Blowing Bubbles

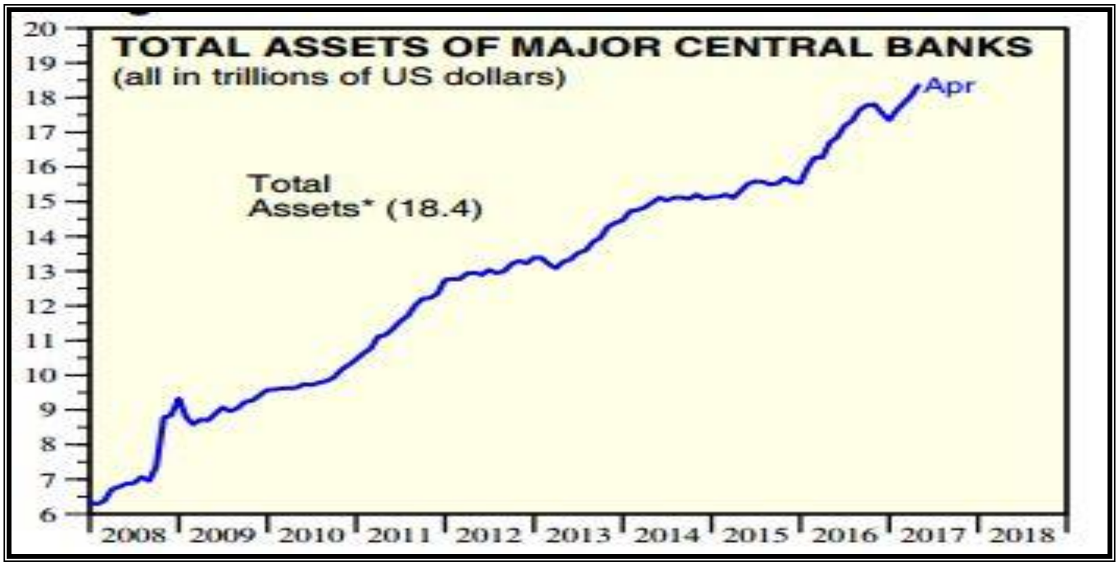
There has been a lot of talk lately as to what constitutes a bubble. Nobody can really tell whether an asset is in a bubble or if it is not. So instead of focusing upon when the train may stop or when the bubble will burst, perhaps it's best to focus upon the data that is driving the move instead. Obviously there are times when something may appear to exhibit bubble status and that is usually when everyone begins to say the top is near or we better bail before it's too late. Generally human rationality exhibits facets of bubbles that may provide us with some insight as to when we may actually distinguish when something is in rare air territory and when it may still have legs to run. They used to say when too many are talking about something the trend is already over and the asset in question has infected so many that they are blind to the reality of what it is they are actually buying into. For instance in the late 1920s the Wall Street types used to say everyone had a tip for them, even the shoe shine boys. Today it seems that everyone is onto the equity markets, yet they continue to rise. So even though the cat is out of the bag, the "Buy the Dip" mentality is still in existence. This means something else is driving the pricing and its certainly not human psychology. Remember more and more AI have displaced investment decision making and thus perhaps the old human mind isn't as relative in distinguishing things as it once was.

Now we are being a bit factitious but there is some truth to the AI movement. Ok enough of the psychology. Let's focus on what we believe is the real rationale behind the markets euphoria and it's the one thing we have talked about time and time again. The pricing of the equity markets are underpinned **solely from the global central banks ability to counterfeit capital at a zero cost**. Now we use the word counterfeit because of two reasons actually, one that is what they are "legally" obliged to do, print money out of thin air and second because the reality of their largesse is artificial and it only creates the illusion of wealth. For some that illusion can be realized and turned into future income producing assets. Those fortunate enough, generally the top 1% closest to the spigot are enjoying wealth appreciation at the **expense of all future consumption and production**. Merely pulling forward earnings and income that would be realized in the future, leaving a future devoid of this outcome.

