THE National Investor

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FIRST, SOME PRELIMINARY THOUGHTS…

The "perma bears" sure have a reason to be thumping their chests these days! Thanks to the new Coronavirus, Covid-19—and now, **the financial nuke that's been lobbed at the U.S. oil patch** and instantly called into question the most vulnerable segment of America's junk bond market—it's become the time of day when these "stopped clocks" are at last *right*.

Just *how right* they are we don't—indeed, *can't*—yet know. Wall Street's 28% decline in under a month through Thursday by far constituted the fastest-ever unfolding of *at least* a cyclical bear market (whether it turns into a secular one *also* remains to be seen.) Friday's bounce was encouraging; but few suggest it marks anything more than a possible *near-term* bottom. To be sure, the odds in my view are better than even that by or before mid-year we will see a bottom to this vicious selling. None the less, the world to follow—despite both central bank and government efforts to mitigate *the damage already done* and attempt to "reinflate" things—will be a subdued and quite changed one.

As some of you have no doubt been doing, I have likewise been absorbing press reports and opinions on where things may go from here in the quest to do **the best job possible in guiding *you*.**

The usual suspects among the perma-bears, of course, say the last few weeks' drop for stocks already is but the beginning; and that an epic bear market indeed has begun that will make what's occurred so far seem like nothing. Others point to, at least, the likelihood that the Covid-19 scare will play itself out—or at least become better and less-hysterically managed—that said development would *at least* put a floor under things for a while. As I said above, I favor this view; and would have already been telling members to load back up on good companies at a faster pace were it not for a second issue. **That, of course, is the *second* Black Swan of 2020: the renewed disaster in the energy market.**

In the pages to follow in this more thematic issue (next go-round I'll be updating *for Members* many of our individual companies and more specifics on our asset allocation and sectors) I want to hit several topics and thoughts. In all these cases and more I have been providing a LOT of stuff via social media, my fairly regular appearances on the *K.E. Report* and more. So for those of you who want LOTS of details and reading/viewing/listening material it's all there for you *many times a day*!

Here I am going to whittle it down…summarize…and look ahead in some added detail to what the post-Covid-19 world might look like.

First of all, one of the best characterizations I have heard of Covid-19 (and now, I will add, of the energy market events that have more recently unfolded) is that **these Black Swans are *accelerants*.** Neither of these things are a direct, proximate *cause* of the deflationary dominoes that have started to fall; for that we can thank (primarily) the Federal Reserve and other central banks of the world as I have long and painstakingly explained to you. But just as a smoldering/beginning fire in a house will take off FAST if it suddenly encounters a big pile of oily rags that have been stewing so, too, have Covid-19 and the "oil war" accelerated the fire that had already been ignited.

Our exercise, I submit, in attempting to figure out what to do with our now cash-heavy portfolios *from here* needs to consider the following:

1. A realistic assessment not just of whether this new virus is being overblown in its severity and danger (perhaps meaningful for other reasons) but more so of what it and the various policy responses and public angst are going to **do** (and have already done) to the economy.

2. Added to this now, **a close monitoring of the oil/energy markets situation**. As I have already been saying and will discuss further below, this second headache is potentially even more dangerous to the markets going forward.

3. As I warned both Friday (see http://www.kereport.com/2020/03/13/stimulus-and-interventions-helping-stocks-but-not-the-precious-metals/) and Saturday (at Segment 3 of the *K.E. Report* weekend show at http://www.kereport.com/2020/03/14/hour-1-8/) **IT IS DEFLATION THAT HAS BEEN UNLEASHED AND WILL BE WITH US FOR A WHILE.** A major part of safe and profitable portfolio management going forward will be understanding this; and recognizing when that will change.

4. Along with the above we need to keep an eye on markets/market behavior to know just how successful the Fed, other central banks and elected governments are (or are *not*) in arresting the most dangerous lurch toward a full-blown global recession/deflation/secular bear market that we have seen since 2008. *It's not impossible for that to happen*.

