

STATE OF THE DELUSIONS

We felt that last week's action was dominated by the FED minutes and all the continued grey area hawkishness that has seemingly taken over the FED speakers lately. Once again, the FED succeeded at using indecisive rhetoric, saying things like "a rate hike is needed fairly soon," but to then say things like "downside risks from dollar strength and there's only a modest risk of inflation."

We have noted too many times in the past here that this FED often uses these forms of double speak to merely cover all their bases of uncertainty. For a group as powerful as this, they certainly seem to rely quite heavily on double speak and misdirection. Then again and as we have noted many, many times before, the FEDs real mandate, is merely to **BUY TIME!** The lull everyone to sleep a decade at a time, while they make billions and siphon of their spoils on their cronies who are first in line to the interest free spigot. All the while inflating their product, lowering the rates of interest, which steals from fixed income savers and inflating asset bubble after asset bubble so the ultra-wealthy can continue to take their exorbitant share of the income pie. It's no wonder a populist won the election, the established elites are so out of touch with reality, they don't even care to wonder what the commoner thinks or says any more. They just jockey back to their Falls Church mansion as quick as possible and submerge themselves in delicacy and delight.

Today saw the president's first State of the Union address. We couldn't help but notice the all clad in white Democrats in support of some women's rights movement or something. Nancy Pelosi, please, don't talk about equal rights and inner city problems, you are worth over \$100 million. You really could care less. Talk about out of touch, we are not quite sure what rights they are trying to promote, given that most women have just the same rights as men today, or are we living in the 1800s? We are confused. Anyway President Trump outlined some of his campaign promises in more detail and he looked very presidential tonight doing so. Now the Dems can disagree all they want, but in reality, we know the people of this country are sick and tired of endless dead end rhetoric and Trump brings a renewed hope for real change. The fact that the Dems try to portray this disunion or lack of bipartisanship is actually the reason why their party lost in the last election.

Anyhow enough of the politics, but we do know that many financial investment bets are going to rely on Trumps budget, his infrastructure projects, healthcare and certainly any tax and regulation changes. So we feel that for the sake of sounding too political, our

reader needs to realize that fiscal policy can often have a profound effect on investing decisions, just like monetary policy can.

Which brings us to the point that risk is still on despite all the uncertainty out of the Trump administration (fiscal) and out of the Federal Reserve (monetary). All this means is that something else is driving the equity run up and that something else may just be momentum and hope. The word bubble comes to mind, yet we hate to think that money is better put to use anywhere else and if that is indeed the case and equities provide the best reward given the dismal choices out there. Well then, it can't be a bubble then can it? Central banks around the globe are still providing massive stimulus and even our own FED who may hike next month, is still reinvesting in MBS. The FED also provides interest on excess reserves, which we touched upon last week. As we noted if the FED hikes, well then the banks reap a larger subsidy, in fact a hike of 25bp to 1% means the banks will receive on an annual basis roughly \$19 billion. So let's not call a hike, a tightening shall we. Those first in line to the capital have it much easier than those that do not and if raising rates allows for margins to rise due to the higher interest cost, well then this raises the price for Joe Blow but increases the profits for the creditor.

All in all, we view the next few months as up for grabs and we will see both the equity markets and bond markets try to formulate an educated guess as to whether or not the FED moves or if it stands down as it has the last few years. After the FED minutes and certainly tonight the US Bond market has increased the pace of curve flattening as well as the expectation for a March rate hike. We don't think the FED has it in them to raise, but then again, \$19bln free to the banks may just be necessary to increase liquidity and capital.

Technical charts:

