PRIVATE WEALTH ADVISORY
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Weekly Market Update: 6-3-15

The first issue to consider this week is the recent rise in Spanish bond yields.

The whole thrust of ECB President Mario Draghi's current monetary policy is to force both the Euro and European sovereign bond yields lower. **Doing this makes the servicing of Europe's massive debt loads easier.**

To that end, EU sovereign bond yields have been dropping steadily since mid-2012. Throughout that period, the trend has been *down* across the board.

Not anymore. Below is Spain's 10-year bond yield. As you can see, this latest spike represents the first real breakout in three years.

The financial media continues to focus on the Greek debt crisis, but Greece only matters in so much as what happens there will be used as a template for dealing with larger EU sovereign debt problems down the road…

Spain was and remains the REAL problem for Europe: a country with over $1.2 trillion in sovereign debt (compared to Greece's tiny $300 billion). In simple terms, Spain, as a nation, is far too big to be bailed out (the €100 billion bailout of 2012 was for Spanish *banks, NOT* Spain proper). **And Spanish bonds are the collateral backstopping well over €10 trillion worth of derivatives trades at the large EU banks.**

This is why the rise in Spanish yields is a major problem. This move indicates that the downtrend in bond yields is OVER for Spain. **The chart suggests a move to 4% if not 5% before year-end.**

That would be a REAL problem for Europe. It would be the equivalent of the market's calling the ECB's bluff that it can force yields lower ad infinitum.

How the ECB would react to this would determine the course for European bonds and stocks. But for now we should simply focus on the fact that **the market is indicating that the era of lower yields is ending in Europe.**

I'm keeping an eye on Spain's stock market, the Ibex. When it takes out the trendline started with the 2012 bottom, we're back into Crisis mode in Europe.

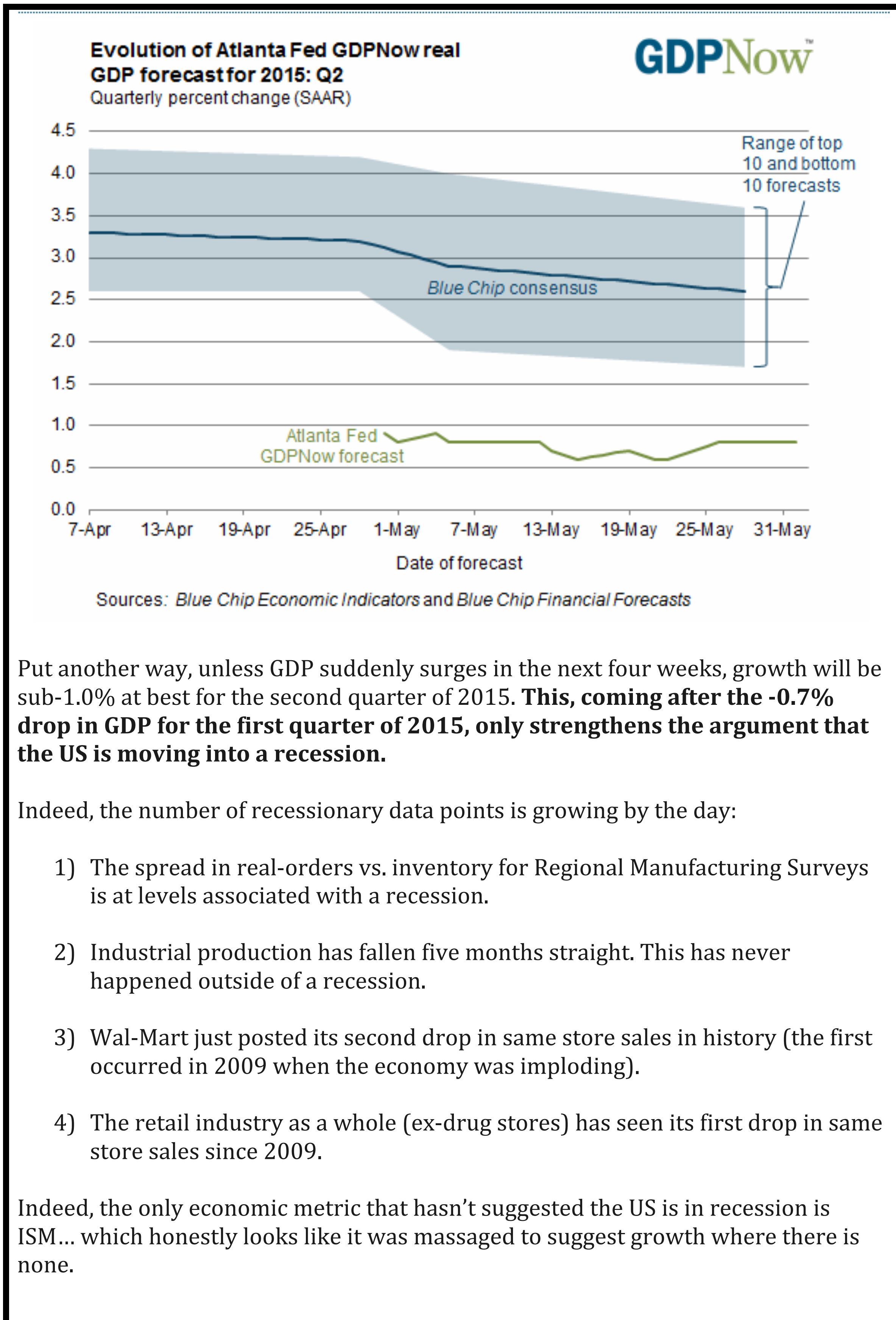
Outside of Europe, the US stock market looks to be completing a six-year bearish rising wedge formation. The log-scale weekly S&P 500 has us at the very tip of this chart pattern. The breakout from this will be tremendous.

