PRIVATE WEALTH ADVISORY

INVESTMENT RESEARCH THAT CONVERTS

"The Great Fiscal Power"

"The Great Fiscal Power"

The Fed has just issued its defining statement on the next 12-18 months.

That statement?

*"We will be engaged in **nuclear monetary policies** continuously from now on."*

More specifically, between its FOMC release and Fed Chair Jerome Powell's Q&A session yesterday, the Fed asserted that:

1) There are medium term economic risks (this means through 2021).
2) The Fed will keep rates at zero until we reach "full employment" and inflation returns.
3) The Fed is preparing a new credit facility to funnel money directly into the economy (helicopter money).
4) The economy will likely need more interventions from the Fed to recover fully.
5) The Fed wants Congress to perform even more fiscal stimulus (it has already spent $2 trillion).

Bear in mind, this is *after* the Fed has already committed to spending $4 trillion in the last eight weeks. To put that number into perspective, the Fed spent $3 trillion over the eight years from 2008-2016.

Again, the Fed previously spent $3 trillion in eight years. It just committed to spending $4 trillion in the last **eight weeks.** And it is promising to do even more until the economy is back at "full employment" (we're at unemployment of 10% if not 15% right now).

April 30th, 2020

SHORT-TERM ISSUES

- The Fed calls for more fiscal stimulus and Fed interventions.
- Stocks take a breather, but have broken the 61.8% Fibonacci retracement.
- More upside to come.

INTERMEDIATE-TERM ISSUES

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

Phoenix
CAPITAL RESEARCH

Put simply, the Fed has gone nuclear with monetary policy and intends to do so from now on until things are back to how they were before COVID-19.

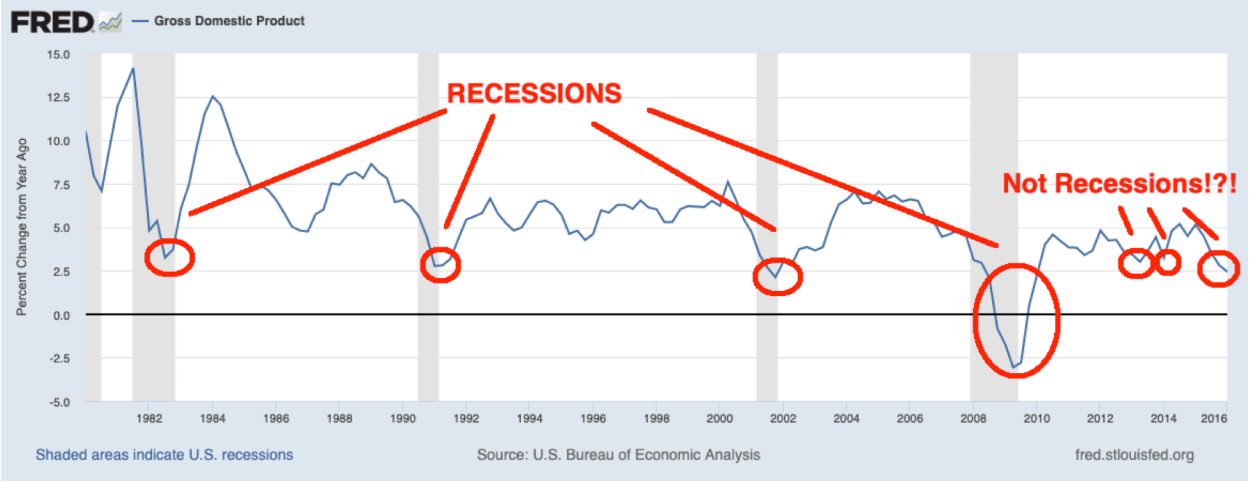
It is extremely difficult to be bearish in this situation.

I'm not saying that stocks will go straight up from now on (more on this shortly), but if we have learned anything from the aftermath of the 2008 crisis, it's that a weak economy+ massive Fed stimulus= a roaring stock market.

Remember this. Print it out and put it next to your computer. The Fed is committed to doing even more than it did during the 2008 crisis until the economy is back at "full employment." This is nothing something you want to be fighting.

Speaking of which, I've noticed many analysts are ridiculing the fact that stocks are rallying despite the economy imploding. It's incredible to me that people have not yet figured out that the economy *doesn't matter* to the stock market.

Consider that from 2008-2016, the U.S. economy spent most of its time in what would historically have been considered a recession.



Over that time period the Fed pushed $3 trillion into the financial system and the stock market did this:

Again…A weak/ recessionary economy + MAJOR liquidity = HIGHER stock returns.