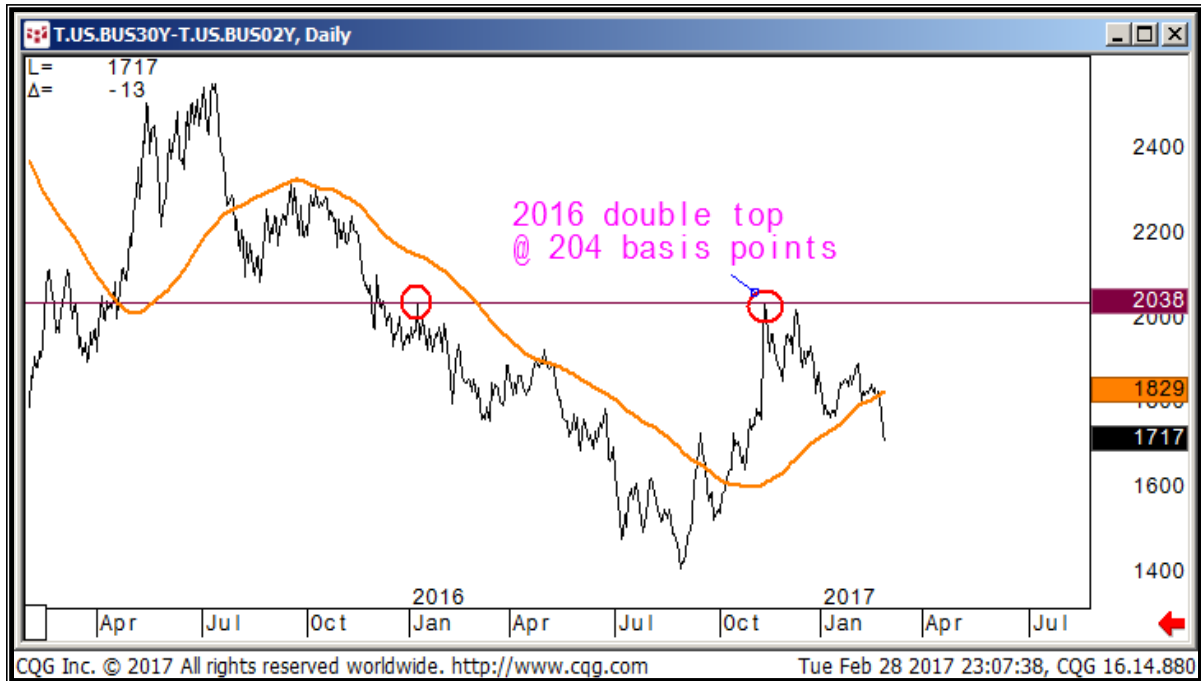
5y30y US treasury yield curve has flattened once again to 2015 lows



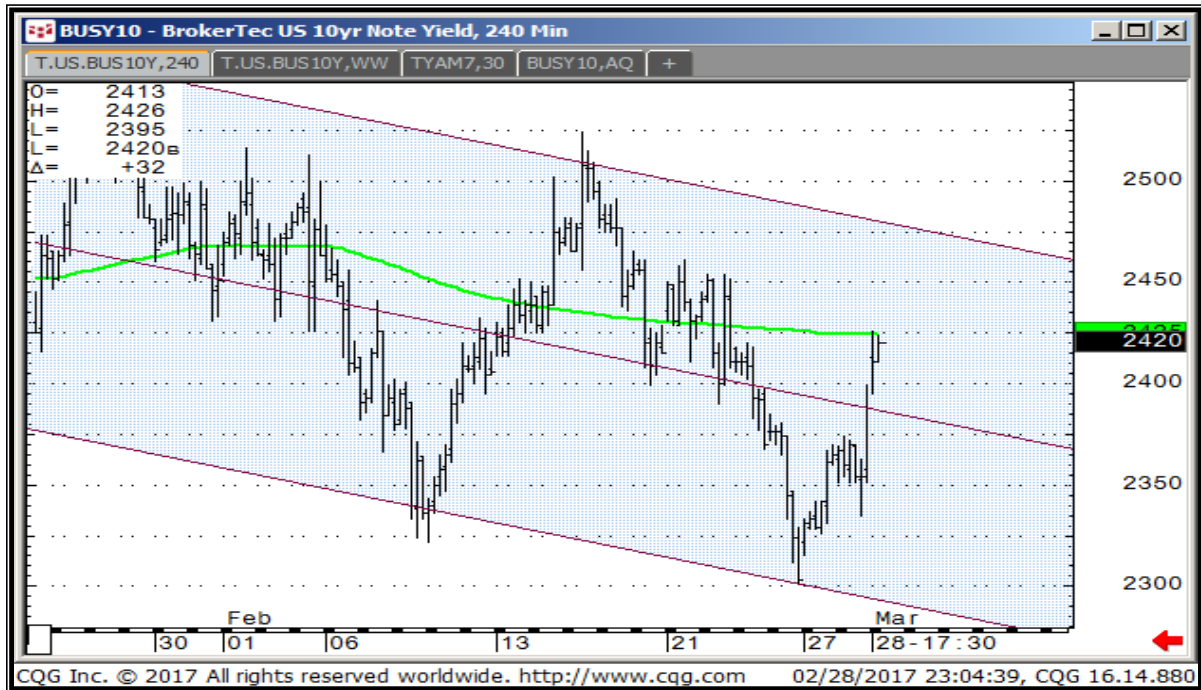
10y30 US treasury yield curve has bounce between 56 bp and 64bp, 56 bp is key



