



# The Monetary Interventionist Wildcard & Start Of A Deeper Corrective Process

## Portfolio Attribution

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Stirling Larkin, CIO

Hope is not only a bad investment strategy, it is also in the words of Nietzsche, the worst of all evils because it prolongs torment.

April's extraordinary Risk Asset rallies – which saw the best monthly performance since January 1987 for the DJIA and S&P500 and the best April for US Risk Assets since 1938 – are not hopeful signs of troubles nearing a conclusive end but rather a reopening of an all too familiar institutional playbook, which sees Risk Assets artificially and very temporarily propped back up, so that the institutional powers-that-be may offload their positions before allowing gravity to take over the reins.

The currently conspicuous institutional playbook is attempting to ratchet up S&P500 price levels towards the 3,000 strike, before allowing more natural 'Price Discovery' processes to take over.

This playbook was last notably seen in 2007, following the April 2007 Credit Crunch fall, when, over the coming ten months, institutional market participants actually propped and pushed up US Credit Markets, before allowing them to cave-in and tumble in March 2008, when the prolonged afflictions were allowed to reign that day.

Cite:- [The Global Investor Circular April 2020 Edition](#), 13 April 2020

Not only are these dangerous grounds to stand upon pro tem, they delay the deeper corrective processes that are required by global investors whom are reassessing the state of the actual economy, earnings risk and the potential revaluation of markets inferred above.

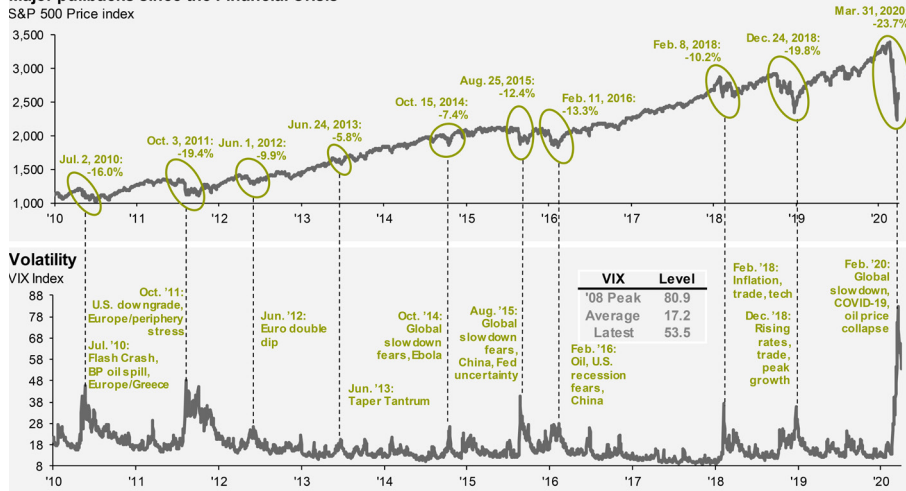
The longer global investors are at a trouble, the more complicated it becomes to ascertain risk via proximations of volatility gauges and despite the fact that cross-asset volatility has begun to normalise in April, there has been concerning asymmetry and large divergences between equity, credit and commodities implied volatilities, which immediately affect rate markets and foreign exchange spreads.

All of this can be surmounted and navigated by the well informed and savvy global investor, however, what cannot be forebode is the erratic and tenebrous musings and unheralded actions of Central Banks, and most importantly to the global investor, the US Federal Reserve specifically.

Cite:- ['End The Fed'](#), 24 September 2019

While Global markets and developed economies central banks continue to march lockstep with the US Federal Reserve

Major pullbacks since the Financial Crisis



Source: CBOE

during the Great Corona Crisis, it becomes material that their jawboning dictates almost every movement in the entire US economic system through the domination of financial asset prices and pegging of interest rates across the entire yield curve.

In economic science, this is referred to as the Crowding Out Effect.

Cite:- [Surviving The US Federal Reserve's Monetary Policy Rollercoaster](#), 21 March 2015

Cite:- [Fed Rate Rise Talk Puts Focus On Fixed-Income Markets](#), 21 November 2015

Cite:- [Discussing 2015 US Investments](#), 5 March 2015

The great unknown and variable that cannot be computed by any of us is how, when and even will the US Federal Reserve enter new and previously unentered asset classes or capital stack segments – for example, Corporate Investment Grade (IG) bonds market segments vis-à-vis High Yield (HY) or Junk grade subsets – and this unanswerable question remains, not only as a wildcard but also as an immediate and dangerous risk in and of itself.

Cite:- [Cheating, On Cheating, On Cheating: Maintaining Portfolio Quality In The Era Of Cheating](#), 13 March 2020

It does not help that the former Chair of the US Federal Reserve, Janet Yellen, entered the public fray by suggesting that the US Federal Reserve does not need to buy equities however the US Congress should reconsider allowing it.

This overstep was double-downed when US Treasury Secretary Steven Mnuchin, on Friday, 24 April, touted the idea of the US Federal Government nationalising scrip in US listed energy companies to bulwark the WTI oil shock.

Not only will the Crowding Out of the private sector by the US Government, cripple the capital markets' price signalling mechanism and bring innovation and

productivity growth to a halt, it purposely blinds conservative asset allocators and rationale participants from determining where to prudently allocate next, given the new spasmodic behaviour of the US Federal Reserve to enter private markets in new categories in questionably extralegal programmes – given that US Congressional legislature has not been written ahead of time or made public.

In early March, the balance sheet of the US Federal Reserve was US\$4.2 trillion and once March Madness and the Corona Crunch hit, the Reserve ceased Quantitative Tightening, or QT and attempted normalising their balance sheet impairments and as at 1 May 2020, that balance sheet today sits at US\$6.2 trillion.

Over thirty-eight days, the US's central bank printed US\$2 trillion of additional balance sheet, twice the amount printed during the Federal Reserves' first ninety-five years of operations, beginning on 23 December 1913.

Despite no Investment Grade (IG) corporate or agency bonds having yet to be bought by Blackrock on behalf of the US central bank, it is both widely thought and accepted that they will and moreover this remit will extend in May 2020 to include on-market equities, in caches and tranches yet undisclosed.

Elevating temporary financial expedience over the long run health of the US economy is not only a dangerous strategy, it prolongs torment and worse still, tricks individual global investors into chasing faux Risk Asset rallies which are only deemed to stall, implode and obliterate.

There's no clever ending, other than to say end the cheating, the lies and the Federal Reserve itself. ■

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