

**BOB HOYE****PUBLISHED BY INSTITUTIONAL ADVISORS****MARCH 23, 2016**

## **Love the Smell of Bazookas in the Spring**

Of course, "Bazooka" has been a term used by the establishment to describe extraordinary easing by a senior central bank. The actual term dates back to World War II when it described a shoulder-held anti-tank rocket launcher.

It was very effective as a weapon, but as a tool of monetary policy it seems to work only in the spring of the year. And definitely not in the fall.

Credit markets reversed to adversity in May-June 2007. The first casualty, Bear Stearns, was discovered early in that fateful month and the Fed hyped up massive easing. So far as any researcher can determine this continued through the 2008 Crash.

The record by the establishment touches the absurd.

In December 2007, which was the start of the worst contraction since the 1930s, a highly regarded economist boasted that nothing could go wrong. The Fed had a "dream team" of economists. Less than two years later, the establishment was boasting that without their massive efforts the contraction would have lasted longer.

Those that said a contraction was impossible then boasted that it would have been worse. It reveals a culture without the ability of self-criticism.

Similar examples exist as the 1929 and 1873 Bubbles collapsed.

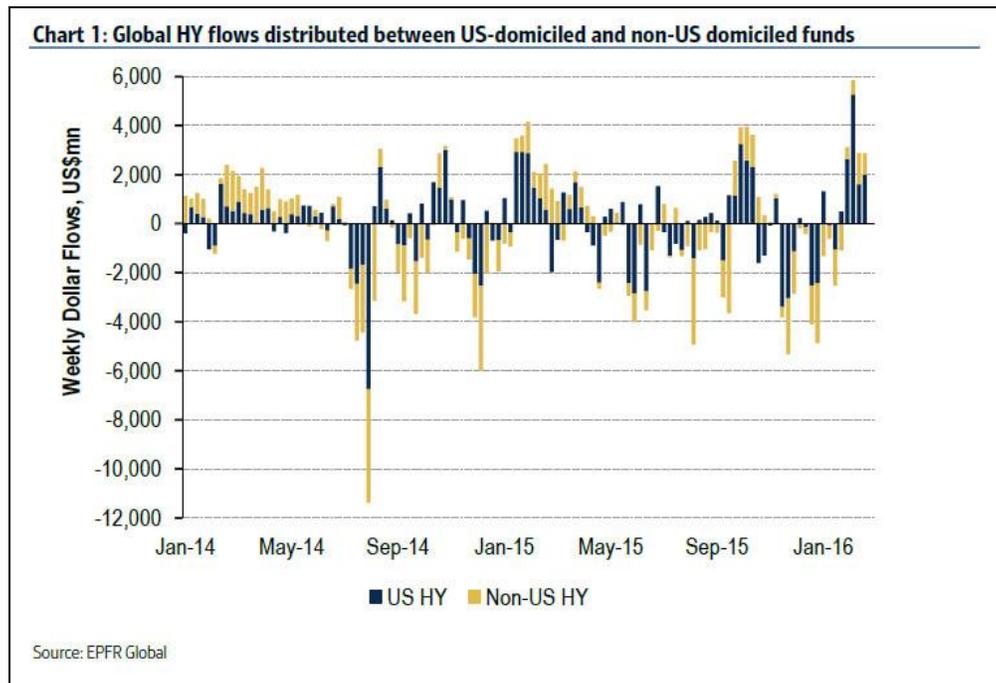
The seasonality of severe contractions is that they happen in the fall. That's on evidence back to the horrors of 1346.

Outstanding buying frenzies have occurred in the spring of the year. This makes artificial and arbitrary easing look effective.

The Netherlands became world's financial center in the 1500s and Dutch traders had very descriptive terms. "Easy" credit is always followed by "Diseased" credit.

Another phase of the latter began in June 2015 and the relief since February has been outstanding.

Indeed, as Bank of America reported last week, retail buying of High-Yield reached "largest ever for a 4-week span for the asset class". \$11.2 billion worth of junk seems like a buying frenzy.



In the "Sensational Season" what's next?

A buying frenzy at this time of year can expire soon. JNK and HYG have accomplished impressive swings from oversold to overbought. Last week's Special on Municipals noted a number of technical excesses.

Lower-grade bonds have generated a good return and are now vulnerable.

Perhaps the Bazookas have expended their seasonal supply of ammunition?