This big difference this time around, the Fed is providing even more liquidity and is backstopping:

1) The Treasury markets (U.S. sovereign debt).
2) The municipal bond markets (debt issued by states and cities).
3) The corporate bond markets (debt issued by corporations).
4) The commercial paper markets (short-term corporate debt market).
5) The asset backed security market (everything from student loans to Certificates of Deposit and more).

On top of this, the Fed wants the Federal Government to engage in greater fiscal stimulus.

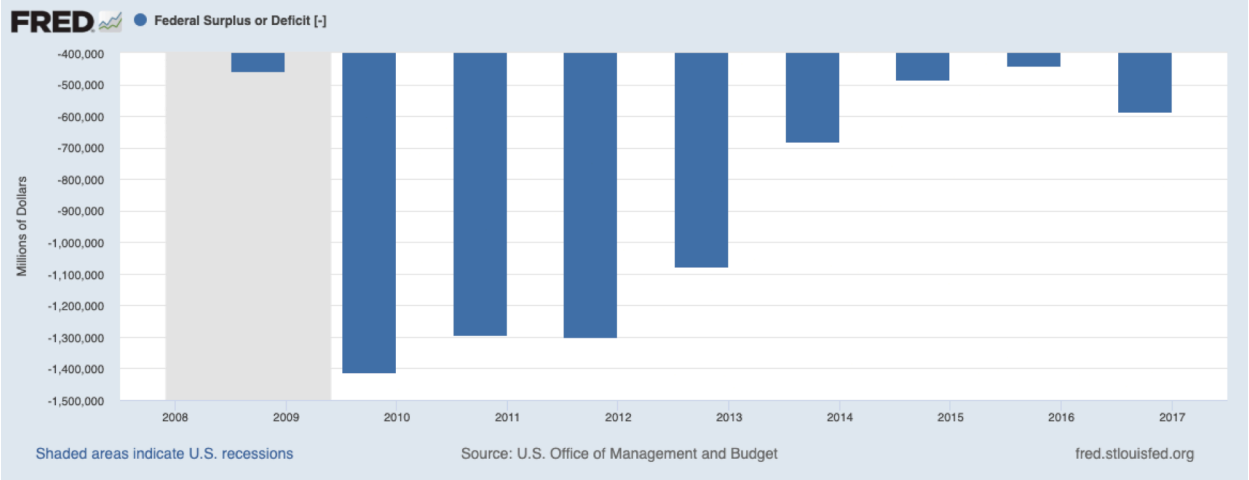
> *"**This is the time to use the great fiscal power of the United States to do what we can to support the economy** and try to get through this with as little damage to the longer-run productive capacity of the economy as possible," Powell said.*
>
> *Powell also cautioned that the near-zero interest rates and trillions in emergency Fed loans deployed by the central bank **would not likely be enough to repair the toll of the economic crisis, calling for action across "all levels of government."***

> *"Many borrowers will benefit from our programs as well as the overall economy. But for many others, getting a loan that may be difficult to repay may not be the answer.* ***In these cases, direct fiscal support may be needed,"*** *he said.*
>
> *Powell has called on Congress to spend freely to fight the pandemic throughout the crisis, urging lawmakers to take advantage of near-zero interest rates to power the U.S. through an unprecedented crisis.*
>
> ***The Fed chairman told House Speaker Nancy Pelosi (D-Calif.) to "think big" on the fiscal response to the pandemic in March****, according to a Democratic aide, and has consistently argued for Congress to stimulate the economy and shield vulnerable Americans.*

https://thehill.com/policy/finance/495320-powell-urges-congress-to-unleash-great-fiscal-power-to-defeat-coronavirus

Bear in mind, this is AFTER the Federal Government has already committed to a $2 trillion stimulus program resulting in the U.S. running a deficit of $4 trillion this year.

To put that into perspective, from 2008-2016, the federal deficit never went past $1.4 trillion.



The U.S. is already expected to hit a deficit of $4 trillion based on the current stimulus programs… and Jerome Powell is calling on the government to do more!

So, we've got the Fed going nuclear with monetary policy AND the Federal Government spending trillions at the same time.

This means an absolute Tsunami of liquidity moving into the financial system. Much of it is going to make its way into the stock market. Provided the bond market doesn't blow up, this will induce the MOTHER OF ALL BUBBLES in stocks.

