PRIVATE WEALTH ADVISORY

INVESTMENT RESEARCH THAT CONVERTS

The Fed Went Nuclear… What's Next?

The Fed Went Nuclear… What's Next?

Has it only been one month?!?!?

The world has changed so quickly, that time has begun to feel somewhat warped to me.

Consider that a mere FOUR weeks ago, on February 20th 2020, the stock market **was at an all-time high**.

Put another way, the entire U.S. has entered an economic collapse, the stock market has crashed, multiple states are on lockdown, and 3.3 million Americans are filing for unemployment… **all in the span on a SINGLE month.**

The speed of this change is truly historic. Stocks have NEVER fallen this far this quickly.

What's even MORE staggering is the speed and intensity of the policy response we've seen from the Fed.

A month ago, the Fed was arguing that the damage from the Covid-19 virus would be limited. On February 24th, the Fed's #2, Vice Chair Richard Clarida told CNBC:

> *"The disruption there could spill over to the rest of the global economy," he said in remarks delivered in Washington, D.C. "But it is still too soon to even speculate about either the size or the persistence of these effects, or whether they will lead to a material change in the outlook."*

Fast forward three weeks to last week, and the Fed had:

March 26th, 2020

SHORT-TERM ISSUES

- A relief bounce is here, but is the bottom in?
- Three unknown risks to the markets at this time.
- Gold is ready for its next leg up.

INTERMEDIATE-TERM ISSUES

- Inflationary pressures to rise leading to an inflationary "risk on" move.
- Stocks to benefit from inflation at first.

Phoenix
CAPITAL RESEARCH

1) Cut interest rates from 1.25% to 0.15%.
2) Launched a $1.5 trillion repurchase, "repo", program (a program through which financial firms temporarily park assets at the Fed in exchange for cash).
3) Launched a $700 billion Quantitative Easing, QE, program (a program through which the Fed prints new money and uses it to buy debt assets from financial firms).
4) Begun buying commercial paper debt instruments (short-term corporate debt).
5) Opened the discount window to the eight largest banks in the US (this allows banks direct access to Fed credit lines).
6) Expanded its repo program to $1 trillion per day.
7) Launched a new QE program to buy money market funds (mutual funds that invest in debt securities).

What's truly incredible is that despite launching all of these various programs and policies, the stock market continued to collapse last week.

Even more concerning for the Fed was the fact that the Everything Bubble had burst.

If you're unfamiliar with the concept of ***The Everything Bubble***, I coined the term in 2014 and published a book by that name in 2017. If you are a new subscriber, you should receive a complimentary copy of it with your subscription to ***Private Wealth Advisory***.

If you are an older subscriber and have yet to get a copy, Amazon is currently running a special whereby you can get it a 23% discount for hard copy and a 85%+ discount on Kindle.

You can pick up a copy here: https://www.amazon.com/dp/B0794RLM8R

In its simplest rendering, the framework of ***The Everything Bubble*** is as follows:

1) Following the 2008 Crisis, the Federal Reserve (the Fed) attempted to corner the market for U.S. sovereign debt, also called Treasuries.

   The Fed did this by cutting interest rates to zero (to pull down the short end of the bond curve) and launching Quantitative Easing, or QE, (a program through which the Fed printed new money and used it to buy Treasuries from financial firms, thereby putting a floor under the long end of the Treasury curve).

2) When the Fed did this, it made a bubble in Treasuries. And because Treasuries are the bedrock of the current financial system (their yields represent the risk-free rate of return against which all risk assets are priced), **when the Fed did this, it made a bubble in EVERYTHING.**

3) Gradually from 2008-2016, every debt security in the financial system began to adjust to the bubble in Treasuries with other, less senior debt instruments, entering bubbles themselves.

   This included corporate debt (both junk and investment grade), municipal debt (debt issued by states and cities), and even student debt/ auto loans.

   All of these debt instruments were priced at FAKE risk levels based on the fact Treasuries were yielding extraordinarily low yields courtesy of the Fed's actions. Literally everything was in a bubble, hence the term I created, "the Everything Bubble."