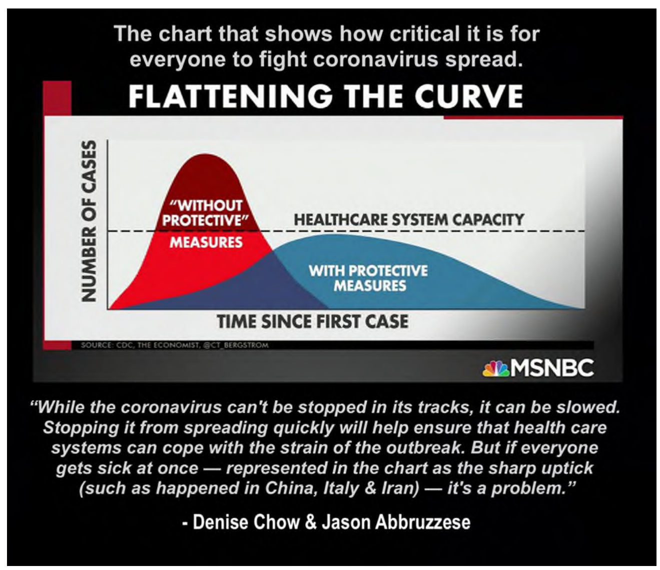
5. Provided things don't get worse, we do need (though we must *remain* cautious for now, erring on the side of being too careful) to acknowledge that **stock and even commodity markets are likely to bottom and turn higher *before* the worst of the economic conditions in this *now-unfolding* global recession have been felt**.

6. Finally, we need to realize (a few thoughts below for now, which I have both discussed previously and will expand on later) that—beyond just the headline stock indices and economy—**both Covid-19 and the oil war will be accelerants of MUCH MORE.**

COVID-19 A GODSEND IN ONE SENSE…

With Yours truly, a few others have been drawing the analogy to this Coronavirus broadsiding the economy/markets to **a *previous accelerant*: the terrorist attacks on the U.S. of September 11, 2001**. Back then, policy makers generally and the Federal Reserve specifically under then-Chairman Alan Greenspan were under withering attack as the bear market following Greenspan's tech bubble bursting worsened. Likewise, the economy wasn't responding all that well to The Maestro's belated easing of policy.

And then, *voila*! Said maladies were no longer to be blamed on Greenspan, et al but—as of 9/11—on the terrible, mostly Saudi Arabia-based terrorists. The bear market and recession were *their* fault.

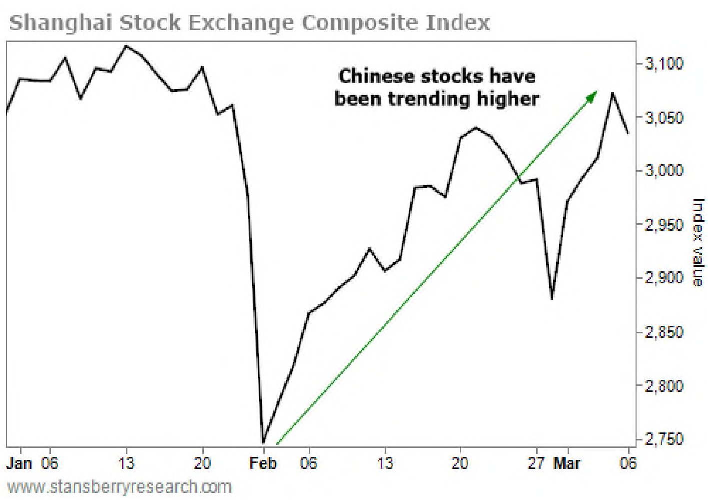


So it is today: imploding markets and the onset of a recession are no longer the fault of a profligate government, the Fed or the latter's doomed fractional reserve system (and the doomed bubbles it *requires* to be blown.) *Now it's some previously-unknown or non-existent single-strand DNA substance that is causing all this*. Right.

And as before, 1. The masses by and large buy all this diversion hook, line and sinker, 2. Will not only tolerate but *plead for* more curtailments of their liberty and 3. The government will be compelled to do things it would not have done (or would not get away with) otherwise.

First things first where this virus is concerned. **Overreaction or not, the fact is that the "economic sudden stop" spoken of in recent days by Allianz's Mohammed El-Erian *has* kicked off a recession**. Job One now is to mitigate the effects, first, by the U.S. specifically "catching up" to countries like South Korea which nipped this in the bud quickly. Many of you have seen the above chart or otherwise heard the key narrative around this "curve": That the best and most desirable outcome to limit infections and deaths will be *a "curve" that actually lengthens the amount of time we'll be dealing with this*. The realistic hope is that a meaningful turning point could be reached within six to eight weeks.

