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Weekly Market Update 5-21-20

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The macro backdrop we are experiencing today is without precedent. And it is resulting in truly insane moves in the financial markets.

Let me explain.

Never before has the U.S. government decided to shut down its economy voluntarily.

Yes, the U.S. economy has experienced recessions and depressions before. But never before has the economy gone from growing at a reasonable pace to completely stopping in the span of a few weeks.

As I write this, over 38 million Americans are out of work (more on this shortly).

Industrial production has dropped over 11% in April – its largest drop ever.

The latest retail data show an 83% collapse in clothing retail over the last two months.

Across the board, all retail sales including food and beverages have dropped 16%.

This is DEPRESSION-type stuff. And if this alone were the only issue investors had to deal with, things would be difficult enough.

However, it's not.

To combat this economic shutdown, the U.S. government and the Federal Reserve have embarked on an unprecedented amount of fiscal and monetary stimulus. Between the two of them, the U.S. has spent over $4.7 TRILLION in the last eight weeks.

To put this amount into perspective, that's roughly the GDP of Japan… the third largest economy in the world. And the U.S. just spent it in two months' time!

So, we've got an unprecedented economic shutdown AND an unprecedented fiscal and monetary policy response. Which one will win?

Will the economy continue to implode, eventually forcing stocks to crash again?

…Or will the Fed and federal government succeed in "papering over" the economic decline until the economy reopens completely, allowing stocks to roar back to new all-time highs?

No one knows.

There is however, one clear theme for the markets today.

The Powers That Be are going to print trillions and trillions of dollars to fight this problem. This is the single defining characteristic of the current investing climate: printing money. And from the look of things, it won't be ending any time soon. If anything, it looks as though the U.S. will be forced to spend trillions and trillions for unemployment payments in the coming months.

Let me explain…

This week alone, 2.24 million Americans filed for unemployment.

Going back nine weeks, 38.64 million Americans are now unemployed. And what's truly disturbing is that many Americans are *staying* unemployed.

You see, there are two types of jobless claims: initial and continuing.

Let's say you lose your job because the economy is shutdown temporarily. When you go to file for unemployment, you would file an initial jobless claim, meaning this is the first time you're applying for unemployment.

Fast-forward a week, and the economy is still closed. So, you are forced to file for unemployment again. However, because you have already applied for unemployment once before, this time around your jobless claim would be classified as a "continuing" jobless claim. Meaning you continue to be unemployed.

Everyone knew that the economic shutdown meant that initial jobless claims in the U.S. would be horrific. The big question was whether people would be unemployed for a short-time period and then return to work… or if they would *stay* unemployed.

The data suggests they are **staying unemployed.**

Continuing jobless claims for the week ended May 16th hit 25.07 million. This is up 2.48 million from the continuing jobless claims number for the week ended May 9.

So, a total of 38 million Americans have filed of unemployment at least once… and 25 million of them remain unemployed. And why wouldn't they?

A study from the University of Chicago has revealed that 68% of unemployed Americans are receiving MORE money from unemployment than they were receiving from their former jobs.

In fact, the median replacement rate is 134%, meaning they are making 34% MORE money

from being unemployed than they were from working!

What incentive, if any, will there be for these people to return to work when the economy reopens? If you can make more money from NOT working… why would you want to start working again?

Okay. We've covered a lot of ground here, so let's do a brief recap:

1) The economic shutdown in the U.S. is forcing tens of millions of Americans to lose their jobs.

2) Once they lose their jobs, the vast majority of Americans *stay* unemployed.

3) There is evidence that unemployment is actually paying Americans MORE money than they would earn by working.

