PRIVATE WEALTH ADVISORY

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Market Update: 3-17-15

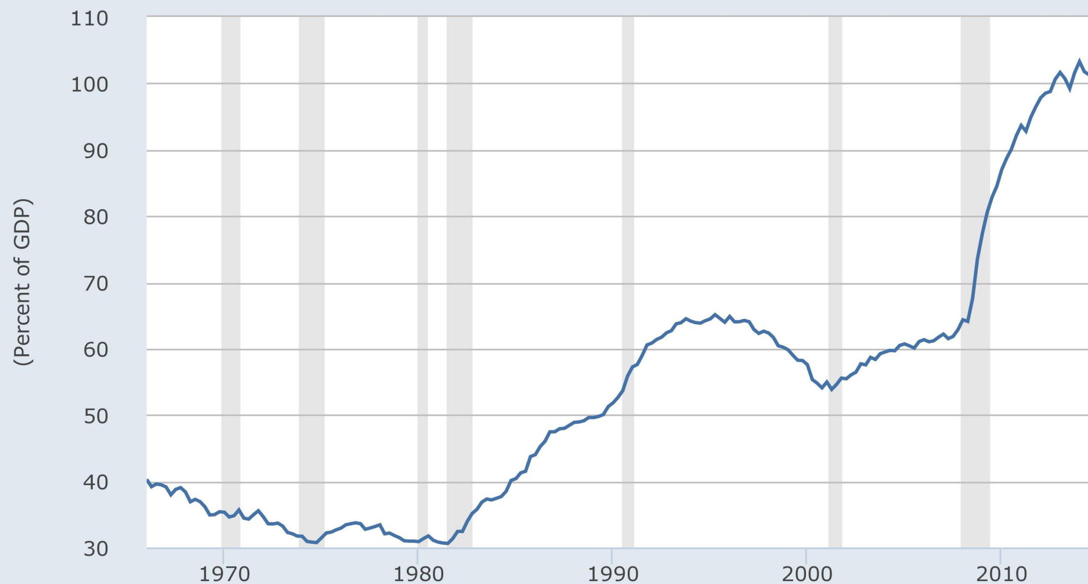
The Fed is now fighting a battle on two fronts.

They are:

1) The political front
2) The financial markets front

Regarding #1, the US now sports a Debt to GDP ratio of 102%. This ratio skyrocketed in the decade, rising from 55% to 102% where it is today.

See for yourself.



Americans historically have been willing to stomach an increase in debt provided the US economy begins to accelerate in the process. This has not been the case in the post-2009 "recovery." And Americans are increasingly concerned.

A recent poll shows that 82% of Americans are both worried about the US's finances and feel the country's fiscal situation should be one of the top 3 priorities for Congress and the Obama administration.

Both of these groups (Congress and the White House) will be looking for a scapegoat for the fact the US has spent trillions of dollars and is now obviously broke. **The Fed is the most likely political target**.

On that note, I wish to point out the following:

1) An "Audit the Fed" bill has been reintroduced in Congress.

2) Congress has proposed a bill that would increase oversight of the Fed's policies particularly regarding interest rates.

