THE National Investor

June 24, 2022 *You can get information anywhere. Here, you get KNOWLEDGE*. **Mid-Year COMMENTARY**

THE BEAR MARKET AT MID-YEAR: *WHAT'S NEXT*?

Below, I take a quick lap through *numerous* subjects of note as we near the "turn" into the second half of 2022. I've kept the written part of this to a relative minimum, given the plethora of audio/visual goodies I've just posted this past week for your mid-year "schooling."

First, at https://www.youtube.com/watch?v=1WrX0WT4ddA, you'll find the recording of **this past week's presentation on "The New FAANGs" to the Money Show Virtual Expo**. This is THE broad investment thesis for the years ahead; I'll expand on additional reasons why this is so in the upcoming new regular issue of *The National Investor*.

Secondly, this (Friday) morning my friend and colleague Trevor Hall posted a nearly hour-long conversation we had yesterday; it's at https://anchor.fm/mining-stock-daily/episodes/Chris-Temple-When-the-Fed-Reverses-Course--It-will-be-too-Late-e1kc2b0 . I don't think there's anything we didn't cover as we looked much more to the here and now**; chiefly, *all* the markets' prospects for the rest of the year**, **together with the economy, politics and MUCH MORE**. *Don't pass this by especially*!

As we examine things at the halfway point of 2022, **we've been told only in recent days that we are *now* in a bear market**; this, as measured by the S&P 500, the broadest major index. That Index in the wake of the Fed's latest move, etc. was down 20% finally from its high; a mark *long since* reached by the Nasdaq, the Russell 2000 Small Cap Index, the resource-rich Toronto Venture Exchange and last but not least, those Old FAANGs. *As a group, the "Nifty Five" were recently down more than TWICE the S&P 500's decline*.

Forgive me, oh enlightened and Establishment-approved pundits of the financial press, but I think you're a wee bit late! The bear market has been wreaking havoc for *many months.*

Suggesting things for the markets and economy will get *considerably* worse before they get better, we have the chief cause of all this market misery; the newly dubbed "Fire Marshall Jay" by Yours truly. From clueless arsonist to now—if his rhetoric is to be even half believed—reckless fireman, Powell has been more plain spoken of late that NOTHING will be allowed to stand in the way of his bringing inflation back down; see https://www.cnbc.com/2022/06/17/fed-promises-unconditional-approach-to-taking-down-inflation-in-report-to-congress.html for one report on his recently-delivered mid-year report to Congress. And by and large, Powell reinforced that theme in front of the Senate and House this past week.

Last week, Robert Armstrong for the *Financial Times'* "Unhedged" newsletter put Powell's new mantra thus:

> "The Fed's new approach: Monetary policy tightening slows inflation *by pulling demand down* so that it no longer exceeds supply. How it does this is not subtle. It makes credit more expensive, so companies invest less and consumers spend less. *It makes asset prices fall and asset markets less liquid, so companies and households become poorer and less inclined to spend*. It makes people not get hired and it makes people get fired. It does this quite indiscriminately. It is not a scalpel, it is a sledgehammer. It smashes things. *For a while, the Fed had been suggesting that it could swing the hammer and get scalpel-like results. As of yesterday it is being more realistic.* (*Emphasis* added.)"

Powell:* *Waving good-bye to a "soft landing?"

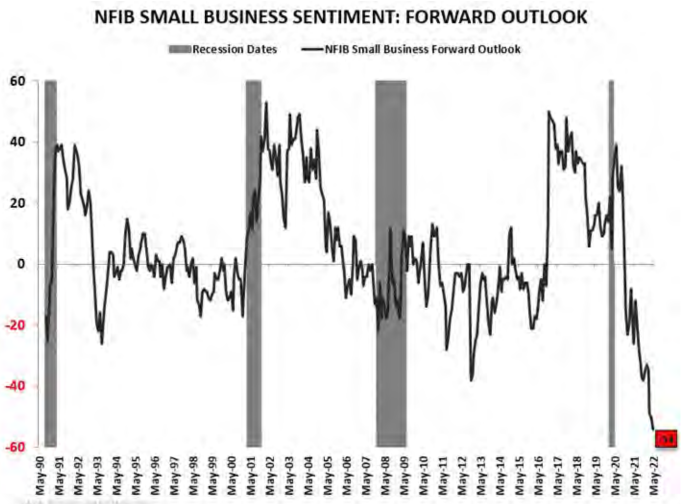
See https://www.ft.com/content/26f3910c-043d-481b-90b1-d461be15fa6c?segmentId=dddf6252-6e37-bb4b-bda7-2193a3453893 for Armstrong's full piece.