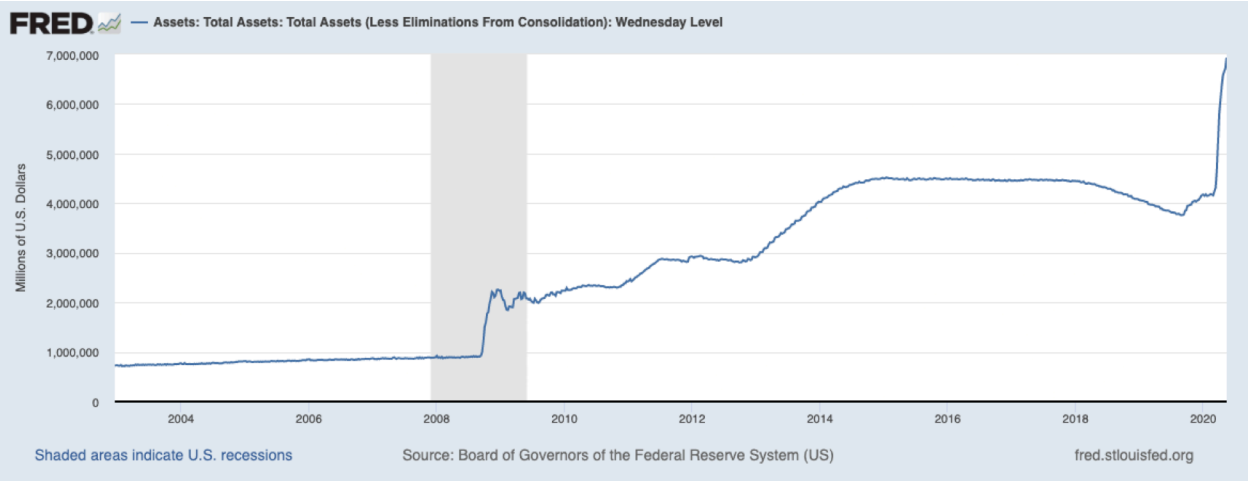
4) This means a significant portion of Americans will likely CHOOSE to remain unemployed even as the economy reopens.

5) And this will mean even MORE stimulus/ unemployment checks being spent.

Mind you, I'm just talking about stimulus and fiscal spending here. We've not even touched on what the Fed is doing in terms of funneling money into the financial system via monetary policy.

As I write this, the Fed has printed over $2.7 trillion in the last nine weeks, bringing its Fed's balance sheet to an all-time high of $7 trillion in size.

To give you an idea of how extreme this is, compare the recent spike in the Fed's balance sheet to the one that occurred in response to the 2008 crisis, shown below.



The Fed is printing this money and using it to backstop the entire financial system. The Federal Reserve is now buying assets in:

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 markets (everything from student loans to certificates of deposit and more).

On top of this, during his recent interview on *60 Minutes*, Fed Chair Jerome Powell suggested that there is "no limit" what the Fed will do to support the economy.