Between this and the weakening momentum in the market, I am more and more convinced the breakout will be DOWN. **If anything it is increasingly looking like a top, if not THE top, is in for the bull market started 2009.**

Indeed, the rolling over MACD sell signal I've noted previously combined with the trendline for the monthly chart show the current market environment to be strikingly similar to that which occurred at the 1999 and the 2007 tops.

We're still in "watch and wait" mode here. But a BIG move is coming shortly, well before year-end.

Outside of this, the US economy continues to be weak at best. The Fed's own Real GDP Tracker shows second quarter GDP growth at a measly 0.8% through the beginning of June.



Put another way, unless GDP suddenly surges in the next four weeks, growth will be sub-1.0% at best for the second quarter of 2015. **This, coming after the -0.7% drop in GDP for the first quarter of 2015, only strengthens the argument that the US is moving into a recession.**

Indeed, the number of recessionary data points is growing by the day:

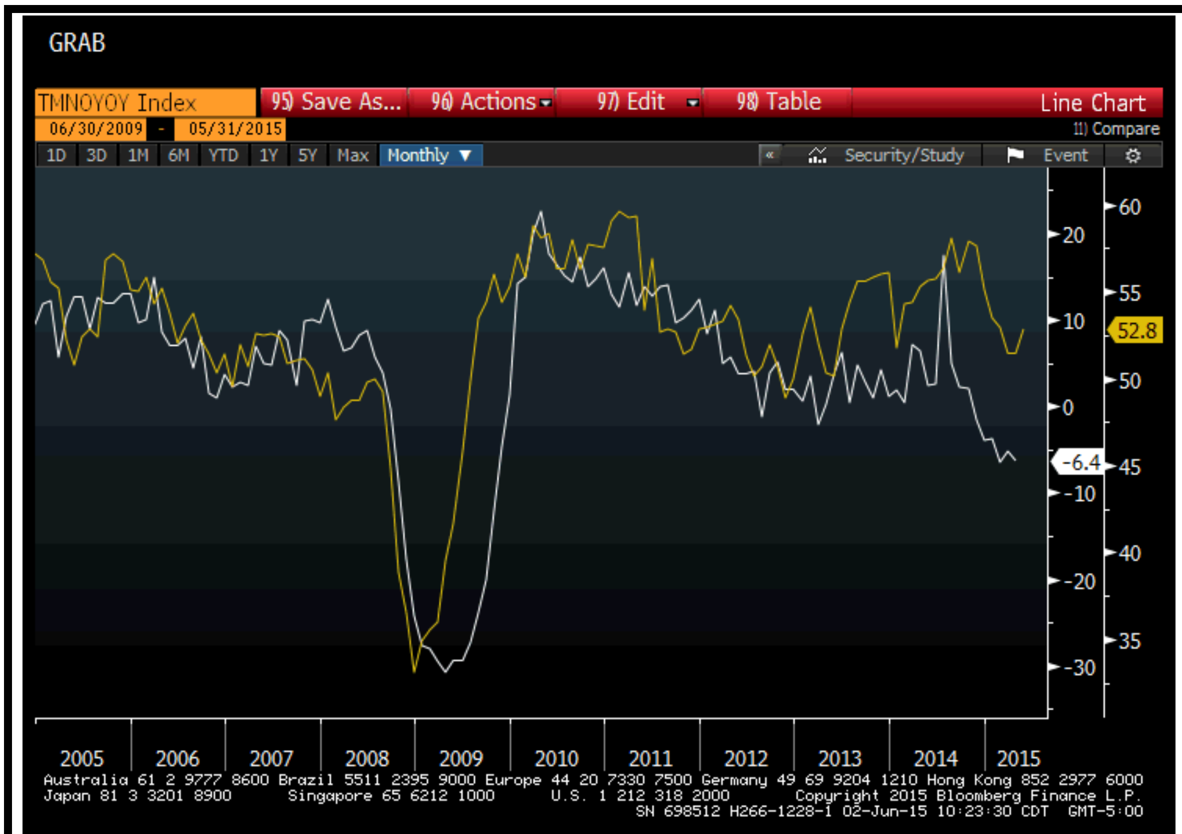
1) The spread in real-orders vs. inventory for Regional Manufacturing Surveys is at levels associated with a recession.