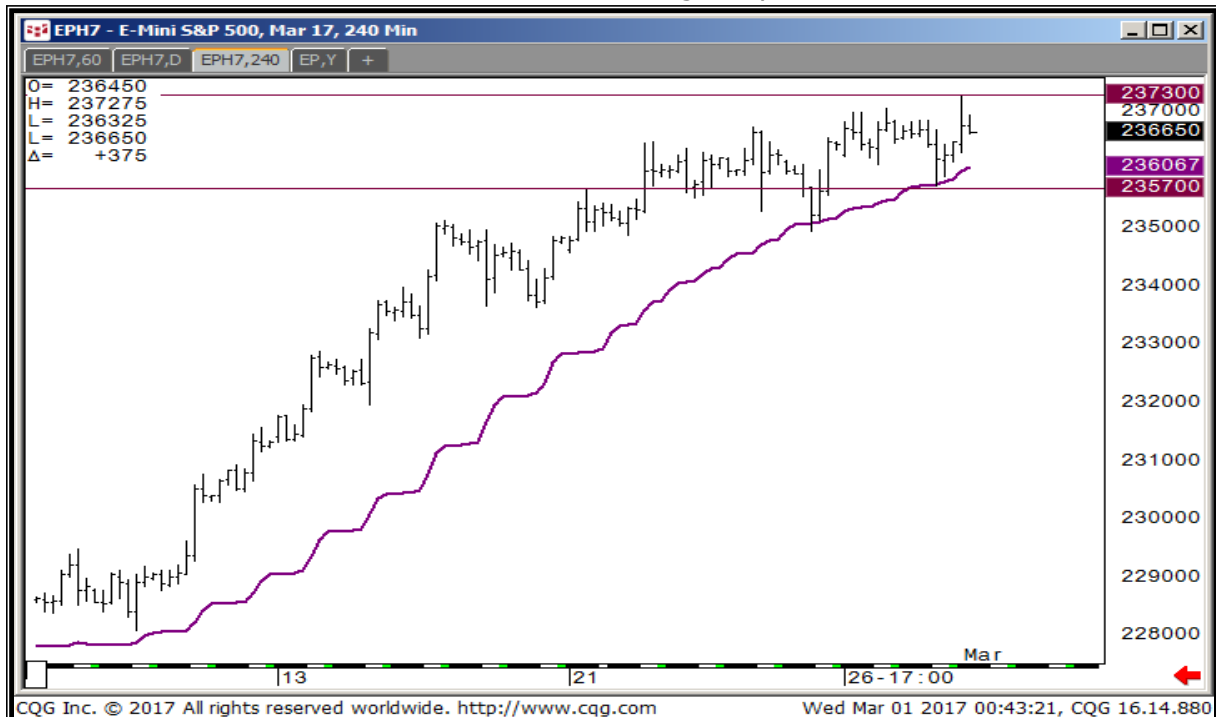
2y30y US treasury yield curve has begun to breakdown



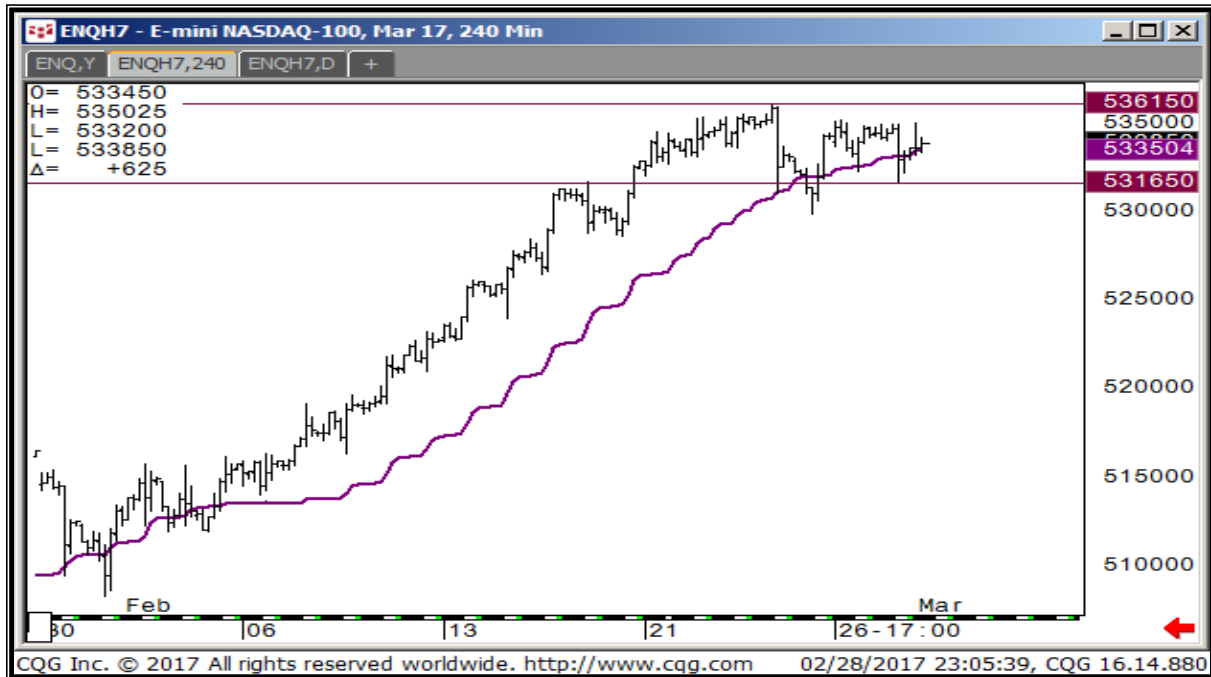
10yr US treasury yields return to 200ma at 2.42% but still within recent trend channel