Before then, however, the news will probably continue to *worsen*; and more so the media and government propaganda-fueled semi-panic on the part of the American sheeple. This, of course, is one reason we can't get over-eager in relation to what is indeed in some ways an attractive level of valuations for stocks, etc. They could easily get much more so.



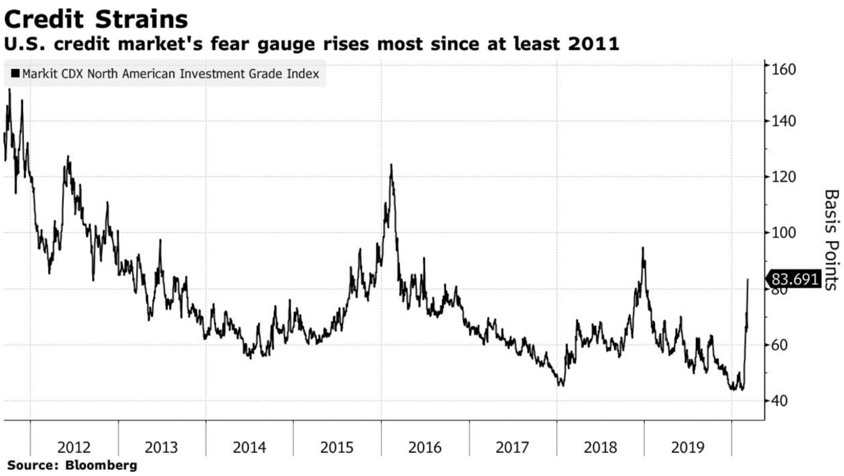
In China—where all of this started *somehow* and where by far there have been the most reported cases and deaths—it's increasingly appearing that a corner has *already* been turned. We're hearing this not only from that country's massaged government and media circles, but now by a few more companies with operations in China that are telling us this. While it's too early to get complacent even where China goes (though as you see nearby, Chinese stocks have recovered more than just about any place else) there can none the less be some hope that similar *patterns* will play out elsewhere eventually, including here.

…<u>NOT</u> SO THE "OIL WAR"

While many a gold bug who has yet again been left high and dry—and with enormous losses—by their various gurus (or simply **their own inability to *ever* sell**) are licking their gaping wounds anew, the carnage isn't just limited to gold mining stocks and the like. **The energy sector in most respects has suffered even more**; and is arguably a MUCH bigger story when it comes to the health of the broader economy and markets.

As you see at right, **the most conservative of all the ETFs in the energy space has lost 80% of its value since its peak of a mere 18 months ago; *and is down about 60% in 2020 alone.*** Friday's developments shaved a bit off bigger losses; and helped crude itself to rally late in the day. In that I mean, of course, the president's announcement to have the government start buying oil to refill the Strategic Petroleum Reserve.

But that is merely a flimsy Band-Aid to a more ominous and deadly wound. Already, as I have long been chronicling, the overleveraged zombie companies in the American oil patch have been an accident waiting to happen. Even before the recent swoon for stocks, the stock market capitalization for energy was down to under 5% of the total of the S&P 500 (less now, of course.) *Yet of the share of the entire creaky U.S. junk bond market, the debt of energy companies represents the better part of 20% of the grand total*. And it's why corporate debt has begun to implode with stocks.



That Russia—and of all times, with the wheels coming off the global economy and markets, thanks to Covid-19—chose *now* to decide to 1. stop subsidizing U.S. companies and 2. stop putting up with numerous slights, boycotts, sanctions, etc. has been the subject of LOTS of debate (at https://tomluongo.me/2020/03/06/russia-just-told-the-world-no/ you will see one of the best assessments of the situation from my colleague Tom Luongo.)

That Saudi Arabia was so quick to follow and engage itself in a production war that will keep the oil price in the low $30's *at best* for the foreseeable future *no matter what else happens* is more curious. And it's potentially disastrous for the Saudis; though in some respects that kingdom, like Russia, is a low-*cash cost* producer, the Saudi budget needs $85/barrel or so to keep its many promises to the hoi polloi there and lessen the chances of the American-supported royal family being overthrown. *If that happens, it's game over for the remaining American influence over that region*.