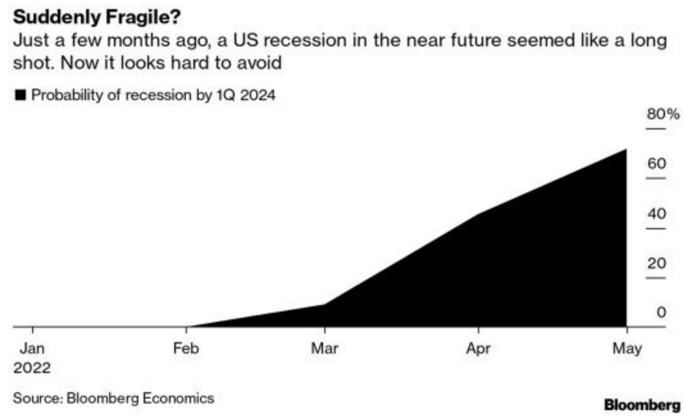
So it's no wonder that—after having so spectacularly overdone things in bringing about the inflation he is now resolved to "extinguish"—Fire Marshall Jay appears poised to lurch aggressively and disastrously in the opposite direction. Granted, on the surface of things the levels he plans to raise interest rates to, together with reducing the central bank's balance sheet by $3 trillion or so, don't *sound* all that cataclysmic. But given the levels to which *everything*—markets (especially foreign ones) and the economy alike—has been "built" especially in the monetary orgy of the last two-plus years, it won't take as much as you think before something "breaks." ***And that Powell has made quite (and uncharacteristically) plain that he is NOT going to run to the rescue of the stock market but, indeed, views a bear market as a major aid in fighting inflation, is quite a turnaround, don't you think?***

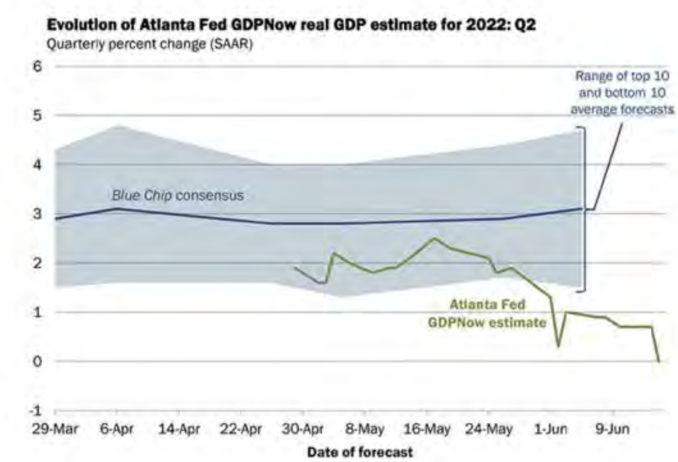
As I discussed with Trevor Hall in the above-referenced podcast of his *Mining Stock Daily*, the continuation of this bear market won't necessarily be dramatic or cataclysmic, either one. But it is more likely to be a slow, dull ache that could last for *many years,* as inflation declines much less than the Pollyannas hope…interest rates stay elevated somewhat by recent standards…and we continue to move into that post-U.S. centric, post-Bretton Woods world of unraveling globalization and the rest.