This is great for the short term and its certainly great for those holding the assets, as for everyone else, well you are SOL and you have been sold down a river that only ends at Niagara Falls. Because throughout time and that's all this is, is a repeat of the oldest trick in the book, that is masking thievery under the guise of the greater good. Hey we hate to say it and most will disagree with our thought process and hey that's ok, as always time will prove our thesis correct, so we don't mind. Enjoy it while it lasts because it never does. Anyway and as this chart here proves, the only things that matter are that Central Banks continue to do two very distinct things:

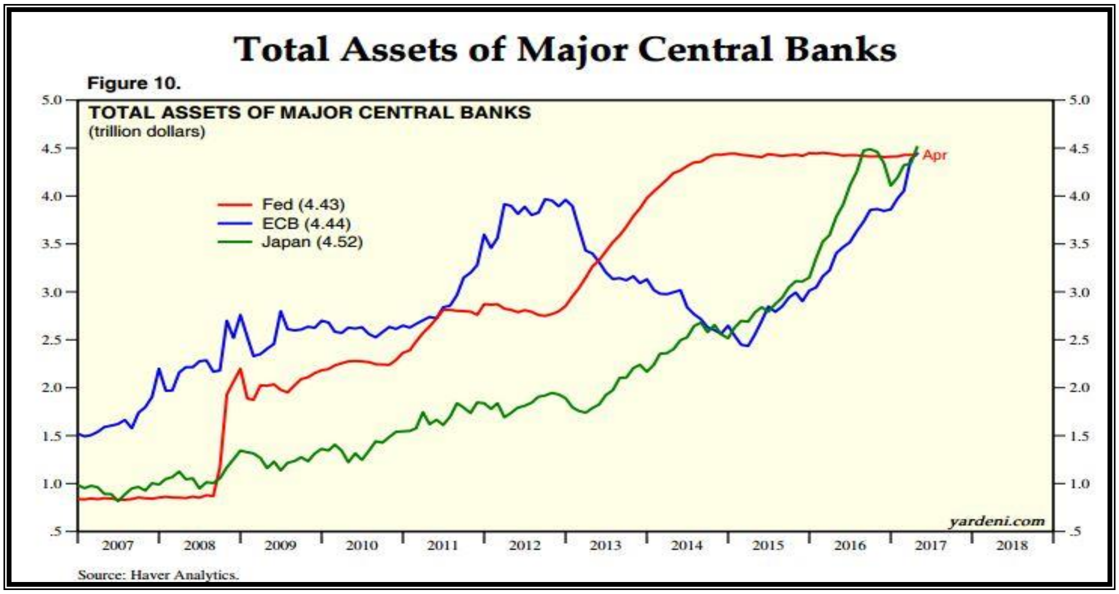
1. Continue to expand their balance sheets.
2. Never and we mean never allow the overnight funding rate or in the Federal Reserve's case the Fed Funds rate to rise above the 10yr yield rate.

So when you look at this chart just think 3x growth since 2008 and when you think of equity markets, well thank the central banks!



We actually feel the later reason (10yr less Fed Funds) is even more important, because in a debt ridden world where money and debt are the same, it's the access to free arbitrage carry that funding assets relies and when that is taken away, well so too is any margin and thus asset prices will fall because of this lack of funding mechanism. Now you can question all this or you guys can go read Modern Money Mechanics found Here , in fact we encourage it, but we will be hard pressed if you didn't draw similar conclusions about our system.

Furthermore we encourage you to view this chart from Yardeni research and Haver. If you think the Federal Reserve operates autonomously, well think again. This is a coordinated global effort and there is no denying that, heck we didn't even include the PBOC on this chart, but as time will tell, they will have a whole plethora of issues to deal with considering the amount of credit they have issued since '08!



