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# Weekly Market Update 3-12-20

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# Weekly Market Update 3-12-20

Dear Subscribers

The market is almost limit down again this morning.

We had a brief respite from the deluge on Tuesday, but the implications are now clear:

1) The shutdowns from coronavirus have pushed an already weak global economy into recession. Europe and Asia are already in recession. The U.S. has likely just joined this recession in the last three weeks.

2) This is triggering a crisis in junk bonds and high yield debt. Major banks, financial firms, and pensions are all at risk and being forced to liquidate positions.

3) The credit bubble has burst, and we are moving into a crisis.

How has this happened so quickly?

The data from February alone suggested the U.S. economy was actually quite strong (payrolls, employment, inflation, etc.). And as I wrote a few weeks ago, this looked to be a "great buying opportunity" for stocks.

What changed?

The U.S. began to panic. And the panic has now spread throughout most **major sectors** of the economy.

What started out as panic in isolated industries that are closely aligned with travel (airlines, cruises, etc.) has spread throughout the entire U.S. economy.

- The NBA has suspended its season.
- The MLB is thinking of doing the same.
- College campuses across the nation are shutting down.
- Large conferences and trade shows are being canceled.

All of these moves have **very real economic impacts.**

Think if the NBA alone… the loss of revenue in merchandise, alcohol, soda, food… not to mention the loss of advertising revenue for networks that showed the games as well as the restaurants and bars that showed the games.

You get my point.

Again, the U.S. economy has screeched to a halt and is now likely now in recession. Whether it's a deep recession or a mild one is impossible to tell. But all of this changed in just three to four weeks. It's the fastest move from expansion into recession in decades if not ever.

And this recession is triggering a **credit crisis in high yield debt/credit.**

The U.S. corporate bond market is $10 trillion in size. $1.5 trillion of this junk. Another $2.5 trillion is just one step above junk (likely junk, but it barely made the credit requirements to avoid that designation).

This means some $4 trillion in corporate debt is JUNK and will need to be restructured or defaulted upon during the crisis. Think of this as Subprime 2.0: the riskiest debt instrument out of a larger pool of debt instruments.

Some charts…

The Junk Bond ETF has broken its bull market trendline running back to 2009.


Credit spreads for this entire industry have entered a bear market as well.


Investment grade bonds have ended their bull run and will be testing their long-term bull market. We do not have a crisis in this sector yet.


**<u>Put another way, the junk bond bubble has burst</u>**.

The issue is whether or not this bursting will spread to investment grade bonds. If it does, we are looking at a truly horrifying situation.

I would also add that this situation is NOT confined to high yield corporate credit/ corporate debt.

Municipal bonds are bonds issued by states, cities, or municipalities. Put another way, this is *junior* government debt, or the equivalent of high yield government debt.

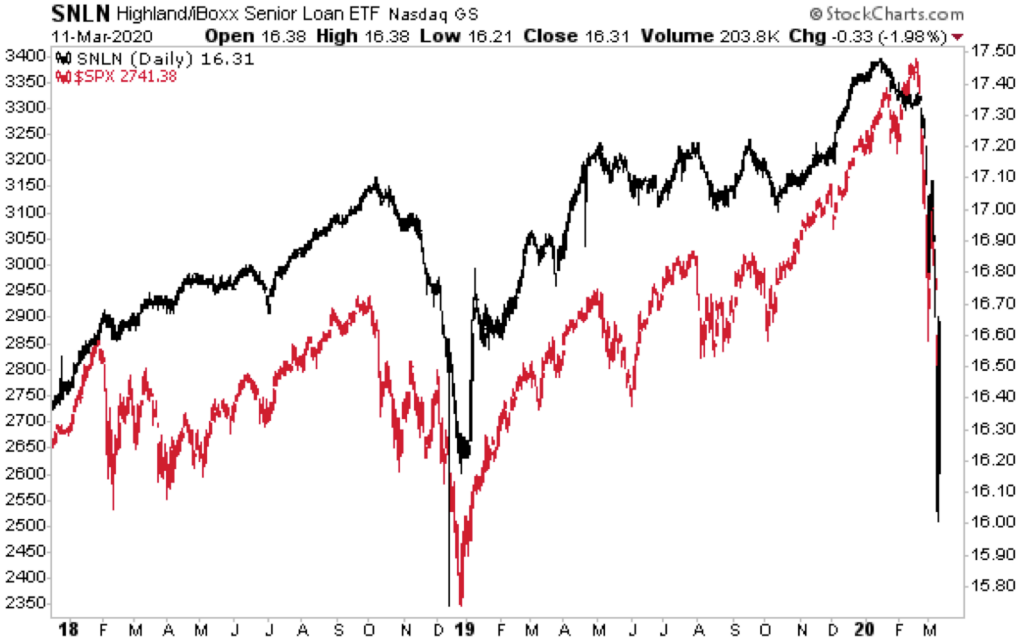
These too have ended their bull market.