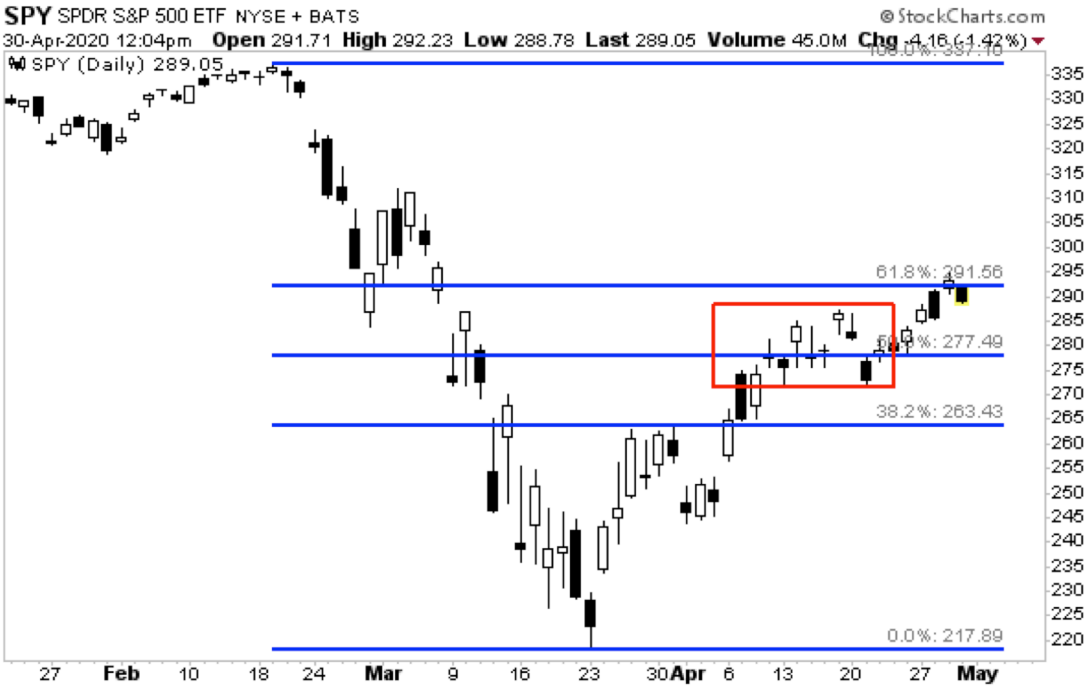
I want to be clear here… I'm not saying I like any of this. I'm not saying that the Fed is doing the right thing, nor am I saying that I agree with its policies. All I'm saying is that the Fed and the Federal Government are throwing the kitchen sink at the financial system.

As investors, we don't get paid to trade the markets as we *think* they should be. We are paid to trade the markets as they ARE. And the markets have shown us that they believe the Fed's actions negate the horrific economic damage of the last two months.

Indeed, the S&P 500 managed to break above their 61.8% retracement of the meltdown yesterday.

Historically, a move above the 61.8% retracement typically means that the rally is no longer "corrective" in nature but the start of a new bull market.

With that in mind, it's not unusual to see stocks struggle at this level. Note how they previously struggled at the 50% retracement:



In terms of market internals, breadth is in a clear rising channel and continues rallying in a stair step fashion.

The number of stocks trading above their 200-dayb moving averages (trend) continues to rise.

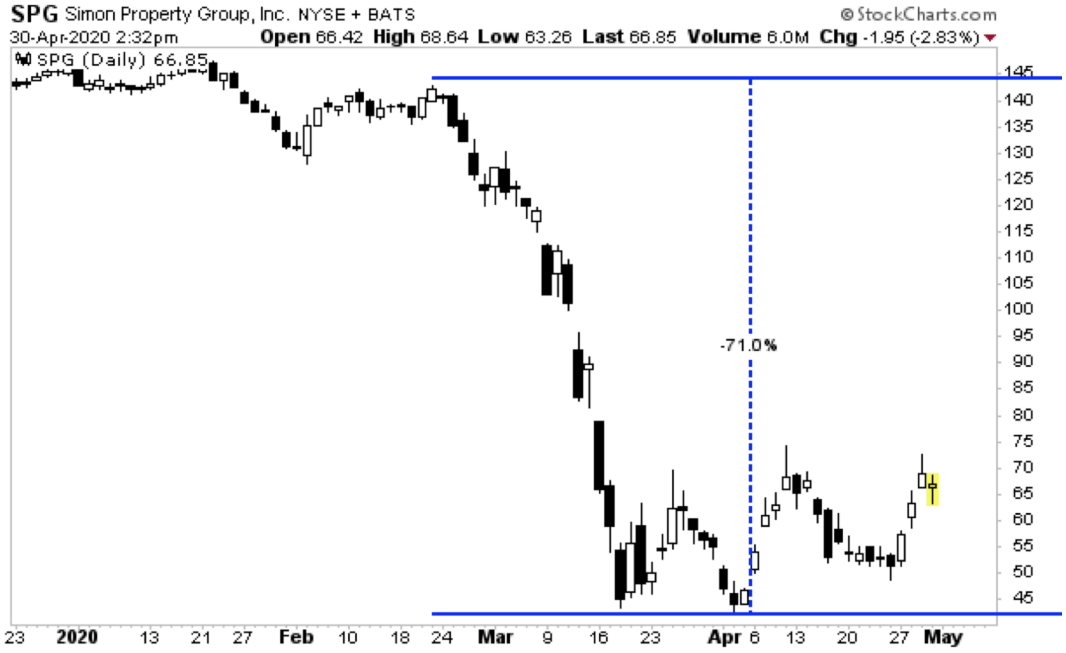
Moreover, high yield credit spreads have held support (red line) and broken out of a downtrend (blue lines).