Fast forward to March 2020 and the coronavirus burst this Everything Bubble, with numerous junior debt instruments **ending their bull markets**.

This included high yield corporate bonds (junk bonds).

Investment grade corporate bonds.

High yield municipal bonds.

And investment grade municipal bonds.

With this in mind, last week the Fed had a choice… either let debt deflation clear the bad debts from the system, even if it means major corporations, banks, and municipalities failing, OR start buying "everything" in an effort to prop up the system (even if it induces

raging inflation).

Well, last weekend, the Fed chose option #2: to buy EVERYTHING.

On Sunday, the Fed announced it would:

1) Make its QE program "unlimited" meaning it would simply print money and buy assets **ad infinitum**.

2) Increase the scope of its QE program from simply buying U.S. Treasuries and mortgage backed securities to include:

    a. Corporate debt or debt issued by corporations.
    b. Corporate debt-related ETFs (stock funds linked to corporate debt).
    c. Municipal debt (debt issued by states, counties, and cities).

3) Expand its Money Market QE to also include a "wider range of securities" including Certificates of Deposits (CDs).

4) Expand its commercial paper QE program.

5) Introduce a new QE program to buy any Asset Backed Security (ABS) including student debt.

6) Soon begin a bailout program for small and medium-sized business.

7) Soon lower the interest rate on its repo programs from 0.15% to LITERAL ZERO (meaning NO interest charged).

What just happened CANNOT be overstated. The Fed has moved to bailout the entire financial system.

There are MANY implications from the above list, but the big ones are:

1) The financial system was facing TRUE systemic risk similar to that of the 2008 if not worse.
2) Banks were in such dire need for capital that they were selling ANY asset to the Fed including student loans and CDs!!!
3) The Fed is now openly and publicly monetizing every risk asset on the planet except for literal stocks like Apple (AAPL) and junk bonds.

I want to stress that NEVER in its 107-year history has the Fed bought corporate debt, ETFs, student loans, or CDs. Not even during the depth of the

2008 crisis after Lehman Brother failed did the Fed do this.

That should give you an idea of how panicked the Fed was last weekend.

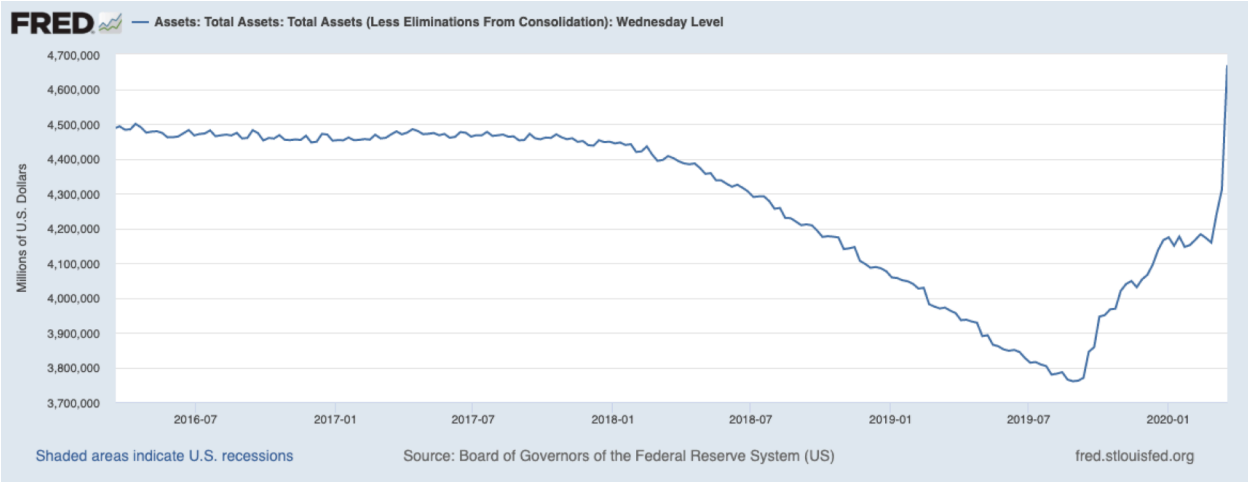
I realize that I've outlined a MASSIVE list of policies in the last two pages. And to the ordinary investor, terms like "repo" or QE, Money Market Fund, and the like sound like financial mumbo jumbo.

