PRIVATE WEALTH ADVISORY

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Weekly Market Update 4-2-20

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The markets have staged a nice bounce from the lows, but we are not out of the woods yet.

Yes, when you look at some areas of the stock market, it looks as though the lows are in.

However, the problem with the meltdown was never about stocks. The problem was that the government-enforced shutdown of the U.S. economy had burst the gargantuan debt bubble.

Remember, in the grand scheme of things, stocks are one of the smallest markets in the world. The bond market is at least six if not seven times larger than the stock market. And the currency market is even larger than the bond market by many multiples.

So, while stocks usually make headlines because they bring systemic issues to the forefront of the public's consciousness, the REAL issues are usually occurring in the background somewhere in the bond/credit markets.

This was certainly the case during last month's meltdown. While the media focused on the stock market, "behind the scenes" we were facing a systemic meltdown in the debt markets.

There was a crisis in…

The high yield corporate debt markets…

The investment grade corporate debt markets…

The high yield municipal bonds markets…

The investment grade municipal bond markets…

Even the senior loans markets…

Collectively, we are talking about well over $13 trillion in debt at risk here ($10 trillion in corporate bonds, $3.8 trillion in muni bonds and another $1.2 in senior secured loans). On top of this, there is over $100 trillion in derivatives that trade based on bond yields. So a significant portion of that market was at risk as well.

THIS is what triggered the panic at the Fed.

And we know it was a panic because the Fed staged an emergency announcing the Sunday before last, in which it announced it would begin buying EVERYTHING.

The Fed stated it would:

- Make its QE program "unlimited" meaning it would simply print money and buy assets ad infinitum.
- Increase the scope of its QE program from simply buying U.S. Treasuries and mortgage backed securities to include:
    - Corporate debt or debt issued by corporations.
    - Corporate debt-related ETFs (stock funds linked to corporate debt).
    - Municipal debt (debt issued by states, counties, and cities).
- Expand its money market QE to also include a "wider range of securities" including certificates of deposits (CDs).
- Expand its commercial paper QE program.
- Introduce a new QE program to buy any asset-backed Security (ABS) including student debt.
- Soon begin a bailout program for small- and medium-sized business.
- Will lower the interest rate on its repo programs from 0.15% to LITERAL ZERO (meaning NO interest charged).