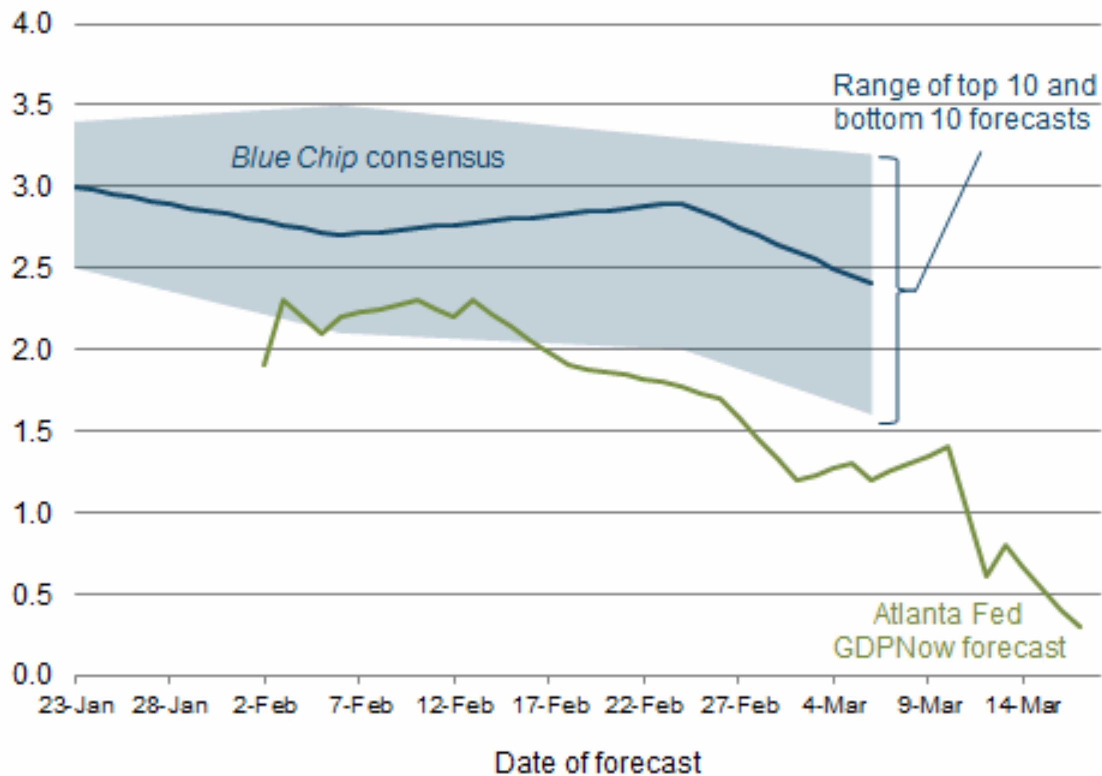
3) A probe into the Fed leaking information to particular financial institutions in advance of their public release has been referred to as "criminal" rather than "civil."

I am not naïve enough to belief that the political class would seriously crack down on the Fed. Congress receives far too much money from Wall Street (the Fed's true puppet master). However, the political targeting *does* indicate that the Fed will have to be more cautious regarding its monetary actions going forward.

In simple terms: the days of simply announcing another QE program in the name of "boosting the recovery" are over. The bar for another easing of policy has been set VERY high.

In terms of the Fed's financial battle, the Fed has backed itself into a corner. By employing phony economic metrics (unemployment, GDP growth, etc.), to boost its claims of "recovery," the Fed is at a point in which it technically *should* be raising rates based on the "official" data points.

However, the Fed is aware on some level that the economy is in fact flat lining and has been for some time. Indeed, the recent rollover in corporate investment, corporate profits, and nominal GDP have all matched changes usually associated with recessions. Even the Fed's real time GDP data shows that GDP growth for the first quarter of 2015 is currently around 0.3%. And this is including the usual account gimmicks to *overstate* growth (in reality we're likely already in a recession):