So, let me lay all of this out in the simplest of terms…

In the simplest of terms, the Everything Bubble has burst, and the Fed is dealing with it by buying EVERYTHING…

And I do mean EVERYTHING.

The Fed's balance sheet has EXPLODED upwards by $500 billion (half a TRILLION dollars) in the last in the span of four weeks. **The Fed is now growing its balance sheet by $125 BILLION every single week.** And its balance sheet is now at an all-time high.



This is the NUCLEAR option for the Fed. And thus far, it's providing some relief.

Credit spreads for junk bonds have begun rebounding.

The same is true for credit spreads for investment grade corporate bonds, though in this case the rally is more dramatic due to the fact traders are front-running the Fed's new QE program to buy these instruments.

Put simply, we are getting a major relief rally. And it is tempting to think that everything has been fixed. However, there are some MAJOR issues that no one seems to be considering.

1) How much damage did the economic shutdown do to the credit markets?
2) What impact will the shutdown have on commercial real estate?
3) What impact will the shutdown have on municipal bond funding/ municipal finances?

Regarding #1, while credit spreads are improving, we do not have any idea how much damage has really been done to the credit markets.

For instance, what percentage of corporations with junk bonds will default/ need to restructure their debts? How easy will it be for these companies to roll over their debts or issue new debts in the current environment? Will the damage extend beyond the energy sector to other junk bond sectors?

We don't have answers to any of these questions. The fact junk bonds are rallying doesn't tell us anything other than the fact that panic is abating for now.

Regarding #2, the commercial real estate market is somewhere between $16 trillion and $19 trillion in size. With lockdowns occurring throughout the U.S., many of the companies that rent commercial real estate have ZERO revenues.

Those companies still owe rental payments. And many of them can't make them.

> ***Cheesecake Factory, Subway, other major retailers tell landlords they can't pay April rent due to coronavirus***
>
> *Here is an up-to-date list of retailers that are asking for special accommodations on rent payments.*
>
> ***Cheesecake Factory***
>
> *Cheesecake Factory, the California-based restaurant chain with over 200 U.S. locations, told landlords on March 18 that it would not be able to pay rent for April due to the novel coronavirus pandemic, according to reports.*
>
> ***H&M***
>
> *Swedish clothing retailer H&M is discussing rent adjustments with landlords, according to reports.*
>
> ***Mattress Firm***
>
> *Mattress Firm, the Houston-based mattress retailer with 2,400 stores in the U.S., cited the force majeure or "act of God" contract clause invoked for major natural disasters this week, telling landlords they would not pay rent. This comes after a letter to landlords sent last week, which offered to extend their leases in exchange for cutting rent.*

Subway

Subway, the Milford, Conn.-based fast food retailer with over 20,000 U.S. locations, alerted landlords last week that it might reduce or postpone rental payments. Subway will also halve royalty payments and halt advertising fees for franchisees, according to reports.

https://finance.yahoo.com/news/cheesecake-factory-subway-other-major-retailers-tell-landlords-they-cant-pay-april-rent-due-to-coronavirus-141920106.html

Remember, we are only one week into the two-week national emergency and already major companies are announcing they cannot make rent for the month of April. **And we have no idea how rapidly foot traffic will return to these locations once the national emergency ends!**

What happens to companies/ pension funds/ hedge funds that own this commercial real estate and were expecting payments? What happens to financial firms that own commercial mortgage backed securities and derivatives?

Again, we don't know.

And finally, we have #3: what impact will the shutdown have on municipal bond funding/ municipal finances?