Though The Orange Wonder—with his Archie Bunker-level understanding of complex issues regarding currencies and economics—first thought the oil price crash was "a great thing for consumers," he might want to reflect on things just a bit more deeply. Is he willing to trade sub-$2.00/gallon gas for consumers for an otherwise relatively quick bear market/recession turning into secular ones? Is he willing to see the end of the petro dollar specifically and global U.S. currency hegemony generally? *Given the choice of saving 50 cents/gallon for gas OR seeing their retirement fund cut in half, which choice would the average American make?*

Tragically, The Donald simply isn't smart enough to realize that the looming debt debacle in the U.S. oil patch is as much to be blamed on American foreign policy as it is on the Fed-created "Everyone gets a trophy" credit system that first funded and kept alive since so many companies. Maybe if Trump was not pushing N.A.T.O. expansion. . .not browbeating Europe to kill commerce (energy especially) with Russia. . .sanctioning Russian companies. . .and all the rest, maybe President Vladimir Putin would be willing to continue to help the greater global (disproportionately *American*) cause. But there is no reason for him to do so to benefit his own country/people.

I'll have a LOT more to say about all this in the coming days. Suffice it to say for now that a scenario where all we had to worry about was Covid-19 has **had added to that a FAR deadlier issue long-term for not just the markets but as well for the geostrategic balance of power in the world**. This second "accelerant" deserves *at least* the attention the virus is getting.

WHAT'S NEXT FOR THE FED/POLICY MAKERS?

By all accounts, the president is set to get more of his wish granted by the Federal Reserve come Wednesday of this next week: if the central bank doesn't in one fell swoop take us back all the way to a fed funds rate of 0 – 0.25% it will do *most* of that. It won't do any more to help turn things around for the economy or markets than the emergency 50-bp cut of a couple weeks ago. But all else equal, it will slow the bleeding; *and more important, go to keeping things liquid*.

As I suggested was the most likely outcome when I discussed this in 2020's first days (go to https://nationalinvestor.com/2181/2020-fed-chairman-jerome-powells-change-up-and-his-likely-doomed-mission-for-the-year-ahead/) Fed Chairman Powell has no had that DEFLATIONARY boulder start down the hill on him. **He will not be able to fight it off easily…*or alone.*** All he can hope to do is buy time until even more extreme monetary measures to come start to bear fruit; and only then, *after* the effects of both of these Black Swans have been neutralized, or largely so.

"Whatever it takes, I'm going to make it to the top!"

One relatively "good" aspect of these *two* crises now is that they *could* bring about measures to settle down and then—later—reflate things that would not have been likely without them. On the Fed/regulatory front, you'll see more of diminishing capital requirements, further rollbacks of Dodd-Frank and other post-2008 measures, etc.

What will be needed much more, though—especially with no more meat on the bone as far as rate cuts and with even added Q.E. measures for now **merely *lessening the deflation* that's been unleashed**—will be fiscal steps to turn things around. To that end, you're less likely for a while to hear of the evils of "socialism" from some quarters; and not because Sen. Bernie Sanders is now unlikely to get the Democrat Party nomination.

Republicans (for whom "socialism" is *wonderful* when it comes to banks, Corporate America and the Deep State/war spending) are talking about all manner of "help" for American businesses and industry. Trump has even suggested a bailout of the zombie companies in the oil patch (THAT is going to be an interesting battle if it is engaged.) Democrats insist that any such federal help find its way, at least in some good part, to Joe Sixpack/Sally Soccer Mom and small businesses, etc. To some extent, both will get their way; how much, we'll see.

In making portfolio decisions amid this, of course, we need to accept things as they are. As I warned yet again in the Friday/Saturday shows I linked above (and in my most recent Gold report at https://nationalinvestor.com/2228/the-gold-issue-this-is-not-your-fathers-gold-market/) , the MAIN dynamic for the time being is DEFLATION and the unwinding of debt/imbalances, etc. together with stock prices. That today's attitude (unlike 2008) is print money/bail out *first* and ask questions later is—all else equal—supportive of the notion that things don't *have* to get a lot worse (though they still might; we don't know.) *But for them to get significantly and sustainably better is a different matter*.