A few more ditties…

TIGHTENING INTO A RECESSION







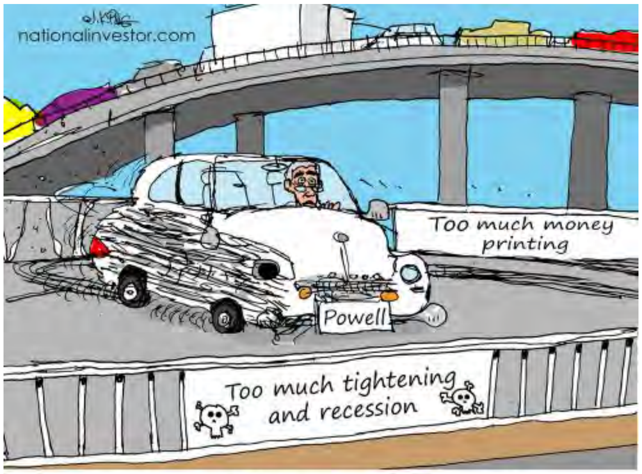
All these nearby charts beg the question is to whether the U.S. is in a recession *already*; and the numbers just aren't "official" yet. After all, that's how and why the bear market only arrived in recent days (once the S&P hit that magic 20% mark.) ***Further, when the likes of such a dingbat and abomination of a policy maker as Janet Yellen tells us a recession is "not inevitable," you can take to the bank that we WILL have one.***

As I discussed with Trevor, this recession will be uneven; and some parts of the economy will get hit worse than others (like retail which, generally, has contracted far quicker than I would even have expected.) Manufacturing is already contracting; and as of this morning, latest numbers have us right on the edge of "official" recession numbers. These newest national numbers confirm what several regional Federal Reserve banks have been reporting.

DEFLATION DANGERS?

Dr.StrangePowell (Or, How I learned to stop worrying and Love the Bubbles)

Understanding the fact that the "Flation debate" MUST be addressed in terms of credit, the markets, asset prices and such as a first matter (newbies should watch my primer from last May at https://www.youtube.com/watch?v=UqmLVme0UkI for *why* this is so) it's logical that ***deflation* is a greater danger than the talking heads comprehend.** I've said all along that Powell's insane money printing could well come back in the form of yet another deflationary bust in the markets; one which would make any recession we're heading into far worse. Though so much liquidity remains in the markets and economy that his veering so sharply to "the opposite side of the road" may not lead to an immediate disaster, that Powell is *still* likely to break something has high odds.



"I guess I'd better straighten her out!"

For some time now, it's been reported (see https://www.pymnts.com/economy/2022/subprime-loan-delinquencies-signal-trouble-for-paycheck-to-paycheck-economy/) that the shakiest of subprime auto loans are seeing growing delinquencies. So far, I've seen nothing yet of credit instruments, counterparties or the like affected.

Mitigating *that* worry is the relatively stable situation *so far* of real estate-related finance. Last week, *CNBC*'s Diana Olick gave a rundown on this; see https://www.cnbc.com/video/2022/06/17/are-foreclosures-coming-here-are-the-mortgage-market-red-flags.html?&qsearchterm=diana%20olick. So while housing starts, mortgage originations, permits and—at long last—prices are softening some of late, there is scant evidence of the kind of broad credit problems that caused and then exacerbated the 2007-2010 bust in housing.

While the U.S. *in relative terms* is in sufficiently good shape to weather Fire Marshall Jay's "inflation extinguisher" for a while, the same may not be true elsewhere. **As you see at right, the price of credit default swaps on debt of Credit Suisse have spiked a lot recently.** I pointed out *weeks ago* that the derivatives markets in Europe were cracking already; ahead of ANY tightening by the E.C.B. and before the Fed did much of anything as well.

Such is the impetus to combat inflation globally (save for Japan, which I'll address below) that even the Swiss National Bank itself just got into the act with its own surprise rate hike recently. **As I passed on at the time, this was noteworthy given that for a long time now the SNB has *avoided* any actions to strengthen its currency.**

This also comes at a time when the E.C.B. had to hold that emergency meeting to figure out how to stop a new crisis from overwhelming "peripheral" debt (Italy, Greece, et al.) Whether the "PIIGS" crisis of 2010 or so is going to return in some manifestation like one of those old Universal Studios monsters remains to be seen. *But for my money, it seems as though Europe is coming up on the outside and preparing to take the "Number One Potential Financial Crisis and Deflation Catalyst Threat" back from China*.