Entire states such as New York, California, and Illinois were already on the verge of bankruptcy *before* the economic shutdown. With shutdowns now in place, economic activity in these states is at a standstill. **That means less taxes from payroll, incomes, and the like.**

Those taxes are used to finance/pay those states' municipal bond payments.

So, what happens if New York needs a bailout from the federal government to avoid defaulting on some of its municipal bonds? Yes, the Fed is now buying municipal bonds via QE, but is it enough to prop up $400 billion or more of the $3.8 trillion municipal bond market?

Again, no one has any idea of any of this stuff.

What *has* happened is the Fed has moved to backstop the entire financial system to stop a panic. **But the fact that panic is subsiding doesn't mean that the economic/ debt problems for the various credit markets are fixed.**

Put in simple terms, we are VERY early into this crisis. And anyone who tells you that they know what will happen is lying.

Consider the stock market. The explosive bounce in the S&P 500 hasn't done anything more than test the top trendline of the downward channel stocks have been tracking since the February top. We could very easily see stocks roll over again here and fall to new lows.

That actually is what happened during the 1929 crisis, which is the closest corollary to our current environment.

If the U.S. economy *does* enter a recession or depression now as it did in 1930, then we could indeed see stocks roll over to new lows before putting in a sustained rally for several months (green box in chart below). What followed was downright ugly (red arrow in the chart below).

Again, we have no idea if this will be the case. All that we *do* know is that the Everything Bubble has burst, and that the Fed has gone NUCLEAR to try and stop a panic. This has induced a bounce in risk assets, but whether this is THE bottom or not really depends on what happens in the economy going forward.

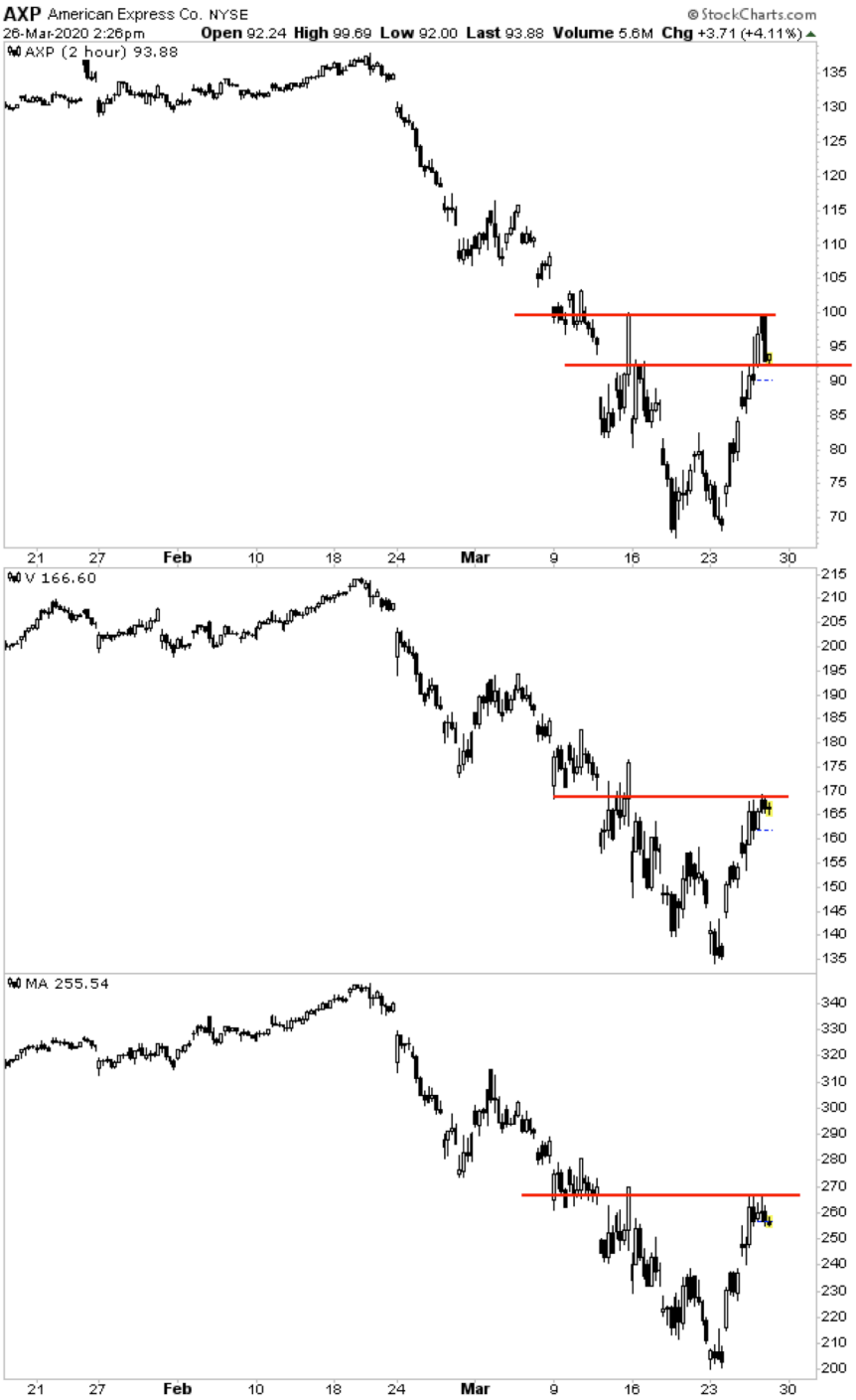
With that in mind, we need to remain defensive with our investments. I know it is tempting to load up on longs… but it is NOT clear that the bottom is in yet.

