How This Bull Market Ends

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PARIS – Whoa!

Bitcoin is up $1,457 since the start of the month; at writing, one bitcoin sells for $5,670.

Look at the Dow. It is on its way to 23,000.

And don’t even mention the tech darlings – Facebook, Apple, Netflix, Amazon, Google, Tesla, Snap, etc. (More on the r
in today’s Market Insight below.)

Amazon – which we dubbed the “River of No Returns” – continues to amaze us.

It’s taken profits from traditional retailers – and helped bankrupt dozens of mall tenants – without generating any retail p
itself.

But Amazon’s share price continues to rise. It is up almost 35% this year to more than $1,000.

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Reflation Trade

What’s driving this? Where is all this money coming from?

Not from economic growth. GDP growth in the U.S. might hit 2% this year.

And as we have already explored in these pages, the latest and greatest technology breakthroughs seem to have done
boost real wages, output, or productivity – all of which are punky.

So, where is the buying pressure coming from? From politics?

On the eve of Donald Trump’s election almost a year ago, the Dow fell to 17,400. Then when the votes were counted a
announced, it promptly rose 254 points.

“Wall Street Doesn’t Fear Donald Trump,” was the line news the following day.

Since then, it has been a lovefest – with stocks up, up, up. The Dow above 22,000 today… perhaps 23,000 tomorrow.

Why?

It was supposed to be the "reflation trade."

"The Donald" was supposed to cut taxes and increase government spending. Business was supposed to boom with les
and a lower corporate rate.

The only part of that that has happened so far is the increased spending part. The Pentagon budget has gone up. Noth

Consumer price inflation – as measured by the Bureau of Labor Statistics – remains below expectations… and below th
target of 2%.

Hiding her disappointment, Fed chief Janet Yellen says she will go a with her plan to gradually increase short-term inte
and unwind QE by allowing the value of the bonds on its balance sheet to shrink.

If she continues with this plan… and other central banks follow suit (as they are wont to do)… the bubble will find its lon
pin.

Because as near as we can tell, the real source of the bull market is neither economic growth… nor technological wizar
politics.

Instead, it's more cash and credit made available by the finance arm of the Deep State: central banks.

Whatever It Takes

The Fed ceased its QE program – which saw it buy government bonds from private hands in return for newly created ca
years ago.

But other central banks kept at it…

The European Central Bank (ECB) continues to buy €60 billion ($71 billion) of government and corporate bonds a mont
QE program. It has also pushed short-term rates into negative territory.

And under its QE program, the Bank of Japan has vacuumed up 40% of all Japanese government bonds and a breatht
of all Japanese exchange-traded funds (ETFs).

Typically, there is a big gap – or "spread" – between the yield you can get from lending to the U.S. government (the wor
credit) and lending to junk-rated companies (which carry relatively high risks of default).

As measured by the Bank of America Merrill Lynch Euro High-Yield Index, in 2008, investors demanded a 25% yield be
were willing to buy Europe's junk bonds.

They understood that many of Europe's least creditworthy companies would have a hard time paying their debts. But no
10 years later… their fears have drowned in a flood of liquidity.

As of this morning – with ECB President Mario "Whatever It Takes" Draghi at the pumps – you can earn all of 2.2% fron
junk bonds. On a 10-year Treasury, you will get 2.3%.

In other words, some of the world's riskiest bonds are more expensive than its least risky bonds. Go figure.

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Pin and Bubble

What we figure is that the ECB has been pumping a lot of money into the bond market to drive prices up and yields down.

But Europe isn't the only place where debt runs wild and markets run helter-skelter. China is racing the U.S., Japan, and Europe to see which can blow itself up first.

And China is winning!

Since 2009, Chinese debt has tripled, from $9 trillion to $27 trillion. And it shows no sign of stopping. Instead, the International Monetary Fund says it will double again in the next five years – to $54 trillion.

Our guess is that the pin and the bubble will get together before that. But the point we are making today is that U.S. stock and bond prices do not sit solidly on the dour rock of real sales and earnings.

Instead, they dance to the same tunes and drink the same champagne as Europe's hopeless junk bonds and China's dead-end property developers.

Even in the U.S., the Fed's target interest rate is 1.15%. The Bureau of Labor of Statistics says prices are rising at a 2.2% annual rate.

That means favored institutions can still borrow at half the rate of inflation. The Fed's key rate has been negative, in "real" (inflation-adjusted) terms, for so long that the capital markets are awash in cash and credit. Now, it's like rain on a flat roof looking for a hole.

Liquidity carries no passport. It goes where the music plays and the liquor flows. But when the bubble pops and the party ends (which it surely will), it will go back whence it came, down some hole – to nowhere.

Tomorrow… more dots come together… the real reason Mr. Market put on a party hat when Mr. Trump was elected… and more…

Regards,