How bad will this get for stocks?

Junk bond credit spreads have broken their December 2018 lows.


This suggests the stock market will do the same, which means the S&P 500 breaking below 2,400.


Senior loans are saying roughly the same thing:




That is also roughly where multiple economically sensitive sectors are pointing to.

Caterpillar is the largest machinery manufacturer in the world. As such it's CLOSELY aligned with global growth. It suggests the S&P 500 will be at 2,400 in the near future.

Freeport McMoran is the largest copper producer in North America. Copper is a commodity that is EXTREMLY closely aligned with economic growth. And it suggests the S&P 500 will fall to 2,300.


Fed Ex which is VERY closely aligned with the economy, has imploded to the point that the S&P 500 would need to fall below 2,000 to catch up.

Again, things are getting EXTREMELY ugly right now. The credit bubble is bursting and it's not clear to me what the Fed can do to stop it.

The Fed has already performed an emergency rate cut of 0.5%. That did nothing. The Fed has also increased its overnight repo programs from $100 billion to $150 billion and then to $175 billion. That too has done nothing.

The only thing the Fed could do is begin to buy EVERYTHING including corporate debt. However, this would require Congress to change the Federal Reserve act. And Congress has proven it won't act quickly on anything.

So, if the Fed were to be given these powers it's still weeks away. Until then, the only thing the markets can cling to as hope is fiscal stimulus.

The UK has already launched a stimulus program as has Japan. The U.S. is preparing to do the same. And even Germany, which refused to blow out its budget even during the EU Crisis of 2011-2012, has agreed to do so for the first time in years.

This is the beginning of HELICOPTER MONEY… as in governments literally funneling money directly into their economies. THAT would change things and could ignite an inflationary tidal wave that would have a systemic effect.

However, this too is weeks away at best. And while that might be good for the economy, it wouldn't stop companies from defaulting on their debt (the credit crisis I've been writing about for the last five pages).

The only other option would be that the government simply closes the market. And I believe that could indeed happen.

Bottomline: we are now officially in a bear market. The intermediate and long-term trends are down.

However, NOTHING in investing goes straight down. Stocks are EXTREMELY oversold and due for a bounce. The S&P 500 has come up to its 200-week moving average. This line has held EVERY SINGLE TIME since the 2009 bull market started.


So, here is our game plan going forward.

The first thing we need to do is NOT panic and sell right this moment. The market is BEYOND due for an actual bounce. That bounce will be coming very shortly. And we will be using it to unload our longs are better prices.

Consider the following… while stocks are collapsing in the overnight session, the bond market is reversing.

The two year Treasury didn't EXPLODE higher past its Monday, March 9th, high:


While the 30 Year Treasury is nowhere near its Monday high.


It's the same things for currencies.

The Yen is nowhere near is Monday panic highs.


Nor is the Swiss Franc.


Put another way, both currencies and bonds which are BOTH much more sophisticated than stocks, are indicating a bottom is forming. This tells us a bounce is coming to stocks.