NO ONE EVER GOT RICH TRYING TO PICK A BOTTOM.

Many people DID get rich putting capital to work once it was clear a bottom was in place. And right now that does not look to be the case.

Indeed, when you consider that a major portion of the junk bond market is comprised of energy/ oil companies, the below chart overlaying oil against the high yield junk bond ETF makes it clear the markets are ANYTHING but safe right now. Oil continues to break down, despite junk bonds roaring higher. This means trouble is coming to junk bonds.

Another thing that concerns me is the fact credit card companies are struggling to break above resistance. The U.S. economy relies heavily on consumer spending, and credit card stocks are NOT indicating a robust rebound is coming right now.



I would also note that my three favorite industrial metal bellwethers (Freeport McMoRan, Alcoa, and U.S. Steel) are all rolling over already. This too suggest that economic activity is not rebounding strongly just yet.

Add it all up, and it is clear to me that now is NOT the time to get aggressive with investments. Rather, it is time to stay defensive… which is why we are keeping our Crash trades open for now.

On a side note, I want to emphasize that our Crash trades… or ANY shorts/ market hedges should be kept relatively small. **<u>These are NOT core positions into which you should put a load of capital.</u>**

For example, if your usual position for an investment is $5,000, a short or hedge should be kept at $1,250 TOPS.

Having said this, while it is not yet time to load up on stocks or credit, it IS time to move aggressively into gold.

While we do NOT yet know how the economy will recover or the true extent of the damage done to the credit markets… what we DO know is that the Fed is going to be EXTREMELY aggressive with monetary policy going forward.

Remember, the Fed is now running:

1) Open-ended unlimited QE programs.
2) $1 trillion repo programs every single night.