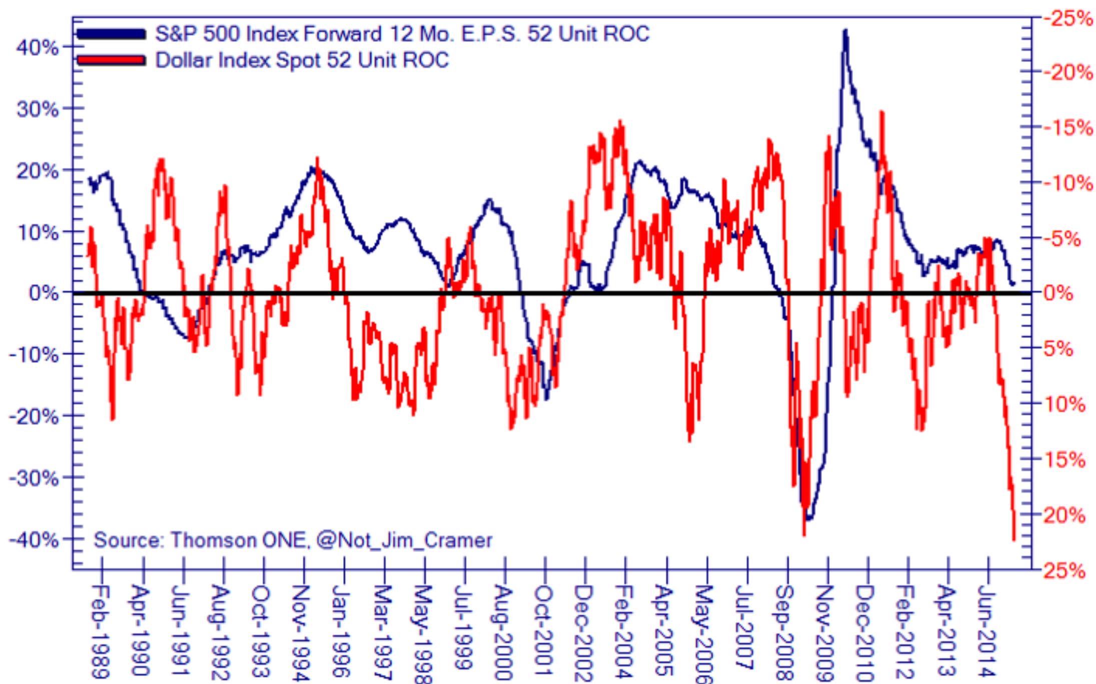
Thus, the Fed is fully aware that the US economy is extremely weak. However, it has to maintain the narrative that all is well (a narrative that assumes the next Fed move would be an interest rate hike).

The Fed *could* engage in a symbolic rate hike (say to 0.3%), but even that is problematic. The US Dollar is already rallying hard because of the interest rate differential between the US Dollar and the Euro (0.25% vs. -0.2%) and because the global $9 trillion US Dollar carry trade is blowing up. If the Fed raised interest rates even a *little* it would only accelerate this.

Indeed, as I noted in the last issue of ***Private Wealth Advisory***, the US Dollar barely corrected for 2% before beginning its next leg up. And this is AFTER it had already rallied 20% in six months!

Higher interest rates for the US Dollar would result in more money flowing into the US, which in turn would precipitate a higher Dollar, which would blow up even more US-Dollar based debts in the emerging market space.

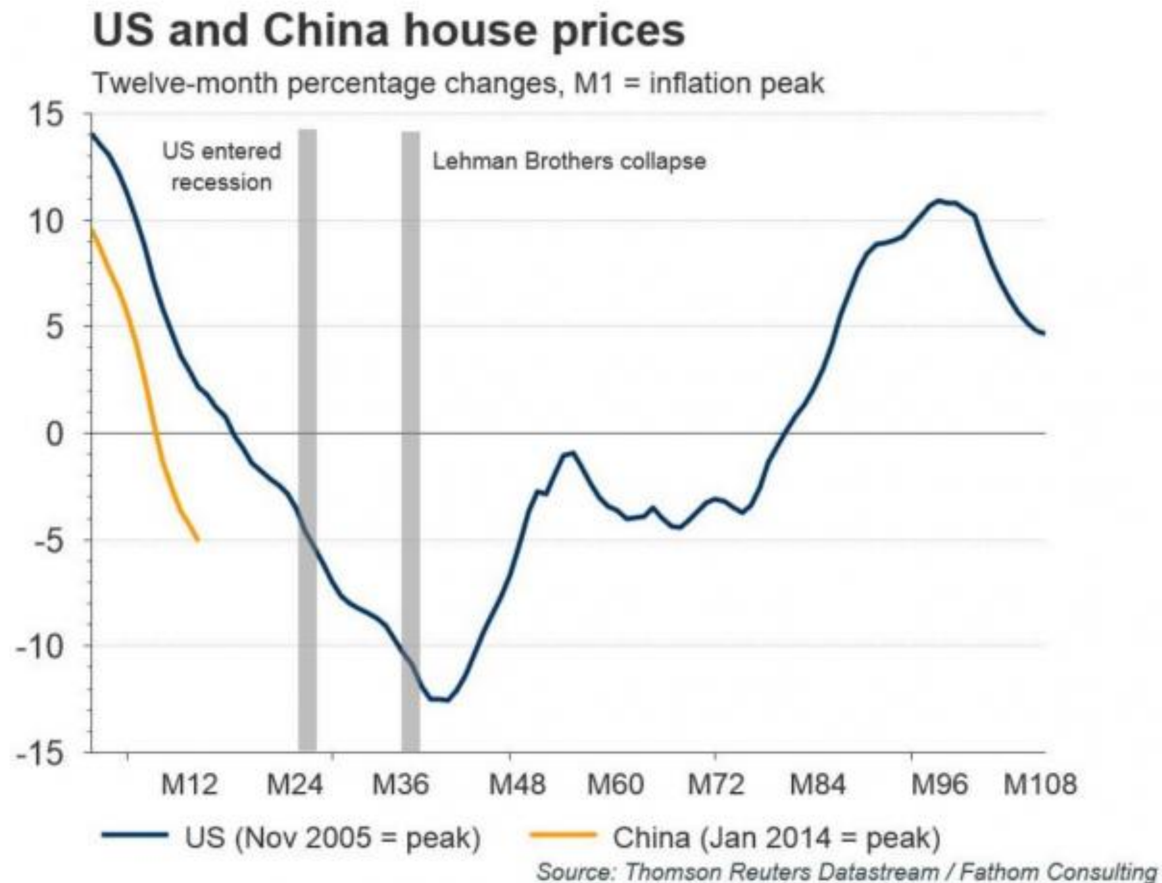
Moreover, there is now ample evidence that the stronger US Dollar is hurting US corporate earnings. Indeed, by the look of things, earnings will be collapsing shortly.