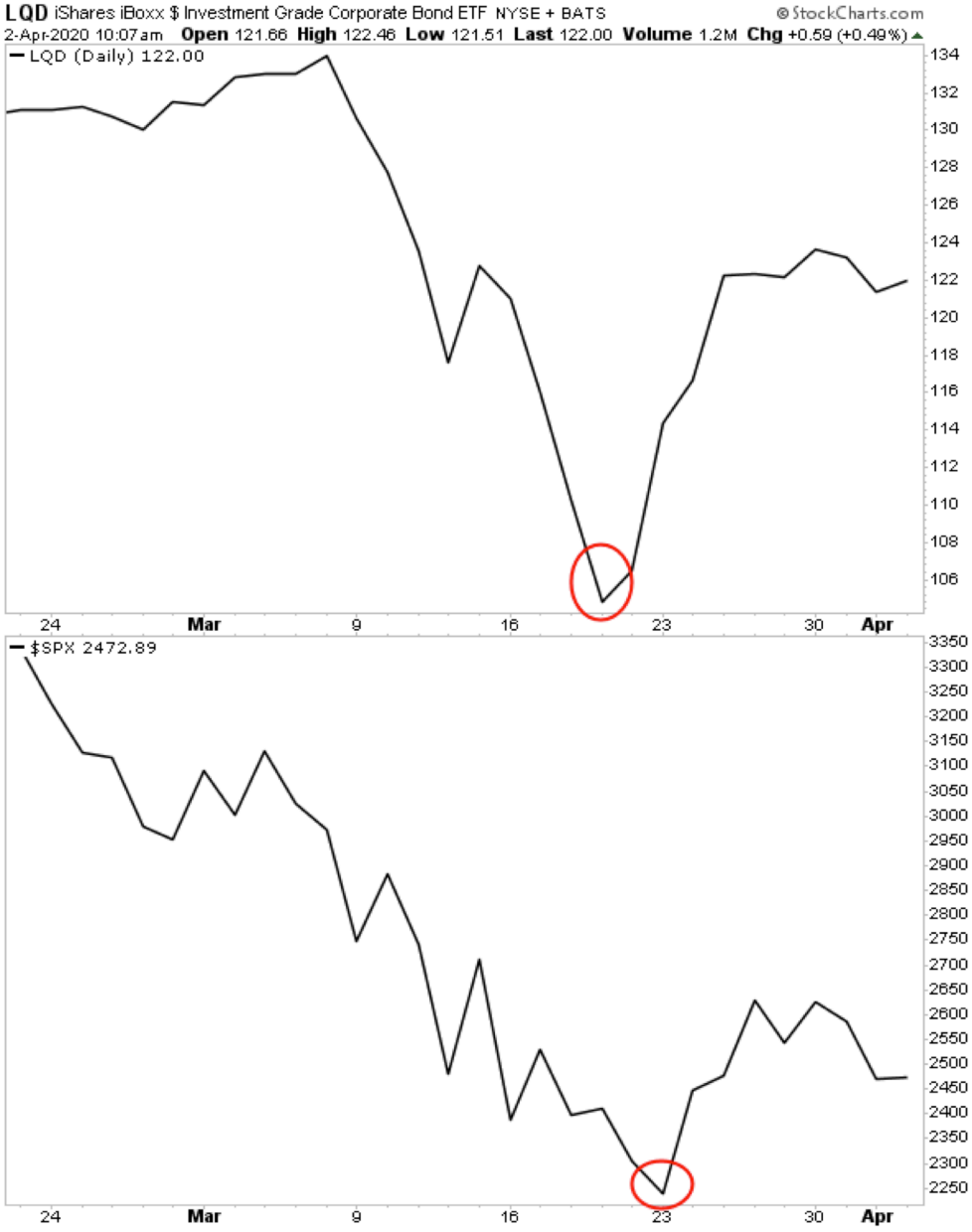
Out of this list, the single most important items I'm interested in is the fact the Fed announced it would buy investment grade (high quality) corporate bonds /corporate bond ETFs as well as municipal bonds.

The reason this is important is because the Fed has NEVER done this before. **Not even during the depth of the Great Financial Crisis of 2008 did the Fed do this.**

This was the "tell" that the Fed was concerned about systemic risk. However, the fact the Fed chose to target investment grade corporate debt also revealed several other items.

First and foremost, investment grade corporate debt actually bottomed **two days** before the Fed made its announcement. "Someone" knew what the Fed was about to announce.

But what's *really* interesting is that corporate bonds bottomed March 19th, while stocks bottomed March 23nd.



Put another way, the corporate bond market is now *leading* stocks by at least three days.

So… reviewing all of this we know that:

1) The corporate bond market was the Fed's primary focus during its emergency announcement… so much so that the Fed leaked its planned actions to "someone" or "someones" several days in advance.

2) The corporate bond market is leading stocks by about three days.

With that in mind, if we want to determine where the stock market is going, we need to focus on corporate bonds.

After all, if these bonds break down in a big way *despite* the Fed buying them for the first time in history (and with an unlimited budget, I might add), then we know the financial system is not "saved" and another meltdown is just around the corner.

Put another way, the investment grade corporate debt market now represents the financial system's confidence in the Fed. If this market begins to break down again, then the Fed is indeed losing control.

With that in mind, I would note that the rally in investment grade corporate debt actually began to stall out on March 25th. Since that time the investment grade corporate debt ETF (LQD) has effectively been trading sideways (red box in the chart below).