At the same time, the Federal government is about to sign a $2 trillion stimulus bill of which

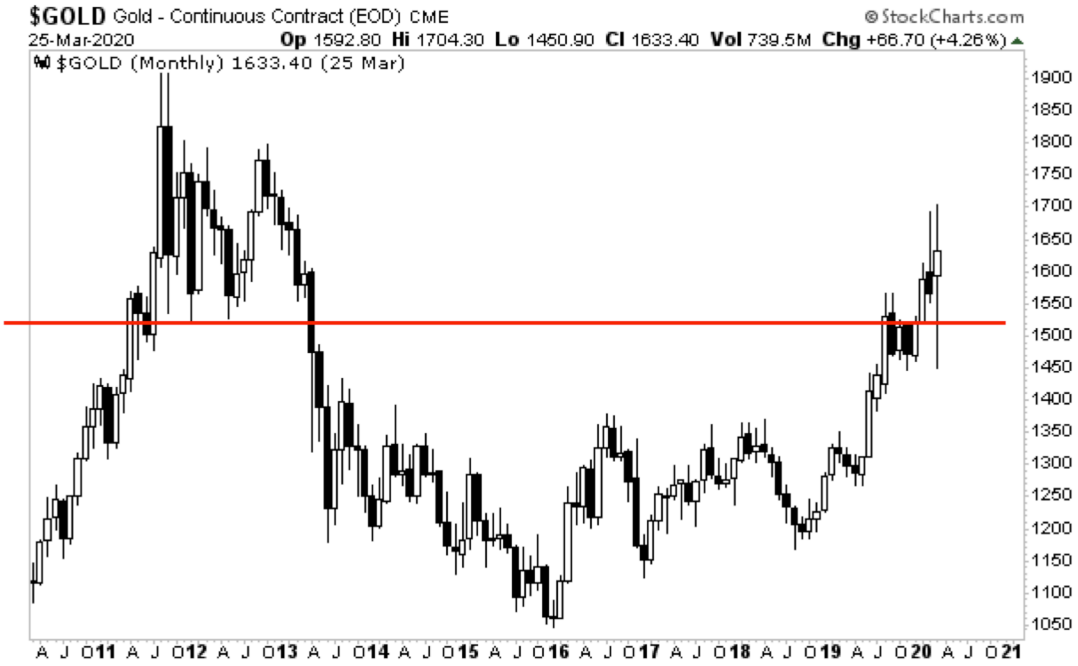
a large portion will be funneled directly into the economy.

In simple terms, literal trillions of dollars are being pushed into the financial system right now. And it is going to ignite the next major leg up for gold.

Gold and gold mining stocks were hit hard during the recent market sell-off. This was due to investment funds (hedge, mutual and others) being forced to liquidate their precious metals holdings in order to free up capital to meet redemptions (when investors demand their money back).

However, the liquidation phase now looks to be ending as I write this. Which suggests gold is preparing for its next major leg up.

Indeed, if you look at the long-term monthly chart for the precious metal, gold is actually going to put in a new monthly high in March *despite* an intra-month plunge of $200+ per ounce.



I would note that this happening in EVERY major currency. The below chart shows gold prices in U.S. Dollars, Yen and Euros. You'll note the clear uptrend in all three.

This is a clear signal: gold is in a major bull market driven by central banks around the world printing their currencies by the trillions. With that in mind, we're adding to our current positions to average in better prices.

Action to Take: Add to your Gold (GLD) position.

Action to Take: Add to your Silver (SLV) position.

Action to Take: Add to your Silver Miners ETF (SIL) position.

Action to Take: Add to your Silver Mining Juniors ETR (SILJ) position.

Action to Take: Add to your Gold Miners ETF (GDX) position.

Action to Take: Add to your Gold Mining Juniors ETF (GDXJ) position.

Action to Take: Add to your K92 Mining (KNT.V) position.

Action to Take: Add to your American Gold and Silver (USA.TO) position.

Action to Take: Add to your First Majestic Silver (AG) position.

I will be using the average of today's closing price and our original buy prices for all of these positions in our model portfolio.

I would also open positions in the two large cap Gold producers, Newmont Mining (NEM) and Barrick Gold (GOLD)

Action to Take: Buy Newmont Mining (NEM).

Action to Take: Buy Barrick Gold (GOLD).

This concludes this month's issue of ***Private Wealth Advisory***.

I continue to watch the markets and newswires closely. If anything changes, I'll have a special alert to you. But barring any new developments, you'll next hear from me next Thursday in our usual weekly market update.