And that is being made much more likely as I write this due to the Deep State sociopaths itching in numerous ways to ramp up their proxy war against Russia. Once again, efforts are being made (see https://www.ft.com/content/b1f725a5-717f-44d4-b35d-aee6abe4b42d) to *prevent* Russia from making payments on external debts. If this succeeds—and we have a Russian default for the first time since 1998 (after U.S./Deep State stooge Boris Yeltsin had run the country into the ground)—the dominoes in Europe's banking and credit infrastructure could start falling *quickly*.

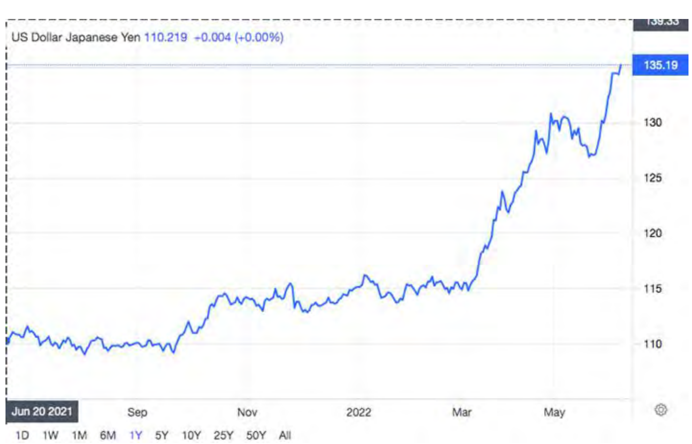
And of course we'd hear next about the "Putin Financial Crisis" added to the canard of the "Putin Price Hike" for energy and broader inflation.

JAPAN FALLING ON ITS SWORD—AND WHAT'S LEFT OF ITS CURRENCY—FOR THE GREATER GOOD

One development I've touched on only briefly for our Members so far has been **the peculiar (and I have to believe, *risky and potentially disastrous*) role that Japan has accepted of late in going more apes**t than ever in printing its Yen.** Powell's Fed has taken toddler-like steps so far in the direction of tightening monetary policy. The E.C.B.'s Christine Lagarde—in *this* dingbat's defense, facing more peril, to be sure, as I alluded to above—is talking about her first baby steps in the same direction.

But the Bank of Japan has been setting records anew for currency creation in comparison to its economy's size. So entrenched has its structural deflation become over recent years that BoJ Governor Kuroda has apparently been convinced to join this Faustian bargain with the U.S. (chiefly) and others, to wit: **You *sell off* Treasuries…*and we'll buy them* (by printing more yen) and *anything else* you all need us to do.)** So you can seem to be combating (monetary) inflation *over there*…and we'll keep things afloat *over here*. *Japan* will be the shock absorber for the global economy and markets and will do "whatever it takes."

The trouble with that (well, one anyhow) is that the market for yen and yen-denominated bonds isn't *quite* under lock and key by Kuroda. In recent days the "band" within which he wants 10-year JGBs to trade has been blown out (below, right) as the yen itself has plunged to a two-decade low against the U.S. dollar (below left.)



This whole gambit by Kuroda is also now coming up on the outside as a potential cause of an unintended, perhaps (but all too real, given the IDIOCY of it) potential cause for a new global financial crisis. (I guess if things go amiss, Vlad the Bad will have to share the honors of being the ogre-du-jour.)

So (for our Members who get my specific investment and trading recommendations as warranted) I will now have to be watching this, in addition to the Fed's open market operations.

MORE ON CURRENCIES…AND INTEREST RATES

Aside from the BoJ's influence on things, markets generally in recent days have been abruptly pricing in more in the way of looming recession than they have been inflation; and this despite the stark possibility that, once June's C.P.I. numbers come out, we may see yet another uptick from last month's 40-year record of 8.6% inflation Y-O-Y.

So what this has meant is <u>seeming</u> peaks in both the U.S. dollar and in Treasury yields.

The technically strong and still in-tact moves higher in both the greenback and interest rates have wavered a bit (especially yields, which on the bellwether 10-year Treasury looked ready to drop below 3% yesterday before rebounding today) recently. **That's been due primarily to growing recession worries (hopes?)** See https://www.cnbc.com/2022/06/23/us-bonds-treasury-yields-in-focus-as-investors-assess-recession-risk.html for one item on some investors' seemingly pining for anything that will knock the Fed off its tightening course (no matter that the reasons for that may not be anything to write home about!)