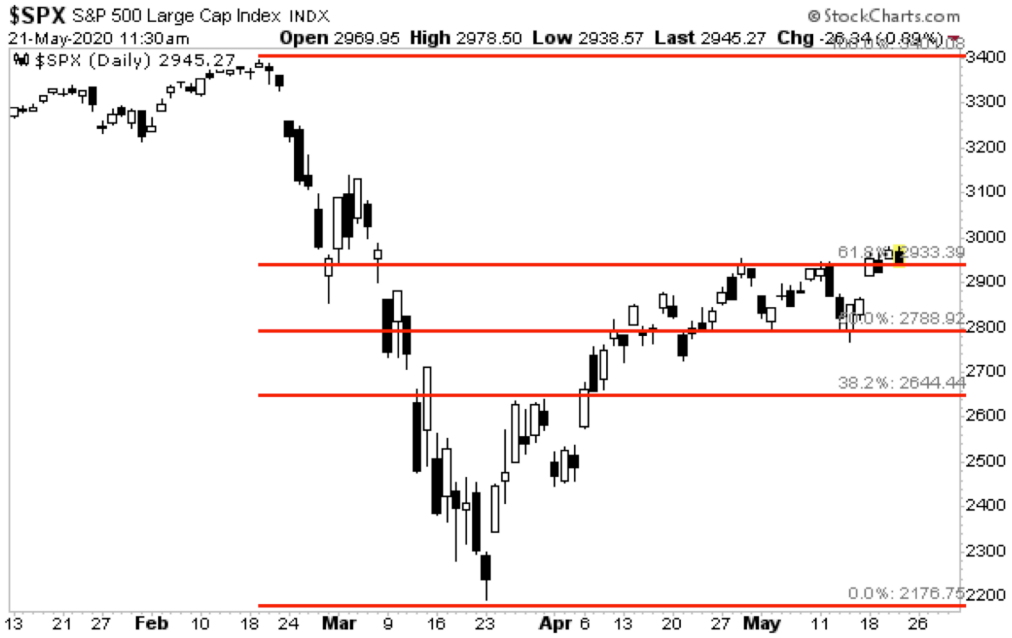
> *The chairman of the Federal Reserve on Sunday said the central bank has not exhausted its power to help the economy get through the coronavirus pandemic.*
>
> *"**We're not out of ammunition by a long shot**," Powell said in a transcript of his interview aired on the CBS news magazine "60 Minutes."*
> *The Fed chairman said there was "no limit" to what the Fed can do to lend money to financial markets.*
>
> ***"So there's a lot more we can do to support the economy, and we're committed to doing everything we can as long as we need to,"*** Powell said.
>
> https://www.marketwatch.com/story/feds-powell-tells-60-minutes-hes-not-out-of-ammunition-to-fight-the-recession-2020-05-17

Given that the Fed is spending $1 trillion+ per month buying every debt asset in existence… one can assume from Powell's statements that the Fed would start buying stocks outright if the economy were to continue to contact.

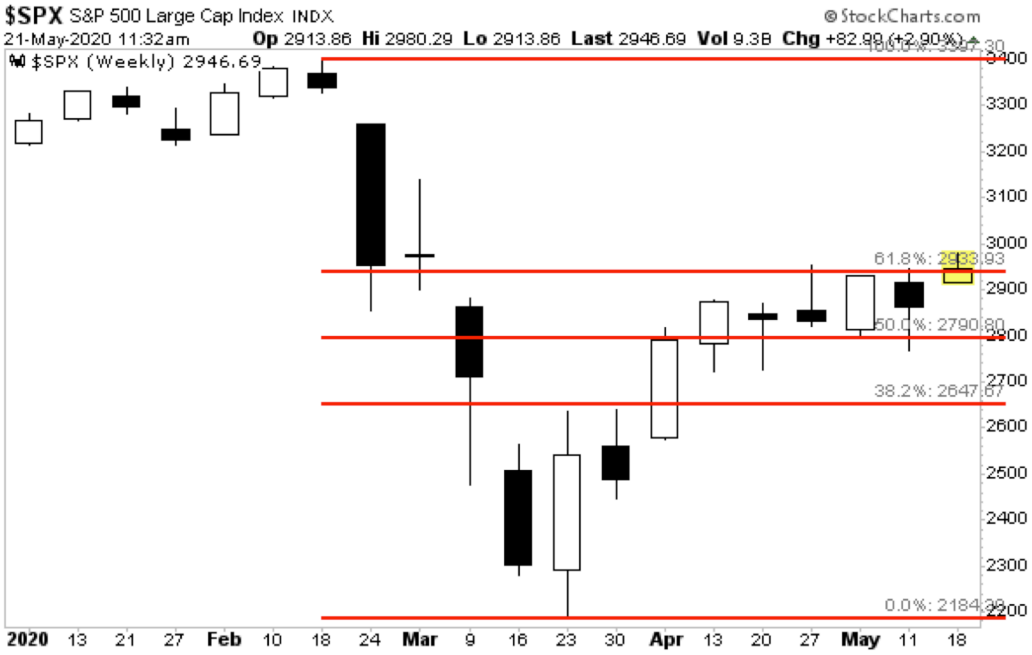
Again, we are living in truly unprecedented times both in terms of the economy and policymakers' response to the crisis. How precisely this will play out is impossible to know. The only thing we DO know is that policymakers will be spending trillions of dollars going forward.

