2-Year Treasury Note had accomplished excesses that would soon reverse. And now similar excesses have been registered at longer maturities as well as a Sequential Buy. While painfully delayed this is the "Traders Buy" we mentioned a week ago. It does not apply to Junk. This price rally could be brief and subject to a major test of the lows.

Junk could rally in sympathy, but not for long.

The best way to explain the wild action is that the more consequential inflation has been in stock and bond prices. Inflation in commodities and the CPI is secondary.

Regrettably, the Fed, in sublime ignorance, has spent most of the last decade "worried" that inflation was not high enough and being chronically easy. Which within another Great Bubble, the Fed was adding fuel to the fires of financial speculation. Why "sublime ignorance"? It did the same thing during the "Roaring Twenties". And the whole system of intrusive economics and central banking has learned nothing of the real world since.

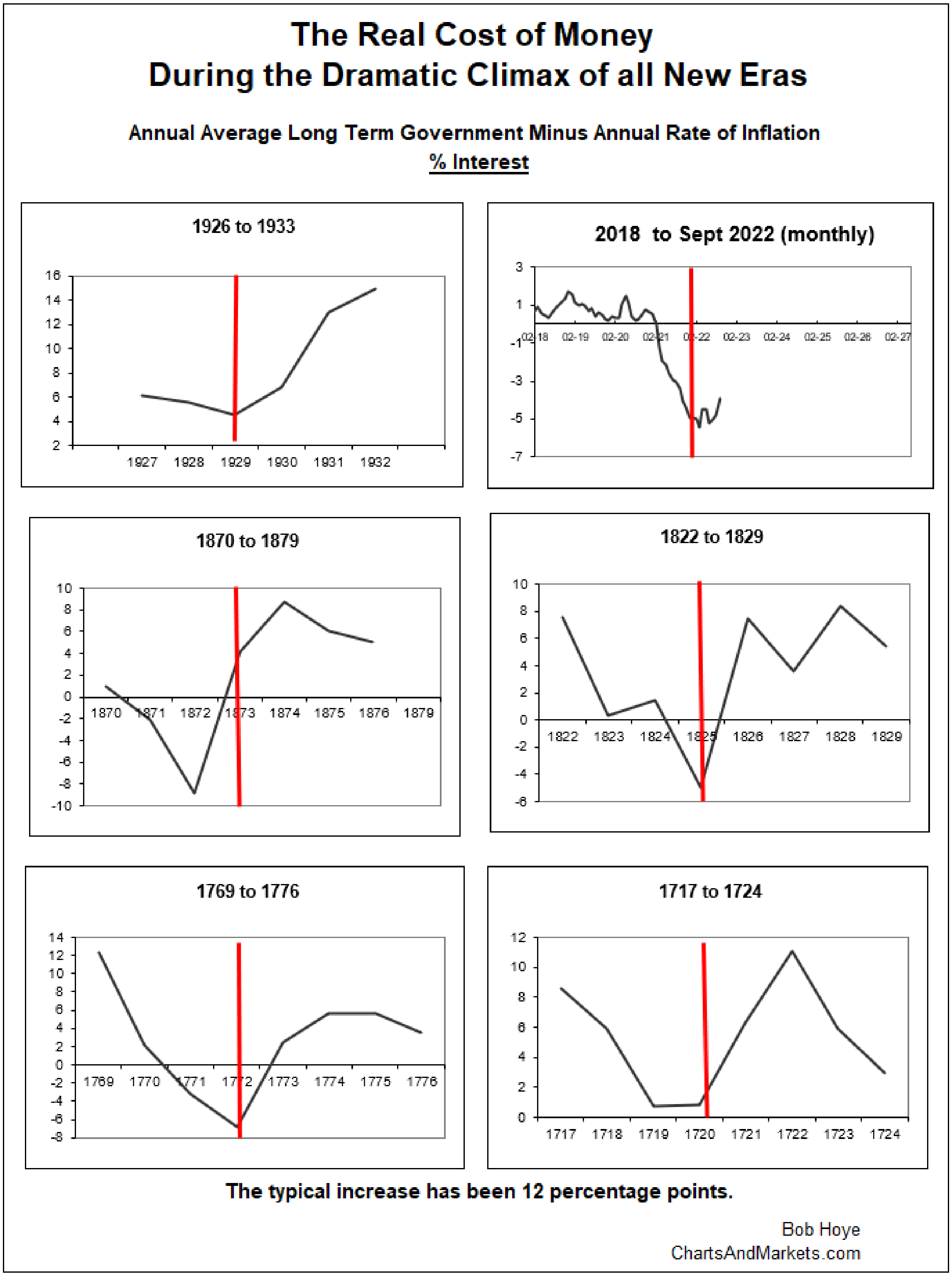
And "reality" is enhanced by reviewing interest rates adjusted for inflation. And the pattern in Real Long Interest Rates provides a practical history back to the early 1700s when the first Great Bubble erupted.