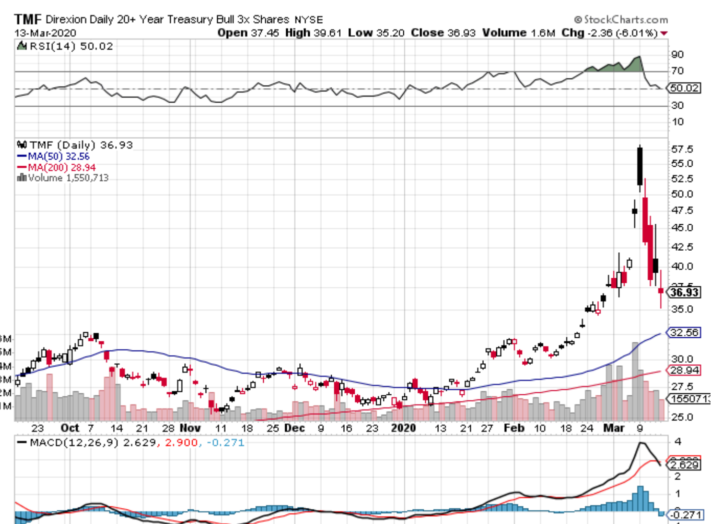
Ultimately, as I was arguing *even before* the twin Black Swans sent things reeling (and is that much more the case now) **it is going to require MASSIVE interventions/spending/infrastructure growth and the like to move the needle much generally to restart a sustainable, half-healthy economy**. It is not realistic to expect anything of that nature before this year's election. All we can hope for is enough Band-Aids to keep things from deteriorating much more.

Of all times, this is when I wish with all my heart that the 45th president was as "smart" as he claims to be. His juvenile and tiresome ongoing jabs at the Fed are among the things that reveal he sadly is *not*.

As some of you saw from me over the weekend, if Trump was both as smart and brave as he claims, *he doesn't need the Fed.* If he believes his own rhetoric and claims, he need do no more than dust off Abe Lincoln's 1861 Act—upheld (wrongly, but that's water under the bridge) in those 1871 Legal Tender cases by the Supreme Court—and unilaterally order the creating of whatever amount of interest- and Fed-free U.S. Notes he desires. He would be attacked from many corners; but this *uber-populist* move to help businesses and people (and not just the markets) would show that he *really isn't* beholden to that same old Swamp after all.

Sad we won't see that; or some equivalent. About all we can hope for is sufficient "muddle through" to keep the odds tilted in favor of a relatively short cyclical bear market and quick, V-shaped recession…*and not something worse*.

THE ODD COUPLE'S BEATING—WHAT'S NEXT?



That some Treasury ETF's (above left) got smoked in recent days along with gold ones (above right) reveals that ***markets generally* have employed some DAMN dangerous leverage of various kinds.** Frankly, with what has happened to Treasuries specifically I'm rather amazed there haven't been more widespread *systemic* failures. *Now we are getting an inkling of Powell's "plumbing fix" rationale*.

While much has been made about gold's own beating (for the metal itself, less bad than the plunge for Treasury prices from their high) **the action in the Treasury complex has been FAR more telling**. Never has there been such volatility: within days, the 10-year low yield of 31 basis points and the 30-year T-Bond's of an astounding 69 basis points were turned on their heads. At week's end, they were, respectively, about 1% even for the 10-year and back to about 1.6% for the 30-year.

It's one thing to have a MUCH "thinner" gold sector see the kind of moves and volatility it has endured, as investors were forced to sell The Odd Couple to raise cash, etc. of late. **But for the largest, deepest and supposedly safest single market in the world—that for Uncle Sam's I.O.U.'s—to do so is a MUCH different kettle of fish!** And more than any other single part of the recent debacle, it's the ONE keeping Powell & Co. awake at night.

Though the size of the overall Treasury market has tripled since the financial crisis of 2008, liquidity has not kept up in relative terms. Part of that is simple math/mechanics. Part is due to post-2008 rules that somewhat tie institutions' hands when it comes to using Treasuries to leverage other things, or even as collateral in their own right. (The Fed and the Treasury Department are all over that latter, especially; expect to see some changes here.)

This is another of the reasons why Treasury prices sank and yields spiked even amid the announcement of gazillions more dollars on hand from the Fed in its repo facilities. We went from a few days of record offtakes of well over $100 billion per day of "Drano" to help this plumbing, to almost as fast there *not* being as much demand. *Why*? Because even though some institutions want and need some added dough, *they can't qualify for it* for one or more reasons.