2) Industrial production has fallen five months straight. This has never happened outside of a recession.

3) Wal-Mart just posted its second drop in same store sales in history (the first occurred in 2009 when the economy was imploding).

4) The retail industry as a whole (ex-drug stores) has seen its first drop in same store sales since 2009.

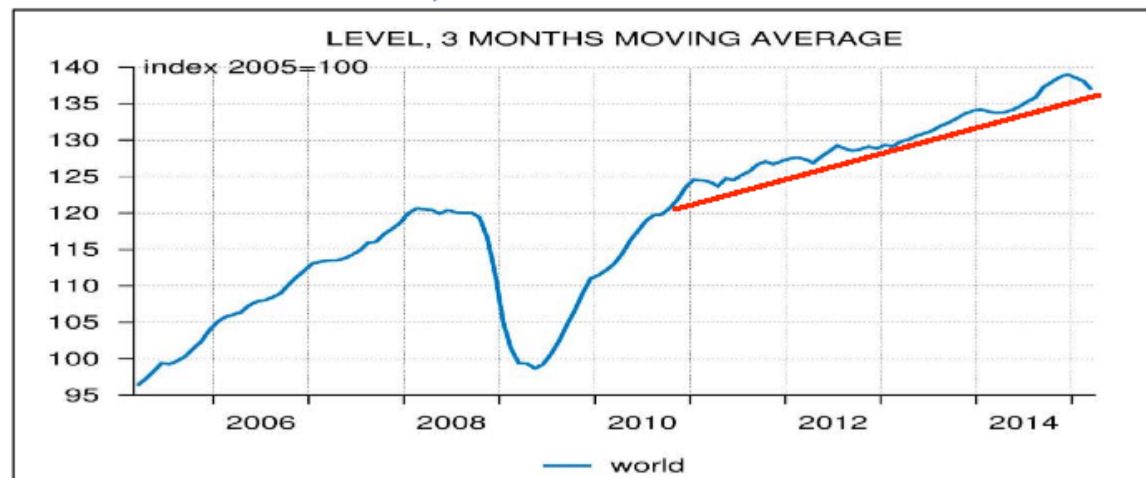
Indeed, the only economic metric that hasn't suggested the US is in recession is ISM… which honestly looks like it was massaged to suggest growth where there is none.



(h/t Raoul Pal)

ISM is the yellow line in the chart above. Factory orders are the white line. One of these is hard data (factory orders). The other is soft data that can be massaged easily (ISM). **The hard data suggests the US is already in recession.**

Judging from the below chart showing global trade by volume, this may be a global phenomenon. Global trade is collapsing at a pace not seen since 2009. So we may be facing a GLOBAL contraction.



All in all, we appear to be at a tipping point. It's almost as though the collective push by the Central Banks to force the world into a particular economic state has reached its peak. Across the board we are seeing signs of excess risk taking equal to if not greater than those that occurred during the 2007 peak.

And this is occurring right as economic activity appears to be slowing rapidly.

I have a deep suspicion that this is the quiet before the storm. As I noted in the issue *A Gradual Unfolding* at the end of 2014, major turning points in the financial system take time to unfold. More and more it looks like I was right on that call. It's now just a waiting game as various asset classes realize this fact. That's when we'll see the REAL price moves.

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 hear from me next week in our weekly market update of ***Private Wealth Advisory***.

Until then…
Best Regards

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