On a final note, we've extended the launch of our special crisis oriented options trading newsletter called ***The Perfect Trade*** that will cost $1,999 to April 1st.

The strategy employed by ***The Perfect Trade*** has beaten the market every year in the last decade by double digits and it is not uncommon for it to return 100% or even 200% in a single year.

We closed this product to new clients after the 2011-2012 EU Debt Crisis. During that time

we had just had the best years of in this product's existence.

I mention this because we have reopened our special LIFETIME subscription bundle to all of our products… **as well as any future products we launch… for $2,500.**

So you will get ***The Perfect Trade***, priced at $1,999 as well as a lifetime of all of our current products, for $2,500. But that is only the case if you take advantage of this offer before April 1st.

Obviously, once The Perfect Trade is launched on April 1st, the price for a lifetime bundle on all of our products will be rising SUBSTANTIALLY.

Finally, for ***Private Wealth Advisory*** subscribers or ***The Crisis Trader*** subscribers (or people who subscribe to both products) this offer CANCELs out your previous subscriptions.

What I mean by this is that if you take advantage of this lifetime bundle offer, we'll REFUND you your current subscription fees.

Again, this offer CANCELS out your existing subscriptions. And after you lock in this deal, you won't be charged again, EVER. You'll receive a subscription to ***Private Wealth Advisory, The Crisis Trader***, and ***The Perfect Trade*** which will cost $1999… for the rest of your life.

To take advantage of this special LIFETIME bundle offer… use the link below:

https://phoenixcapitalmarketing.com/bundle.html

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS: STOCKS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
UltraShort Semiconductors ETF	SSG	3/18/20	$19.64	$13.50	-31%
Trade Desk (SHORT)	TTD	3/18/20	$151.55	$204.34	-26%
Service Now (SHORT)	NOW	3/18/20	$259.52	$291.59	-11%
UBS (SHORT)	UBS	3/18/20	$7.84	$9.76	-20%
CDW (SHORT)	CDW	3/18/20	$79.37	$98.59	-19%

OPEN POSITIONS: PRECIOUS METALS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold	GLD	8/23/19	$148.28*	$152.43	3%
Silver	SLV	8/23/19	$14.87 *	$13.38	-10%
Silver Miners	SIL	8/23/19	$27.74 *	$25.75	-7%
Silver Mining Juniors	SILJ	8/23/19	$9.13 *	$7.71	-16%
Gold Miners ETF	GDX	12/12/19	$26.57 *	$25.47	-4%
Gold Mining Juniors ETF	GDXJ	12/12/19	$35.70 *	$32.08	-10%
K92 Mining	KNT.V	2/20/20	$3.61 *	$2.94	-18%
American Gold & Silver Corp	USA.TO	2/20/20	$3.19 *	$2.35	-26%
First Majestic Silver	AG	2/20/20	$8.44 *	$7.14	-15%
Newmont Mining	NEM	3/26/20	$47.13	NEW	BUY!
Barrick Gold	GOLD	3/26/20	$$19.31	NEW	BUY!

Prices as of 3/26/20 at the 3:20 PM EST.
***Average of today's price and original buy price.**

OPEN POSITIONS: PRECIOUS METALS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold	GLD	8/23/19	$144.12	$152.49	**6%**
Silver	SLV	8/23/19	$16.35	$17.16	**5%**
Silver Miners	SIL	8/23/19	$29.72	$32.61	**10%**
Silver Mining Juniors	SILJ	8/23/19	$10.54	$11.31	**7%**
Gold Miners ETF	GDX	12/12/19	$27.66	$29.80	**8%**
Gold Mining Juniors ETF	GDXJ	12/12/19	$39.31	$43.78	**11%**
K92 Mining	KNT.V	2/20/20	$4.27	NEW	**BUY!**
American Gold and Silver	USA.TO	2/20/20	$4.02	NEW	**BUY!**
First Majestic Silver	AG	2/20/20	$9.74	NEW	**BUY!**