So whatever rate hike the Fed does (if any) will likely be quickly repealed.

Outside of the US, China, the other alleged engine for global economic growth, is heading for a collapse. I've noted before that rail traffic and retail sales to Honk Kong point to an economic slowdown on par with the Asia Financial Crisis.

Things have since worsened. The below chart shows that the China housing bubble has officially burst and is collapsing at a pace *faster* than the US housing bubble collapse of 2006-2008:



China's Premiere recently admitted in public that the country will have trouble hitting its growth targets. That's an *astounding* admission from the Communist leader of a one-party political system, particularly since China desperately needs 7%-8% GDP growth to avoid rampant political demonstrations and protests.

The China ETF is testing the 2010 peak. We might overshoot this to 45, but we're going to be heading to the green-line in the coming months:

With both the US and China contracting and the EU crisis re-emerging, there are no shortage of headwinds for stocks today. The markets are holding up based on the Fed's FOMC minutes which were just released (I'll address this next week), but stocks are beyond overbought and due for a sharp correction.

On a final note, I wanted to address an question I've received about concerns that we're heading for some kind of "one world" currency. As volatility increases in the currency markets, it's natural to wonder if the political elite will attempt to use the crisis to unveil some new currency.

The shortest answer possible is that I don't think this could ever happen.

The world is fracturing, not unifying. Separatist/ Nationalist movements are growing everywhere, including the United States. The fastest growing political parties in the EU are anti-Euro (read: anti-unified) parties.

Moreover, one-party regimes in Russia and China are losing power. The mainstream media doesn't touch on this but the protests there are growing larger and more intense. I wouldn't be at all surprised to see both countries (Russia and China) enter political crises in the next 24 months.

The US is not immune to this. During the last Presidential election, petitions to secede from the US were started in all 50 states, with one of them (Texas) actually reaching the number of signatures required to get a response from the White House.

You can even see the fracturing in the currency markets. Bitcoin and other digital

currencies are beginning to appear. There are also “community currencies” appearing in California, New York, and most other states. These are new currencies that are accepted in specific geographic areas, allowing consumers to purchase goods and services there without even using US Dollars.

In the simplest of terms, the great period of Centralization is over. The Central Planners have failed. The era of globalization is ending. It is a tectonic shift that will take years to play out. But it’s already peaked. And things are going to be breaking apart going forward.

So I do not believe we’ll see a one world currency in the future. The world is moving towards an increasingly Nationalistic and very likely violent period in its history, not the other way around.

I continue to watch the markets, closely. Barring any new developments you’ll hear from me next week in the next longer monthly issue of ***Private Wealth Advisory***.

Until then…

Best Regards

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