At this point, if either the dollar or bond market yields break down notably, it will be as evidence of a recession mounts.

WHAT'S NEXT FOR THE STOCK MARKET/COMMODITIES?

This week just ended with an equally sharp rally to basically negate last week's worst week in many a day. This all—I hasten to remind you remaining "buy the dippers" out there, is very characteristic of bear markets. **Don't think anything is changed**; apart from the fact that stocks technically were deeply oversold going into this week, there is no fundamental justification for greater cheer at the moment.

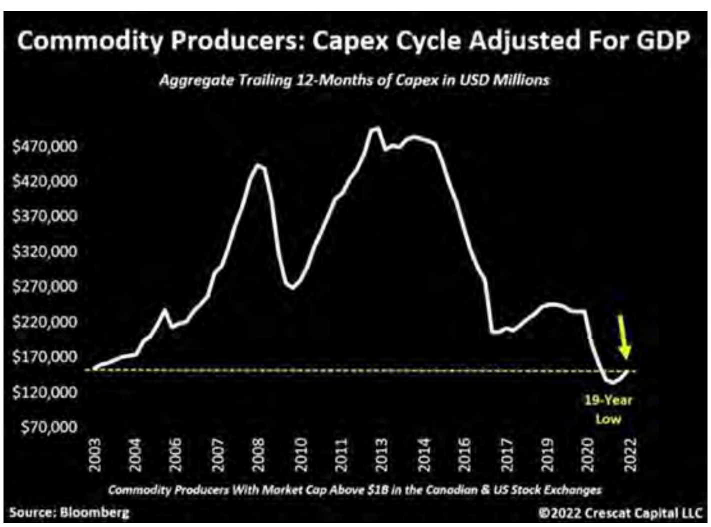
Indeed, we're but a few weeks away from the likelihood of the bear market's greatest reality check yet: **subpar Q2 earnings and—*this is key, as I said in my discussion with Trevor*—downgrades for the next couple quarters or more.** As I said, the odds are palpable that this will all lead to a new leg down for the general stock market and lower levels until—early Fall or so—a more durable intermediate-term low, at least, is plumbed.

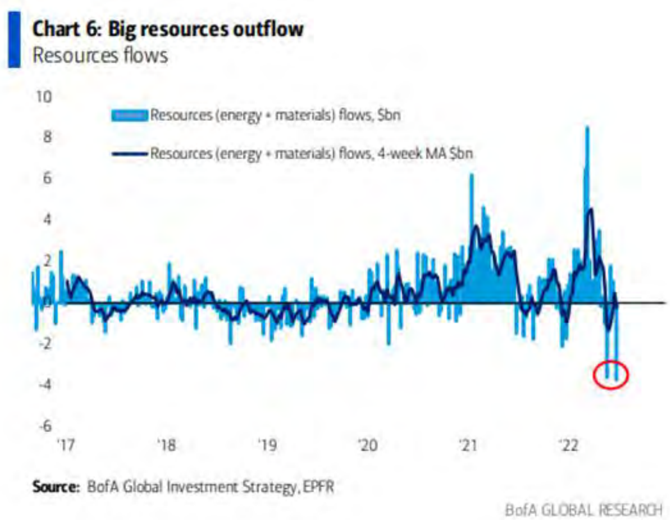
So the odds are not that much in favor, I.M.O., of things extending much past this rip higher. Note in the chart above that the S&P 500 stopped about dead-on a support level (which it later broke) of some weeks back.

Much of the chatter among my colleagues and I (as with Trevor) has been surrounding **commodities.** Even great stories with great news have stock charts of late that look like a dog's regurgitated breakfast in most cases (though one refreshing exception in recent days has been **Getchell Gold** following its latest boffo drill results.)

As I opined in both of my big presentations this week linked at the beginning, I've never been more generally bullish on commodities of most kinds than I am these days, notwithstanding that things likely will get worse in the near term before they get better. *Listen to and digest those discussions for the reasons why*!

And this point is illustrated by those two charts below…investors panicking and selling many good things in recent days especially that they shouldn't…sentiment among most generalist investors still poor…*and the chronic underinvestment more stark than ever.*





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