The coming days will be interesting. I am sorely tempted to add back as what could be much more brief trades one or two of those juiced long Treasury ETFs in anticipation of long-term yields falling again *for a while*. **But there are reasons—a few fresh ones, too, which I'll be discussing next issue—why I no longer see the Fed *even involuntarily* actually going negative on rates**. And if it has its way (and you should all be rooting for this, *especially* if you are a gold bug) long-term Treasury yields have *already* seen their lows.

If the Fed and policymakers are even somewhat successful in first stopping the bleeding and later reflating the economy, etc. this will lead to **a "divorce" for The Odd Couple.** If we are fortunate enough to get to that place and this current bout of deflation is vanquished sooner rather than later, gold—*and especially gold-related equities*, as I argued earlier this weekend—will have a FAR more positive environment in which to flourish for an extended time. More important, it will be in an environment of more meaningful rebounds for commodities, cyclicals and the like more broadly, as the mood grows that maybe we *aren't* in for a prolonged depression/deflation environment after all.

Near-term for gold, there's a *slight* chance—depending on what happens this coming week—of the $1,550/ounce support level that was blown through at week's end being regained. **A lot of that will depend on *other* news/sentiment, though**. One can make the case that an aggressive Fed rate cut and no added bad news from the Black Swans Department could actually do more harm to gold's price near-term. We'll see. As always, I let Members know immediately via e-mail if I think there's a move we need to make.

SOME "RANDOM" THEMES

In no order of importance, here are a few more thoughts as I wrap up this shorter issue beyond/in expansion of some I've discussed herein already, or elsewhere:

* **This is NOT 2008 –** As I mentioned earlier, we already see that the kind of instinct that allowed a Lehman Brothers to go belly-up in the last go-round and make *that* deflationary episode much worse **is not going to be repeated**. If anything, central banks and policy makers in government alike will go SO nuts as to finally—on the other side of *this* deflation episode—bring about some return to honest-to-goodness *inflation* for a change.

The central banks will be notably ramping up their own hectoring of elected leaders to throw the kitchen sink at this deflation themselves, too, via fiscal measures. E.C.B. President Christine Lagarde has warned that, without that, this will all get *worse* than 2008. And German Chancellor Merkel is now doing her own impersonation of Jerome Powell's late-December, 2018 surrender: she now is willing to bust even the German budget to save people (and markets) from the abyss.

* **Globalization/Supply chains** – One of the good (albeit messy and even risky when it comes to the possibility of WAR) outcomes of all this is the move *already underway* away from globalization is going to go into OVERDRIVE. Never before has the average yokel been brought face to face so abruptly with the fact that even everyday things like vitamins, pharmaceuticals and—for the love of Mike—protective masks disproportionately come from China.

President Trump will be moving to do something more about this (see https://bongino.com/wh-working-on-buy-american-executive-order-to-end-reliance-on-chinese-medical-supplies). And on this score, his re-election chances will get a boost, all else equal: he was already of a mind to bring supply chains back to America before this, unlike his (for now) most likely opponent.

And this is a theme that is being embraced by pundits of very disparate views (a lesson to Democrats especially who will oppose Trump on China particularly.) From both ends of the political spectrum (though, to clarify, from the old guard conservative/populist Pat Buchanan on one end and Marshall Auerback's piece for populist/left *Counterpunch* on the other as opposed to the Establishment-scripted right and left) check out the following:

https://buchanan.org/blog/will-the-coronavirus-kill-the-new-world-order-138281

https://www.counterpunch.org/2020/03/13/coronavirus-reveals-the-cracks-in-globalization/

Already (though most have been beaten up with everything else of late pretty much) we have several companies to meet this coming theme in **uranium** and **lithium**. *I'll be adding more sectors, themes and companies*.