With that in mind, let's move on to the markets.

The S&P 500 has finally broken above the 61.8% retracement of the March meltdown.



The key now is whether stocks can STAY here. We've already had one closing price over this level. If stocks can break this level on a *weekly* basis, then it's likely this move is the real deal.



The reason I have been focusing on this point so much over the last month is because Fibonacci retracements remain one of the few viable metrics after a market meltdown.

Think of it this way: when the market collapses a large amount over a short period of time, most metrics (moving averages, relative strength and like) are no longer useful for predicting anything. This is because most of these measures are based on averages. And an extreme sell off skews the average dramatically.

For this reason, one of the few metrics that remain useful following a crash are Fibonacci retracements. And traditionally, the view is that if the market can retrace 61.8% of a drop and stay there, then the bounce represents the start of a new bull market NOT a bear market bounce.

Put simply, the 61.8% retracement level represents the "line in the sand" for the bulls and the bears. And right now, the bulls are winning.

Having said that, I do NOT like the fact Treasuries are holding up so well. If the financial system was truly moving into a "risk on" environment in which stocks are "correct" and should continue to rally, then we should see Treasuries sell off.

They aren't.

Take a look at long-term Treasuries. While they are not at their all-time highs, they do remain at extremely elevated levels. If we were moving into a major "risk on" phase for the

financial system, I would have expected TLT to break below support (red line).

So, while stocks are acting in a way that suggests they are in a new bull market, this move is NOT being confirmed by bonds.

It's not being confirmed by currencies, either.

While it's tempting to claim currencies are moving into a "risk on" phase based on the fact the $USD *appears* to be breaking its lower trendline (blue line), I would point out that support is FAR more relevant than a trendline. And the $USD continues to hold support (red line).

Similarly, the Swiss Franc, which is the other primary safe haven currency besides the $USD, is refusing to breakdown.

The same is true of the Japanese Yen, another safe haven currency.

If the financial system was in fact moving into a "risk on" phase, we should see both Treasuries and safe haven currencies breaking *below* support.

Take a look at how the $USD and TLT acted during the 2009 bottom: both assets broke down below at least ONE major support line, signaling the "all clear." That has NOT happened this time around.

My point with all of the above is that we need to remain clear on the macro backdrop of the financial system today. The U.S. is in a depression, plain and simple. For this reason, bonds and currencies remain well bid.

Put another way, stocks are largely responding to the Fed's liquidity, NOT fundamentals.

As I write this on Thursday, I don't see any clear setups. Momentum stocks are all sharply

overbought as are precious metals. I wouldn't be surprised to see stocks stage a retrenchment/ consolidation period over the next few days. That's when we'd get some more clear setups.

This concludes this week's market update. 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 longer monthly issue.

In the meantime, a few slots have opened up for our options trading service ***The Crisis Trader***.

We recently closed the doors on this service to new subscribers. However, as I noted last week three members recently decided option trading is not for them (I'm unsure why this is as we've locked in five double digit winners in the last three weeks including a 28% gain yesterday on a trade we held less than a day).

Two of those three available slots have already been taken. If you'd like to lock in the last one you can do so at the discounted price of $499 (normally this service costs $999).

Once this final slot is full, the doors are closed on this service again.

