



Opportunity Knocks

For those of whom, that may have missed our mid-week FOMC update, here were the headlines:

The Federal Reserve Open Market Committee decided to raise the Federal Funds rate 25 basis points yesterday. This rate hike will move the Federal Funds rate to a range of 75 to 100 basis points. Yellen pointed out that the Fed:

- *Expects core inflation to rise and hold steady at the longer run rate of 2%**
- *Saw a hike appropriate, still accommodative, but waiting too long may lead to an unwelcome rapid rate rise as opposed to doing it gradually.**
- *That future plans will be gradual and predictable**

One thing that we saw that stood out the most was this item here:

- *The neutral nominal Fed Funds rate is quite low, which means Fed Funds *doesn't need to rise that much to get back to neutral* and they see 3% by the end of 2019.**

This is important because it is basically putting a ceiling at 3% by the end of 2019, which, netted out over the next 3 years is gradual indeed. It also lends insight to the fact that, ultimately the federal funds rate they are looking for is around 3%. Considering inflation is running close to their mandate, means that the current policy or **real rate is still negative** and will continue to be so for the near future. (Fed Funds 1% Inflation 1.8% = -0.8 real rate)

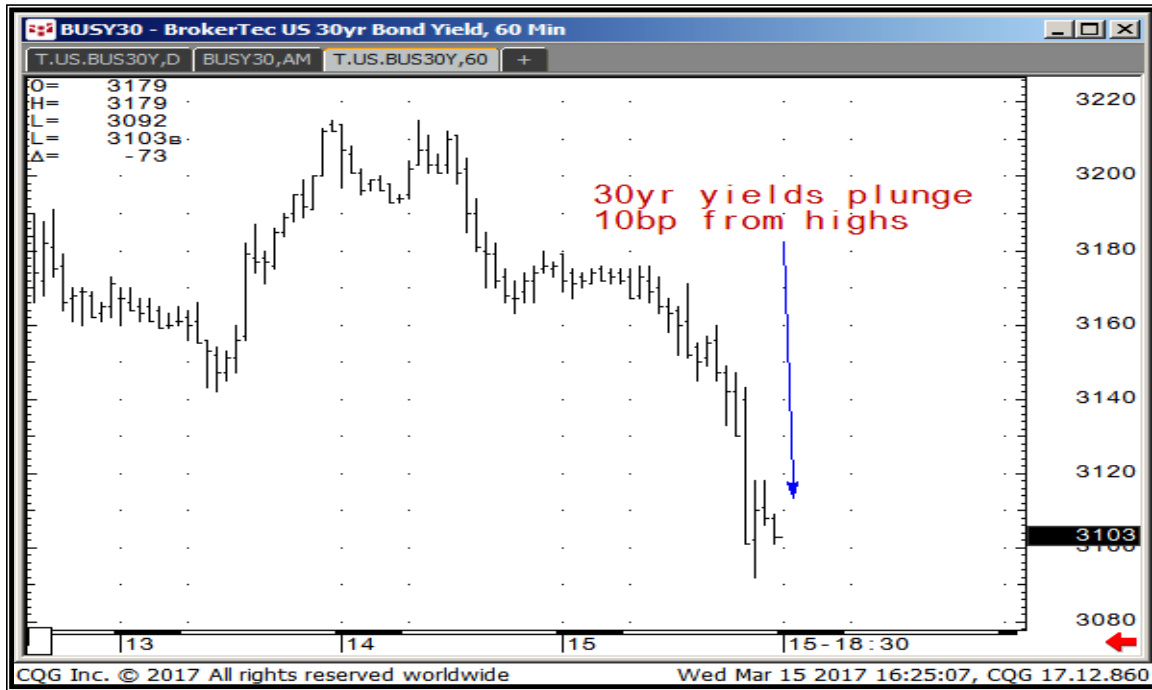
Basically this is another component of the scenario when a rate hike isn't actually a real rate hike. Second to this notion is the fact that interest on excess reserves (IOER) that little known subsidy to the banking sector is now up to **\$21 billion** in free money to the banks each year. (Latest FRB:H3 report shows Excess Reserves at \$2.1 Trillion)

Anyhow here is how the markets fared by the end of the trading day on Wednesday:

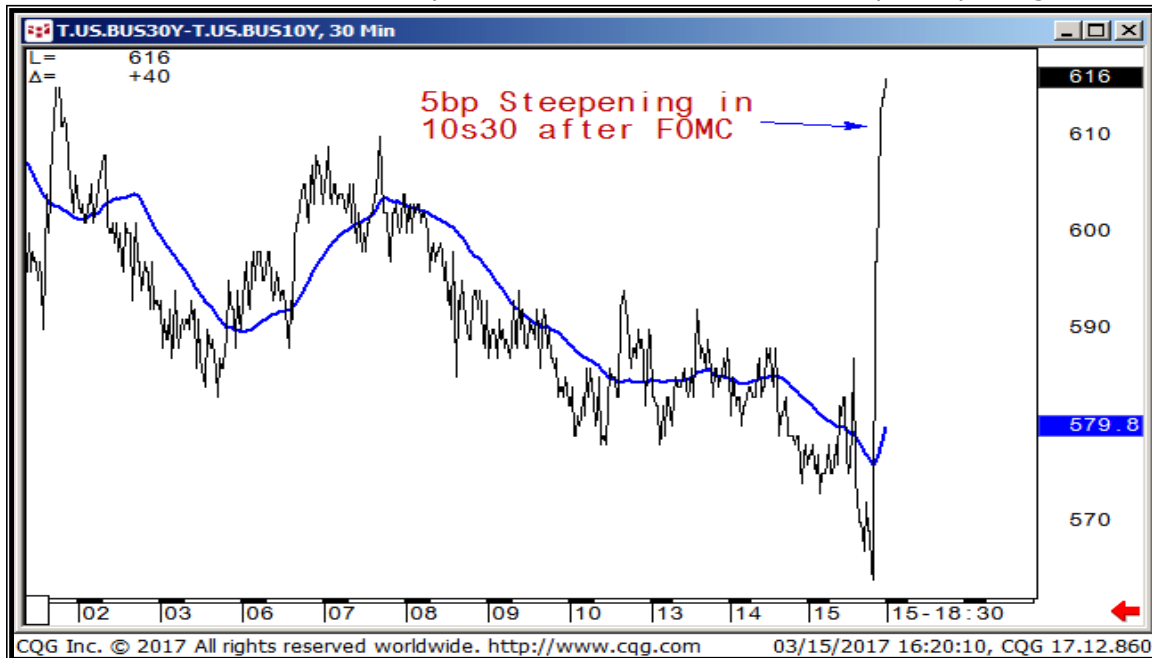
First up the SP500 with a nice 30 point rally from the lows (as expected on an FOMC day):



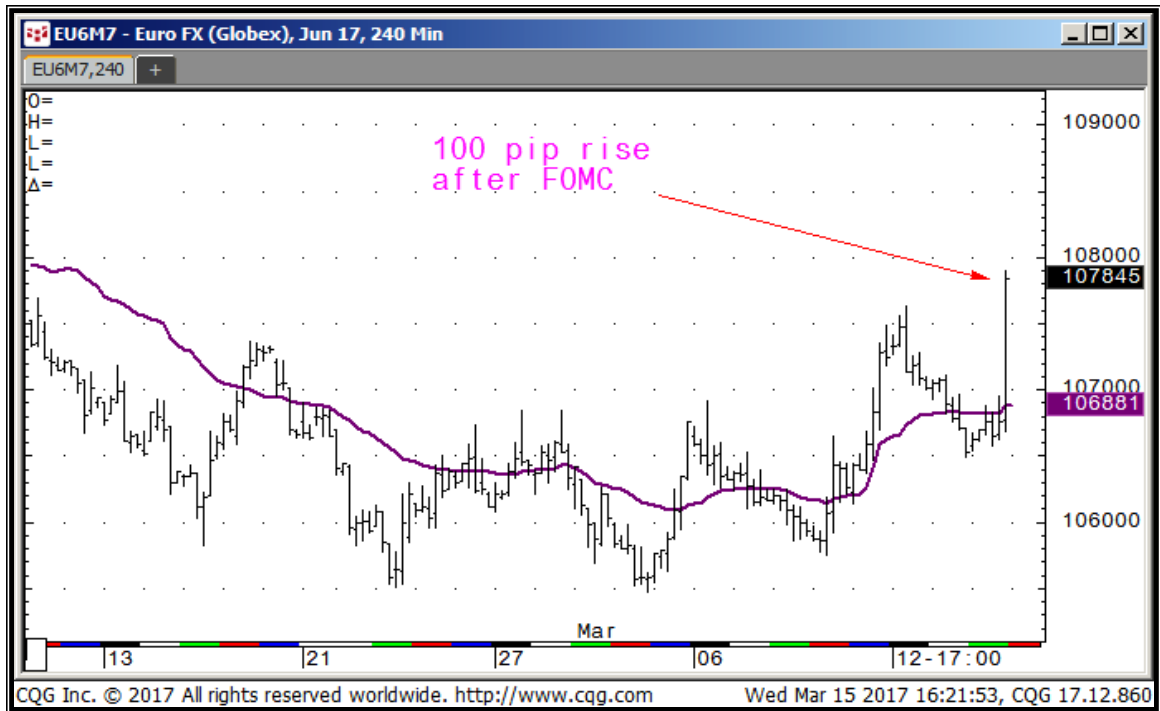
Next up the US 30yr Treasury which saw yields fall over 10 basis points:



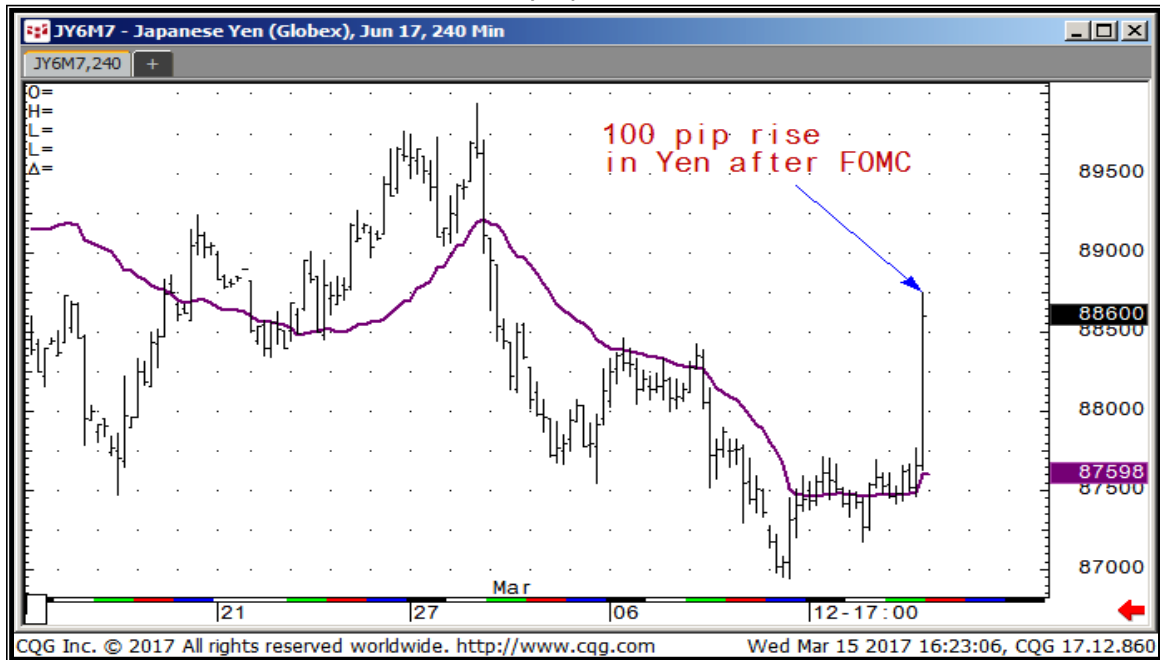
When we look at the 10s30 US yield curve we can see a nice 5 bp steepening:



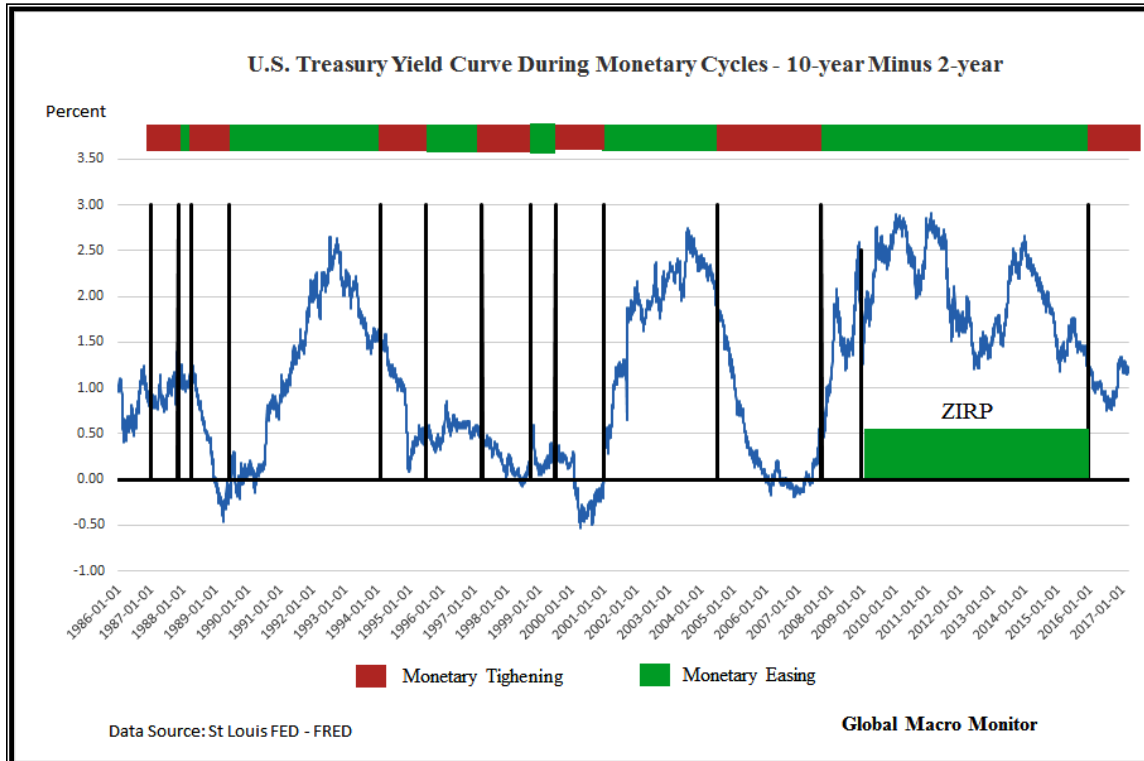
As for the Euro future it rallied on the hike up to 107.84 obviously taken a bit dovish:



As for the Yen future it too rallied nicely up to the mid 88 level:



Some of you may think these moves a bit strange given the FED has begun a campaign to raise rates. In fact counter to most beliefs the bond market is responding quite normally. Yields tend to move lower after the start of a hike campaign and in fact the blog "Global Macro Monitor had a good piece out this week entitled "The Broken Bond Market." Here is a chart that they posted which puts things quite nicely into perspective:



What this chart demonstrates is that in over 67% of the time when the Fed begins to raise rates, US bond yields tend to fall. One would think that the economy is improving, so the Fed raises rates and the bond market should follow. Well we believe the market is always ahead of the Fed and by the time they actually do something, the markets have already priced it in and when the Fed does begin to raise, the bond markets begin to discount the time it will take for the US to fall into a recession again. Meaning the bond market **"FULLY EXPECTS"** the Fed to reverse course and bail everyone out again. This has been called the Greenspan Put, the Bernanke Put and now the Yellen Put, hell even the Trump Put for that matter, considering many expect fiscal reassurance from tax cuts and deregulation.

Call it whatever you want but the only thing you need to know is that for the last 3 decades and we believe this current one will be included, yields end the decade lower than where they began. In this current case, that would mean 10yr yields will be below 3.47%. Call us crazy, but considering that is only 100 basis points away to the upside, we tend to think we will see 1.67% before we see 3.47%.

One only needs to look at the Feds history, oh yea and perhaps the US debt levels as well. See the mathematics look much different when you have \$1 Trillion in debt then when you have over \$20 Trillion in debt. The Fed and the US Treasury are in cahoots, locked in a

death spiral of debt and when the reality seems to be, print at all costs, well interest rates certainly cannot rise too much, or else game over, end of story, the fat lady sings.