The story is identical for investment grade credit spreads, though the moves are less pronounced.

None of this is bearish stuff. Unless credit spreads break down below support, it's going to be very difficult to envision stocks collapsing in a big way. Speaking of which, my current view on the markets is the S&P 500 should hold here and eventually make a run to 3,100 before we see a more significant correction.

In terms of the next leg up, homebuilders have finally broken above resistance. We're now back testing this breakout.

Simon Property Group (SPG) is a REIT that owns shopping malls and entertainment/ dining locations around the world. SPG had to shut down its properties as part of the COVID-19 economic shutdown. The stock fell 71% and is priced for Armageddon.



However, it's finally showing signs of life again, with a breakout over resistance. It is now back-testing this breakout. If we hold here it's a major low.

Action to Take: Buy Simon Property Group (SPG)

Another play that looks promising is copper producer Freeport McMoran (FCX). We've just broken above resistance (red line) and are in a clear uptrend.

Action to Take: Buy Freeport McMoran (FCX).

We're also moving back into Wayfair (W). The stock has consolidated after its recent gains. I had thought we'd see a more significant correction. The fact we haven't is very bullish.

A full 46% of the stock's float are shorts as of two weeks ago. That's an incredible amount of built in buyers who will be forced to buy the stock in the coming days if W holds up here.

Action to Take: Buy Wayfair (W).

Again, my overall view is that we are starting a new bubble in stocks based on Fed monetary policy and fiscal policy from the Federal Government. Provided the bond market doesn't blow up, stocks will continue to grind higher.

I am watching bonds closely. From what I can tell right now, there are ZERO signs of a debt crisis in the U.S.

Again, I'm not saying I like what the Fed is doing. I'm to saying I like what the government is doing either. What we think as investors is irrelevant. It's what the market thinks that matters. And the market has made it clear it LOVES what the Fed and federal government are doing.

This concludes this week's market update for ***Private Wealth Advisory.***

I'm watching the markets closely and will issue updates as needed. Barring any new developments you'll next hear from me next Thursday in our usual weekly market update for ***Private Wealth Advisory***

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS: STOCKS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
JP Morgan	JPM	4/9/20	$103.67	$94.87	-8%
Goldman Sachs	GS	4/9/20	$185.02	$183.41	-1%
Steel Dynamics	STLD	4/9/20	$24.44	$24.35	0%
Enterprise Partners	EPD	4/9/20	$16.78	$17.83	6%
Coca Cola	KO	4/9/20	$49.46	$45.88	-7%
NexGen Energy	NXE	4/23/20	$1.33	$1.31	-2%
Square	SQ	4/27/20	$63.60	$65.34	3%
Carnival Cruise Lines	CCL	4/29/20	$16.61	$15.74	-5%
Dave And Busters	PLAY	4/29/20	$16.36	$14.82	-9%
Simon Property Group	SPG	4/30/20	$66.69	NEW	BUY!
Freeport McMoRan	FCX	4/30/20	$8.81	NEW	BUY!
Wayfair	W	4/30/20	$124.35	NEW	BUY!

OPEN POSITIONS: PRECIOUS METALS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold	GLD	8/23/19	$148.28	$158.36	7%
Silver	SLV	8/23/19	$14.87	$13.91	-6%
Silver Miners	SIL	8/23/19	$27.74	$31.00	12%
Silver Mining Juniors	SILJ	8/23/19	$9.13	$9.38	3%
K92 Mining	KNT.V	2/20/20	$3.61	$3.23	-11%
American Gold & Silver Corp	USA.TO	2/20/20	$3.19	$2.96	-7%
First Majestic Silver	AG	2/20/20	$8.44	$8.05	-5%
Kirkland Lake	KL	2/23/20	$41.79	$41.38	-1%

Prices as of 4/30/20 at the 3:00 PM EST.
***Average of today's price and original buy price.**