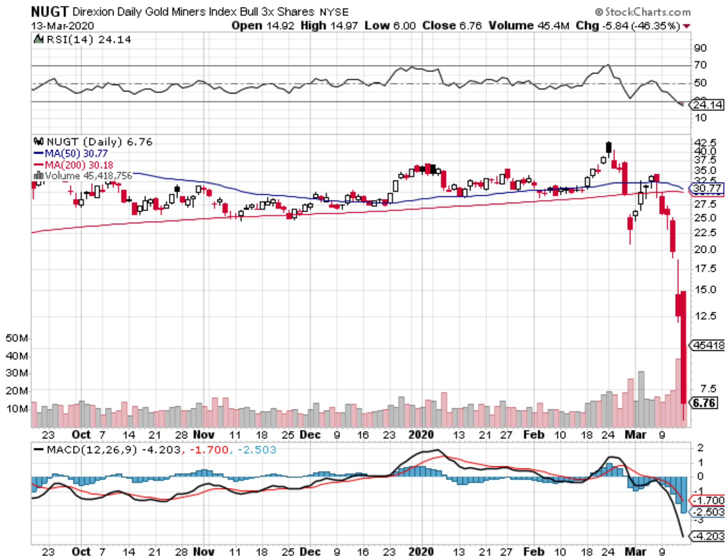
* **The Dollar –** Along with Treasuries, gold, et al, even the U.S. Dollar has been on a wild ride the last few weeks. No sooner than it had—at 94 and change on the USD Index—*seemed* to finally break its two-year up trend, the greenback shot right back up just as fast to close the week just past at almost 99. Here again, unprecedented moves—as with Treasuries.

As I have discussed previously (mostly in the context of the Fed's rolling repo market plumbing fixes) **the dollar is one of the KEY markets to watch.** On top of everything else, the *world* needs a cheaper dollar right now (on this The Orange Wonder is correct, even if he doesn't understand WHY he's correct.) Nothing will lend itself to more directly mitigating the deflation that's been unleashed—and ultimately turning it around—than for the de facto central bank of the world (The Fed) to succeed in ending the dollar's run. From emerging market debt that's in trouble, to commodity producers generally, oil debtors specifically and more, **the world needs to be *awash* in cheap dollars.** (Maybe now idiot Senators of *both* parties want to revisit—and speed up—the Judy Shelton confirmation??)

* **A return of price discovery –** Last weekend I had breakfast with a private equity guy from the Orlando area, his mother and his fiancée. While some of our conversation bored the ladies, we had an entertaining one on the current state of affairs in the investment world!

Another of the "good" outcomes of the recent/ongoing unraveling is that **there are going to be a couple ways in which traditional, common sense investing makes a comeback**. In the context of our conversation, private equity/markets are going to get a HUGE boost. There, at least, there is NOT the Fed-created "Everyone gets a trophy" mentality; bankers/investors like this man and his firm do deals and make decisions one-by-one on a company's *merits*. (Needless to say, a firm such as this guy's would never be propping up zombie shale companies, among others!)

As some of you know—and have already experienced—I'll be increasing my own collaborations with economically sound investment options outside of the traditional stock market.



Epic, gut-wrenching and unbelievable IMPLOSIONS!

Even as for the stock market, though, changes are coming to at least some extent. Gold bugs most acutely of late have learned how uber-leveraged ETFs are risky and can lose you a LOT of money FAST if you zig when you should zag. That's bad enough. But what also happened was that as those levered ETFs unwound so fast, they dragged *everything* with them and caved in just about the entire sector of gold-related equities in such a way that nobody has ever seen.

And that **this likewise happened to Treasuries to a lesser extent** (and caused the liquidity issues the Fed *still* hasn't got its hands around yet) is another sign that ETFs *generally* more than anything resemble that minnow trap I have long used as an object lesson. When you have leverage on top of leverage—and even in the case of *unlevered* but HUGE ETFs where monstrous inflows into them drive the underlying market higher—we are only now beginning to find out what happens when the transmission mechanism of all this market dough goes into reverse all at once.

I discussed this past week the renewed discussion on the danger posed by the whole ETF and *passive investing universe* of recent years. How much worse all this gets before it's corralled, we do not yet know. But to me—and others—the debacle in the gold space is a microcosm of what might be to come in a Doomsday scenario for liquidity (or I should say, *illiquidity*) if we get to that point. Expect a LOT more eyes to be on this subject once more.

True, the few times over the last few years where it *looked* like value investing would make a meaningful, sustained recovery and take back at least some control and attention from the algorithms and passive investing machines (human and otherwise) didn't last. **That will change now due to these latest circumstances.** The new *Barron's* has a great piece by Jack Hough entitled "Shopping for Stocks? Think Like a Lender"—I'll be following up on his thoughts in the next issue or two.

And in that sense more than anything—and notwithstanding considerable risks *still* ahead of us, requiring us to move S-L-O-W-L-Y for now—I am animated about the more rational and constructive world that may be ahead of us after all.

Don't forget that those of you so inclined can follow my thoughts, focus and all *daily* ! ! !

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