SP500 trades between 2357/2373 and has defied gravity all month



Nasdaq continues to hug the rising Vwap at 5335



US Long Bond/ SP500 analog chart shows the clear divergence since the election



Ok that's it, Snap Inc. IPO's after the close tomorrow, so let's see if the techs continue to shine or if this marks a change in sentiment. Then there's this we couldn't help ourselves:

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MONEYBEAT

Amazon, Alphabet Race to \$1,000 a Share

By **ERIK HOLM AND KEVIN KINGSBURY**
Feb 8, 2017 1:27 pm ET

and Google's parent company, , are neck-in-neck in the race to \$1,000 per share, but it may not be close for long. Wall Street's enthusiasm for Alphabet is on the rise, while price targets for Amazon have barely budged in the wake of the company's latest earnings

Which kindly reminded us of this old goody from October of 1999 (Yes we remember vividly) We don't mind optimism, but it must be taken with some sense of past reality

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DEALS & DEAL MAKERS

Qualcomm's Shares Surge 31% As Analyst Sets a \$1,000 Target

By **SUZANNE MCGEE** and **RANDALL SMITH** Staff Reporters of The Wall Street Journal
Updated Dec. 30, 1999 8:49 a.m. ET

The sky's the limit these days when Wall Street analysts make predictions on highflying technology stocks.

In the latest stunning example, PaineWebber Group Inc. analyst Walter Piecyk initiated coverage of telecommunications stock Qualcomm Inc. with a 12-month target price for

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2. Democrat Steve Beshear Rallies Party to Protect

Finally we leave you with last week's closes, Bitcoin continues to be a stellar performer up over 10% on the week and up 23.8% for the year, Silver is no slouch either up 14.7% YTD. We love the price comparisons of Bitcoin to Gold, but that is about where that should end. Gold has a market cap around \$7.4 Trillion and Bitcoin around \$19 Billion! That doesn't mean one can't outpace the other in terms of return however! Cheers

24-Feb		Weekly	Weekly	YTD
Instrument	Price/Yield	Net Change	% Change	% Change
US 30yr Govt	2.95%	-8 bp	2.5%	3.3%
US 10yr Govt	2.32%	-9 bp	4.5%	4.8%
US 5yr Govt	1.80%	-11 bp	5.6%	6.4%
MAR Bond	153-07	0'63	1.3%	2.6%
MAR Ten Yr	125-19+	0'29	0.4%	1.1%
MAR Five Yr	118-157	0'182	0.3%	0.7%
MAR SP500	2365	16.5	0.7%	5.8%
MAR DOW	20787	195	0.9%	5.4%
MAR Nasdaq	5343.25	14.5	0.3%	9.9%
MAR Nikkei	19160	40	0.2%	0.6%
MAR Dax	11811.5	76	0.6%	3.0%
Shanghai Comp	3253.43	51.36	1.6%	4.8%
APR WTI Crude	\$53.99	\$0.26	0.5%	-2.4%
APR Gold	\$1,258.30	\$22.30	1.8%	9.0%
MAY Silver	\$18.41	\$0.36	2.0%	14.7%
MAR Dollar Index	\$101.09	\$0.14	0.1%	-1.2%
MAR EURO	105.70	-0.45	-0.4%	0.0%
MAR YEN	89.340	0.75	0.8%	3.9%
Bitcoin (BTC)	1,180.14	113.85	10.7%	23.8%

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