We will be using that bounce to close out our longs. We will then begin opening our CRISIS trades to profit from the bear market.

That is our game plan. Again, panicking and selling EVERYTHING right now is a MAJOR mistake. We are waiting for the bounce, which will hit shortly, to unload our longs at better prices.

On a final note, I've received some questions about precious metals and precious metals miners. If we are approaching an inflationary move based on a tidal wave of stimulus money, why are they too selling off?

Because of liquidations. When an investment fund is hit with redemptions or margin calls, it has to sell everything. The first thing it will sell is its winners. And precious metals have been some of the top performing investments of the last six months.

Put another way, precious metals and precious metals miners are being dumped due to liquidations. We saw this during 2008 as well.

This concludes this week's market update. I'm watching the markets closely and will issue updates as needed. But the game-plan is to use the bounce to unload longs and then get short for the bear market.

By the way, this process won't be fast. Bear markets take months if not YEARS to complete. So we have plenty of time.

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 March 15th.

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 March 1st.

**Obviously, once The Perfect Trade is launched on March 15th, 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

## STOCK POSITIONS

| Position | Symbol | Buy Date | Buy Price | Current Price | Total Return* |
|---|---|---|---|---|---|
| Emerging Markets ETF | EEM | 5/1/19 | $44.00 | $37.46 | -15% |
| European Financials ETF | EUFN | 5/1/19 | $19.62 | $14.39 | -27% |
| Workday | WDAY | 8/8/19 | $191.08 | $142.03 | -26% |
| Ultralong S&P 500 | SSO | 10/4/19 | $124.97 | $106.16 | -15% |
| Etsy | ETSY | 10/4/19 | $56.46 | $50.23 | -11% |
| Ultralong Russell 2000 | UWM | 10/24/19 | $66.67 | $43.01 | -35% |
| Brazil ETF | EWZ | 10/31/19 | $44.60 | $29.68 | -33% |
| Pfizer | PFE | 11/21/19 | $37.74 | $32.17 | -15% |
| Mexico Fund | MXF | 1/2/20 | $13.90 | $10.54 | -22% |
| Microsoft | MSFT | 1/9/20 | $161.65 | $153.63 | -5% |
| Apple | AAPL | 1/9/20 | $307.62 | $275.43 | -10% |
| Amazon | AMZN | 1/9/20 | $1,902.97 | $1,820.86 | -4% |
| Facebook | FB | 1/9/20 | $217.08 | $170.24 | -22% |
| Alphabet | GOOGL | 1/9/20 | $1,415.57 | $1,210.90 | -14% |
| Visa | V | 1/9/20 | $192.99 | $172.95 | -10% |
| Mastercard | MA | 1/9/20 | $308.52 | $269.76 | -13% |
| Oracle | ORCL | 2/13/20 | $55.31 | $44.70 | -19% |
| Kinder Morgan | KMI | 2/13/20 | $21.94 | $15.50 | -29% |

## PRECIOUS METALS POSITIONS

| Position | Symbol | Buy Date | Buy Price | Current Price | Total Return* |
|---|---|---|---|---|---|
| Gold | GLD | 8/23/19 | $144.12 | $153.93 | 7% |
| Silver | SLV | 8/23/19 | $16.35 | $15.63 | -4% |
| Silver Miners | SIL | 8/23/19 | $29.72 | $25.62 | -14% |
| Silver Mining Juniors | SILJ | 8/23/19 | $10.54 | $7.58 | -28% |
| Gold Miners ETF | GDX | 12/12/19 | $27.66 | $25.21 | -9% |
| Gold Mining Juniors ETF | GDXJ | 12/12/19 | $39.31 | $33.46 | -15% |
| K92 Mining | KNT.V | 2/20/20 | $4.27 | $3.03 | -29% |
| American Gold & Silver Corp | USA.TO | 2/20/20 | $4.02 | $2.35 | -42% |
| First Majestic Silver | AG | 2/20/20 | $9.74 | $6.57 | -33% |