To lock in the last available slot for ***The Crisis Trader*** use the link below.

https://phoenixcapitalmarketing.com/tctrenewal499.html

Until next Thursday…

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS: STOCKS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Goldman Sachs	GS	4/9/20	$185.02	$180.09	-3%
Steel Dynamics	STLD	4/9/20	$24.44	$24.82	2%
Enterprise Partners	EPD	4/9/20	$16.78	$18.77	12%
Coca Cola	KO	4/9/20	$49.46	$45.17	-9%
NexGen Energy	NXE	4/23/20	$1.33	$1.36	2%
Carnival Cruise Lines	CCL	4/29/20	$16.61	$14.60	-12%
Dave And Busters	PLAY	4/29/20	$16.36	$11.75	-28%
Simon Property Group	SPG	4/30/20	$66.69	$56.01	-16%
Freeport McMoRan	FCX	4/30/20	$8.81	$8.93	1%
Alpha Pro Tech	APT	5/14/20	$15.39	$13.53	-12%
Uber	UBER	5/14/20	$32.49	$34.42	6%

OPEN POSITIONS: PRECIOUS METALS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold	GLD	8/23/19	$148.28	$162.33	9%
Silver	SLV	8/23/19	$14.87	$15.95	7%
Kirkland Lake	KL	2/23/20	$41.79	$39.18	-6%
Nemont Mining	NEM	3/26/20	$64.50	$63.51	-2%
Barrick Gold	GOLD	3/26/20	$28.15	$26.47	-6%

Prices as of 5/21/20 at the 3:15PM.

RECENTLY CLOSED TRADES

Position	Symbol	Buy Date	Buy Price	Sell Date	Sell Price	Gain
Microsoft	MSFT	4/8/20	$165.09	4/20/20	$176.00	**7%**
Apple	AAPL	4/8/20	$264.96	4/20/20	$278.00	**5%**
Gold Miners ETF	GDX	12/12/19	$26.57	4/20/20	$30.37	**14%**
Gold Mining Juniors ETF	GDXJ	12/12/19	$35.70	4/20/20	$37.34	**5%**
Nemont Mining	NEM	3/26/20	$47.13	4/20/20	$58.98	**25%**
Barrick Gold	GOLD	3/26/20	$19.31	4/20/20	$24.64	**28%**
UltraShort S&P 500	SDS	4/20/20	$24.35	4/21/20	$25.35	**4%**
VIX ETF	VXX	4/20/20	$42.29	4/21/20	$46.29	**9%**
Wayfair	W	4/23/20	$104.63	4/28/20	$127.07	**21%**
Alcoa	AA	4/8/20	$7.38	4/29/20	$8.67	**17%**
US Steel	X	4/8/20	$6.86	4/29/20	$8.00	**17%**
Marathon Petroleum	MPC	4/23/20	$25.94	4/29/20	$33.02	**27%**
Parsley Energy	PE	4/23/20	$8.30	4/29/20	$9.36	**13%**
Diamondback Energy	FANG	4/23/20	$37.10	4/30/20	$43.38	**17%**
TradeDesk	TTD	4/27/20	$263.90	4/30/20	$297.24	**13%**
Wayfair (HALF)	W	4/30/20	$124.35	5/5/20	$179.06	**44%**
JP Morgan	JPM	4/9/20	$103.67	5/7/20	$91.09	**-12%**
Square	SQ	4/27/20	$63.60	5/13/20	$72.13	**13%**
Wayfair (other HALF)	W	4/30/20	$124.35	5/13/20	$178.26	**43%**
Nvidia	NVDA	5/14/20	$314.14	5/20/20	$358.80	**14%**
Silver Miners	SIL	8/23/19	$27.74	5/20/20	$37.19	**34%**
Silver Mining Juniors	SILJ	8/23/19	$9.13	5/20/20	$11.86	**30%**
K92 Mining	KNT.V	2/20/20	$3.61	5/20/20	$4.22	**17%**
American Gold and Silver Corp	USA.TO	2/20/20	$3.19	5/20/20	$3.98	**25%**
Gold Miners ETF	GDX	12/12/19	$34.75	5/20/20	$37.35	**7%**
Gold Mining Juniors ETF	GDXJ	12/12/19	$42.60	5/20/20	$48.01	**13%**
First Majestic Silver	AG	2/20/20	$8.44	5/21/20	$9.40	**11%**