Basically in a nut shell the central banks have back stopped, bailed out and brought forward decades of capital that would have been realized in its due course. We aren't sure of the exact consequences yet, and we aren't sure when this experiment will fail, but we can say with 100% certainty, it will not last! Mankind likes to defy gravity, likes to test nature, hell even bend a rule here and there but one thing has stayed constant and that which goes up, most and always does come down. The timing of it all, now that is the art of the trade. Selling this market has become the new widow maker trade and we would never advocate such stupidity. We would much rather opt for reading the tea leaves and the writing on the wall. Right now China is on our radar and their SHIBOR Rate is rising and at the 1yr mark is already above their 10yr rate. Now we don't consider 1 yr funding to be that all important short term O/N rate, so there is still some wriggle room, but as it stands now the O/N rate in China is 2.62% and their 10yr rate is 3.69 so 100bp away, but that can change. We will keep an eye on that. Tighter credit conditions in China could have a systemic effect and it's something we are constantly monitoring. We will also continue to monitor the ECB as they are running into a situation where the available supply of bonds they can buy have dwindled. They are restricted by Article 123 of the Lisbon Treaty, but once again, rules can change. The central banks are merely allowing private enterprise the ability to swap debt assets for real cash and convert it in any way they want. The net effect, greater disparity in wealth, period!

Ok that's what is on our mind this week, we also would like you to dig deeper in the crypto currencies as for some reason, well we kind of already knew, but they are on fire. Talk once again that Bitcoin is a bubble. We have heard this before from the naysayers when Bitcoin hit \$100, then \$200, then \$500, \$1000, yadda yadda yadda, as of this writing its well over \$2000! So do your research, we have done ours and we know that Blockchain technology is the future and like all great inventions, they are met with disdain and discomfort, but eventually adopted and accepted, this will be no different. Weekly Settles below, Cheers!

19-May		Weekly	Weekly	YTD
Instrument	Price/Yield	Net Change	% Change	Change
US 30yr Govt	2.91%	-8 bp	2.8%	4.9%
US 10yr Govt	2.25%	-8 bp	3.6%	7.7%
US 5yr Govt	1.79%	-6 bp	3.4%	7.2%
JUN Bond	153-27	2'13	1.6%	3.3%
JUN Ten Yr	126-06	0'23	0.6%	2.0%
JUN Five Yr	118-207	0'212	0.6%	1.4%
JUN SP500	2381.50	(7.25)	-0.3%	6.5%
JUN DOW	20787	(61.00)	-0.3%	5.4%
JUN Nasdaq	5653.25	(35.75)	-0.6%	16.2%
JUN Nikkei	19695	(125.00)	-0.6%	3.4%
JUN Dax	12636	(129.50)	-1.0%	10.2%
Shanghai Comp	3090.63	7.12	0.2%	-0.4%
JUL WTI Crude	$50.67	2.50	5.2%	-10.9%
JUN Gold	$1,253.60	25.90	2.1%	8.3%
JUL Silver	$16.80	0.40	2.4%	4.7%
JUN Dollar Index	$97.03	(2.10)	-2.1%	-5.1%
JUN EURO	112.21	2.79	2.5%	6.1%
JUN YEN	89.870	1.59	1.8%	4.5%
Bitcoin (BTC)	1,969.02	224.03	12.8%	106.5%

Finally, we will decidedly end our notes with our reaffirmation of the growing need for alternative strategies. We would like to think that our alternative view on markets is consistent with our preference for alternative risk and alpha driven strategies. Alternatives offer the investor a unique opportunity at non correlated returns and overall risk diversification. We believe combining traditional strategies with an alternative solution gives an investor a well-rounded approach to managing their long term portfolio. With the growing concentration of risk involved in passive index funds, with newly created artificial intelligence led investing and overall market illiquidity in times of market stress, alternatives can offset some of these risks.

It is our goal to keep you abreast of all the growing market risks as well as keep you aligned with potential alternative strategies to combat such risks. We hope you stay the course with us, ask more questions and become accustomed to looking at the markets from the same scope we do. Feel free to point out any inconsistencies, any questions that relate to the topics we talk about or even suggest certain markets that you may want more color upon.

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