This is indeed worrisome. Given that the Fed has announced it will be buying these debt securities with an unlimited budget, you would think LQD would be going straight up.

What's even more disturbing is the fact LQD is actually struggling to even remain above critical support (red line in the chart below).

It's the same story for high-grade municipal bonds: another asset class the Fed has begun buying with an unlimited budget. Here again we see these bonds struggling to move higher over the last few days.

This is in fact even more worrisome than the action in corporate bonds. Remember, the corporate bond market is $10 trillion in size. The muni bond market less than half of this at $3.8 trillion.

What does it say about the financial system's confidence in the Fed that even a $3.8 trillion asset class ISN'T exploding higher after the Fed announced it would be buying these assets with an unlimited budget?

This is why I remain highly cautious with the markets today.

If THE bottom was in and the financial system had resolved the systemic issues from two weeks ago, LQD and VGM should be roaring higher. They're not. It anything they both look as though they're about to take another nosedive.

Indeed, on the two-hour chart, it is clear municipal bonds are in fact *leading* corporate bonds. Muni bonds bottomed at the market's open (9:30AM EST) on 3/19/20 (black circle in the chart below). Corporate bonds bottomed that afternoon between 2PM and 3PM (red circle in the chart below).

With that in mind, take note that muni bonds have already broken one line of major support (blue line in the chart below). They tested critical support (red line in the chart below) yesterday. If that line goes, then the financial system is quickly back in crisis mode.

Please digest what I'm telling you here. The Fed announced it would be supporting municipal bonds with an unlimited QE program and that market rallied for only a little over a week.

Something BAD is going on behind the scenes. If the Fed had truly resolved the systemic problems in the debt markets, this wouldn't be happening.

This is why we remain extremely defensive with our investments. It is why our Crash trades remain open. And it's why we're now opening more.

Tesla (TSLA) was rejected right at its former bull market trendline (blue line). Once it breaks support (red line) it will plunge to long-term support (purple line at $270 or so).

Action To Take: Short Tesla (TSLA).

Nvidia (NVDA) is another company primed for a drop, having been rejected by its former bull market trendline (blue line). Once support is broken (red line) it quickly falls to new lows within the confines of that expanding pattern (purple lines).

Action To Take: Short Nvdia (NVDA).

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.

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	$14.83	-24%
Trade Desk (SHORT)	TTD	3/18/20	$151.55	$160.72	-6%
Service Now (SHORT)	NOW	3/18/20	$259.52	$251.01	3%
UBS (SHORT)	UBS	3/18/20	$7.84	$8.90	-12%
CDW (SHORT)	CDW	3/18/20	$79.37	$86.67	-8%
Tesla (SHORT)	TSLA	4/2/20	$452.21	NEW	SHORT
Nvidia (SHORT)	NVDA	4/2/20	$246.75	NEW	SHORT

OPEN POSITIONS: PRECIOUS METALS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold	GLD	8/23/19	$148.28*	$151.79	2%
Silver	SLV	8/23/19	$14.87 *	$13.44	-10%
Silver Miners	SIL	8/23/19	$27.74 *	$24.31	-12%
Silver Mining Juniors	SILJ	8/23/19	$9.13 *	$6.86	-25%
Gold Miners ETF	GDX	12/12/19	$26.57 *	$25.04	-6%
Gold Mining Juniors ETF	GDXJ	12/12/19	$35.70 *	$30.30	-15%
K92 Mining	KNT.V	2/20/20	$3.61 *	$3.12	-14%
American Gold & Silver Corp	USA.TO	2/20/20	$3.19 *	$2.15	-33%
First Majestic Silver	AG	2/20/20	$8.44 *	$6.32	-25%
Newmont Mining	NEM	3/26/20	$47.13	$48.13	2%
Barrick Gold	GOLD	3/26/20	$$19.31	$19.83	3%

Prices as of 4/2/20 at the 2:30 PM EST.
***Average of today's price and original buy price.**