Markets to Masses: *Shuv It!!*

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Commentators in the financial pages are strangely unnerved (or is it shame and embarrassment?) by investors delight in the state of the economy. With millions of workers laid off; an unemployment rate of 19% (27% using the U-6 rate that includes discouraged workers) and millions of Americans in lock down because of the pandemic. With more than 100,000 dead and an estimated 43,000 more before the end of the month. And with the nation in a growing upheaval approaching a pre-revolutionary situation because of another made for TV murder of a black man by a racist cop, the investor class continues to sing, *nearer my mountain of wealth I be,* as the earth beneath their feet liquefies.

On Friday the markets finished with the most absurd burst of the week. May came to an end with a 'surprising' 2.5 million increase over job losses. This is a fine example of how forecasts by market shills and touts serve as a cue to buy. They predicted a further 12.5 million decline in jobs despite the fact that more than half of the states have begun opening up their economies. That means people going back to work. It's said that most of those are in the service section; restaurant workers and the like. A far cry from industrial laborers which would signify an improvement in production.

Another market stimulus was the $1.8 trillion CARES (Coronavirus Aid, Relief and Economic Security Act). 25% ($454 billion) to be handed over to the Fed to patch up holes in the economy. That sum will be leveraged up by a factor of 10 to $4.54 trillion. There it will be split up into packages used to be leverage up in Special Purpose Vehicles, and there to clean up Wall Street failures. The original $454 billion will be absorbed (consumed) never to be returned to taxpayers. Corporate bonds that banks won't touch will be purchased. More will be corporate bonds in the secondary market and Exchange Traded Funds. Much of these bonds will be junk. Another leveraged $100 billion will be used as loans to buttress questionable asset backed securities. $100 billion for the purchase of commercial paper that banks won't buy. $100 billion for money market funds with weak paper that can't be rolled over. $600 billion for loans to businesses. $500 billion of aid to states and municipalities. With such a plethora of gifts from the taxpayer, why shouldn't investors be tickled rich?

-- The Fed created a Primary Dealer Credit Facility in 2008 to provide overnight loans to troubled firms in exchange for reliable collateral. That incarnation of the PDCF ended in 2010 when the worst of the GFC was deemed over. In March of this year it initiated a new PDCF to deal with GFC2. The current crisis has brought forth a mountain of overdue and unpayable debt. Many well known firms are bankrupt: Herz, Neiman-Marcus, J. Crew, JC Penney, Barney's, Payless Shoes. S&P Global Market Intelligence reported that the amount of defaulted

leveraged loans increased 270% in the past 12 months; the most since early 2010. Investment in leveraged loans are in the form of Collateralized Debt Obligations. The more troubled leveraged firms become, the more financial risk they pose, and the less effective the collateral will be should they default on loans. As risk increases holders must seek out solid collateral like treasuries which are hard to find in a slumping economy. But not to worry because the Fed views risk-taking investors like children learning to walk. Should they appear about to fall the Fed is there to give them a parental helping hand. For that reason they have added CLO's to the list of paper junk that they are buying. Currently they are holding $9 billion in lousy leveraged loans backed by $10 billion in shaky collateral. But it's safe there because they can't really fail after being dumped into the Fed's black hole.

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