On all five previous Bubbles, Real Long Rates declined with the mania. The World was buying bonds and the rise in commodities did not matter. Real Rates declined and with the initial hit that ended the boom, they went up. And the typical increase was a grinding 10 to 12 percentage points. It has been Mother Nature's way in correcting the abuse of the credit markets, otherwise known as a New Financial Era.

The sixth Great Bubble climaxed in January the typical decade after the last global boom in commodities, which was in 2011. Remember silver at $50?

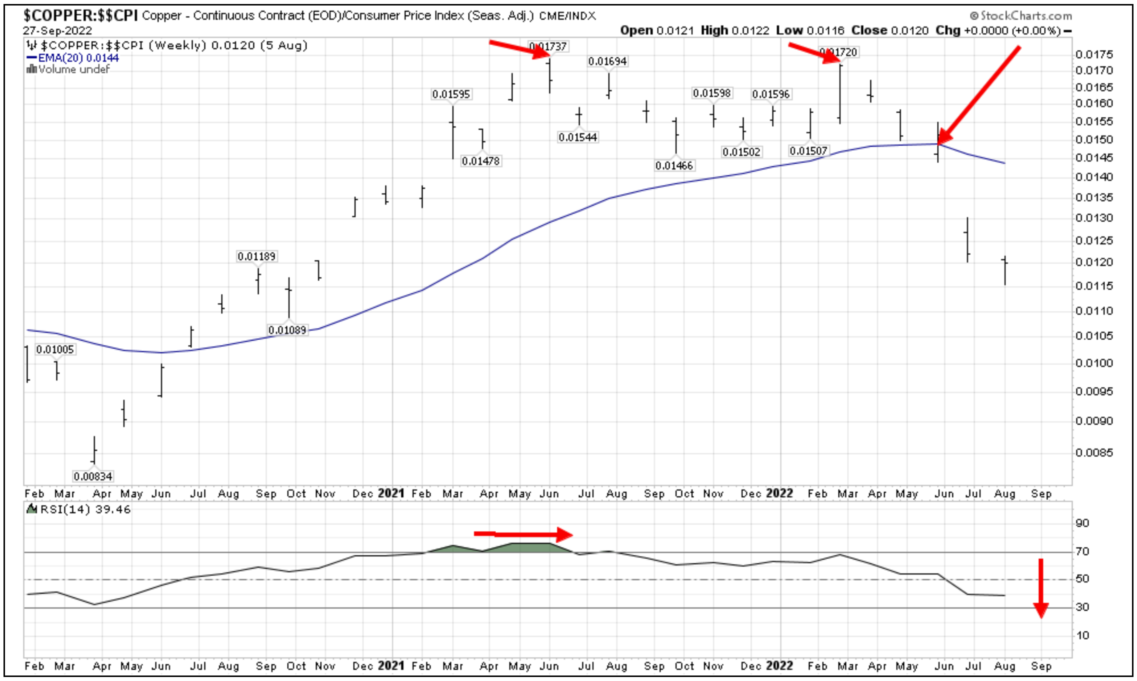
This time around the decline was to almost – 6%, which compares to – 9% in 1873, as an example. On this contraction which initial phase could be maxed out, it has increased to – 4%, perhaps on the way to +6% at the worst of the post-bubble deflation in bond prices. The first chart shows current excesses.

The next chart shows the pattern for Real Long Rates through each bubble:



On previous examples lower-grade bonds did much worse with many issues defaulting.

Other identifying features include the action in Copper's Real price, which goes up during the bubble. The best was reached in May 2021, which was tested just last March. It is in steep decline.



Going the other way, Gold's Real Price declines with the bubble. This has been the case, but it has yet to turn up. But being posted daily, Gold/Commodities is attempting to turn up.

And the fourth feature in tracking the transition from inflation in financial assets to deflation has been that the senior currency typically goes up. That's against most currencies and commodities with each post-bubble contraction lasting for many business cycles over many years.

The Treasury rally could run for many weeks, but whatever it accomplishes the lows will have to be tested. Junk should still be avoided. Action in the other series confirms that financial history having climaxed a Bubble is in another Post-Bubble Contraction. On the positive side, it could further inspire the political reform that is underway. Government agencies that exaggerated the mania will finally get a well-deserved criticism.

Short Rates such as for T-Bills have soared but could be close to rolling over, which the Fed after some months of delay would follow. T-bills could eventually decline to zero.