Considering debt and money are one and the same, well, us mere mortals, us commoners have to just take it, or do we. The commoner has seen zero help from QE and TARP and all this asset price appreciation, but the Fed and the banking cartels will claim they saved the world from devastating deflation and depression. The reality is, they did nothing but save their owners, those at the top who make 380x that of the average employee and it will only get worse as the debt rises.

We have read countless main stream analysis from the likes of JPM, Goldman and they all read the same, perpetual earnings growth with a tad bit of caution. For once we would just like someone to step out of the box (besides Stockman and Schiller) and say, hey a word of caution, valuations are stretched and perhaps values aren't conducive to long term capital growth, so let's tighten the reigns a bit, we aren't counting our chickens.

Alas we are too optimistic to think in such audacious pretenses, for haven't the common folk learned that the real goal is to **destroy any semblance of equality** and rather, concentrate wealth so far out of line with reality that a two tiered economy one of master and worker is all that exists. It's a harsh reality but it is the truth and it will continue to get wider and wider till something breaks and it always does. However we don't look at this situation with all bearishness, rather we look at it as opportunistic. There are anomalies, there are inconsistencies and the markets provide all sorts of opportunities for those with the right lens.

We aren't afraid of AI (artificial intelligence), all the algos that run rampant trying to front run every order possible, buying that share of Tesla at 260.00001 in front of you just to sell it back to you at 260.00002. But hey you are none the wiser, but there's a reason why the Virtues of the world never have a losing day, just don't call it trading, because it's not, its legalized theft, plain and simply. Hell lets go back to fractions and see if Virtue can make money. Let's make the markets with a real time stamp and good for more than a microsecond or are we at nanoseconds? We have always argued that neither time nor the size of the player should be the sole determinant to success, that's not how free, open and dynamic price discovery works. Unfortunately that is how it is today, but one can still be successful if they exhibit, patience and can pull the trigger when value presents itself.

We figure only a very few managers possess the ability to outperform the markets, heck the pension funds are just beginning to figure this out. Their discount rates have been far too optimistic anyhow and when rates have been virtually zero for a decade, to expect 7.5% or higher returns, well, that in of itself is crazy. Strip out the 2 and 20 fees and you can see why active management is under fire, but we tend to think the pension industry needs to change and coming down on the active manager pales in comparison to their unrealistic actuarial projections. Their biggest problem is that they have lied for so many years that now the day of reckoning looms and all those failed years and all the uncovered liabilities are coming home to roost.

Once again this isn't all doom and gloom, but rather we look at it as pure opportunity. Meaning someone has to step up and be able to navigate things and it's why

we are here. We are here to paint the real picture, to not CNN reality. We know our readers wear their big boy pants and don't mind hard work. Nothing comes easy but we love the fact that there is so much new capital each and every day and that the tide of easy money isn't going anywhere, despite a Fed that has embarked on a tightening campaign, for we know they aren't really tightening, but rather providing an even greater subsidy to its masters.

We leave you with the weekly settles Cheers!

17-Mar		Weekly	Weekly	YTD
Instrument	Price/Yield	Net Change	% Change	% Change
US 30yr Govt	3.11%	-6 bp	1.9%	-1.9%
US 10yr Govt	2.50%	-8 bp	3.1%	-2.8%
US 5yr Govt	2.02%	-7 bp	4.3%	-4.9%
JUN Bond	148-14	1'19	1.1%	0.0%
JUN Ten Yr	123-24	0'23+	0.6%	0.3%
JUN Five Yr	117-04+	0'14+	0.4%	-0.2%
JUN SP500	2375.25	6.75	0.3%	6.5%
JUN DOW	20863	15	0.1%	6.3%
JUN Nasdaq	5408.5	22.25	0.4%	11.1%
JUN Nikkei	19360	-160	-0.8%	2.1%
JUN Dax	12106.5	110.5	0.9%	5.0%
Shanghai Comp	3237.45	24.69	0.8%	4.3%
MAY WTI Crude	\$49.31	\$0.40	0.8%	-10.2%
APR Gold	\$1,230.20	\$28.80	2.4%	6.5%
MAY Silver	\$17.41	\$0.49	2.9%	8.4%
JUN Dollar Index	\$100.12	-\$0.99	-1.0%	-2.1%
JUN EURO	107.91	0.49	0.5%	2.0%
JUN YEN	89.105	1.64	1.9%	3.6%
Bitcoin (BTC)	1,082.00	-74.77	-6.5%	13.5%

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