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BOB HOYE

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"Giving Credit too easily"

Signs of The Times

"Simply put, investors are betting that absolutely nothing can go wrong."

– CNN Money, February 22.

"Investor and Retirement Optimism Index in First Quarter Up 30 Points."

– CNBC, Wells Fargo/Gallup, March 23.

"The delinquency rate for subprime auto loans is at the highest level in at least seven years."

"Banks are pulling back, and newer players with looser lending standards are stepping in."

– Business Insider, March 27.

"Talk about risk-on: The demand for higher-yielding securities is proving so strong that Papua New Guinea, one of Asia's poorest countries, is contemplating a debut issue of dollar bonds."

– Bloomberg, March 28.

"Emerging market countries sold record levels of government debt in the first quarter. Up 48% from last year."

"Corporate bond sales by companies in developing counties also surged, rising 135%, year on year."

– Financial Times, March 30.

"Global M&A volume reached $705 bn YTD, surpassing $700 bn in 2007."

– Dealogic, March 21.

"Americans haven't been this upbeat about the stock market since January 2010."

– Bloomberg, March 28.

Perspective

The key line is about banks pulling back and "new players with looser lending are stepping in". This reminds of the culmination of the 1772 Bubble. The Ayr Bank was newly formed and became an aggressive lender in the final stages of that mania. The partners were out to show the older banks what the world of new finance was all about. The collapse ruined most of its investors and became a subject in Adam Smith's book, The Wealth of Nations. An inquiry completed in 1777 listed some reasons for the failure. One was "giving credit too easily".

As with most great bubbles, that one climaxed in June and then the contraction started. As usual, the panic got underway in late September and cleared in November. The post-bubble contraction ran the usual twenty years.

For new readers, the great bubbles completed in 1720, 1772, 1825, 1873, 1929 and 2007. All had common characteristics and consequences.

And Papua New Guinea—it was only a few decades ago when the national pastime was headhunting. The key concept in the proposed issue is "dollar bonds", due and payable in New York in dollars.

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Stock Markets

For some reason, the song *Up Up and Away* comes to mind. It was a big hit in 1967 by a group called the Fifth Dimension. The lines include ***"My beautiful, my beautiful balloon"***.

https://www.youtube.com/watch?v=5akEgsZSfhg

That was close to the peak in the stock market as deflated by the CPI. That bear market ran until 1982 when in painfully abandoning "inflation", the world discovered inflation in financial assets. With some violence, this has continued. But it seems that inflation in Treasuries blew out in July and inflation in junk bonds and equities is in full bubble mode now.

This page had reckoned that whatever was bothering the markets would clear in October. On November 3rd, the *ChartWorks* noted a Downside Capitulation on the S&P.

We began to describe the rally as "Rational Exuberance", due to a pro-business administration and thought it could run into March.

Considering the developing technical excesses in February, we dropped "Rational" and just called it "Exuberance".

Two weeks ago, we noted that industrial commodities could be firm into April-May, which would help credit spreads and equities.

Also with dropping "Rational" we noted that a Big Rounding Top was possible.

A recent discovery has been that low-grade stuff such as HYG would soar up to a Daily RSI and the stock market would peak some three weeks later. The key examples were 2000 and in 2007. At a lower level, the link worked on the rebound to May 2008.

The RSI reached 77 on February 27 and the S&P set a pop-up high at 2400 on March 1st. The next high was 2390 in the middle of the month. Close enough to consider that this "model" could be effective.

As a wrap to the potential rollover, NYSE Margin has been going straight up. The report is always a month behind, but the first downtick with a MACD Sell could conclude that the bull market is over.

Within the senior indexes, some individual stocks are clocking technical excess. Last week we mentioned some names that were standing out. This week, we can add Amazon, which has accomplished super technical excesses (Chart follows).

The way to wrap this up, is that there is a seasonal positive into May. But if the S&P, base metals and HYG slip below their 50-Day moving averages it says that the party is getting tired.

The nature of the party has been intriguing. Following the natural rise in market rates of interest, the Fed has been forced to increase its rate – in a not-strong economy. In becoming speculative, the boom in financial assets has been forcing short rates up since June. Makes sense to us. Especially when we keep in mind that rising quality short rates, such as T-Bills, indicate the boom is on. When shorted-dated market rates of interest decline it indicates the party is ending.

And the conduit of this kind of a boom has been banks and financials. Particularly, the Broker-Dealers which highs have led the highs in the senior indexes. The index is at 210, and the 20-Week ema is at 209.9. Taking it out would be significant. The chart follows.

By way of a wrap for this sector, there is the usual positive seasonal going into May when a speculative market can expire. Often this relates to a key reversal in credit spreads and the yield curve. This has become an exciting stock market that has pushed technical and sentiment measures to exceptional readings. Like a tattoo, these are indelible and it is worth recalling that the tattoo machine does not have an eraser.

At this season of the year, how does Mother Nature treat such excesses?

By a significant liquidation of unsupportable positions.

Funds may be holding investment-grade stocks, but market forces have driven them to speculative prices.

In the past, after such seasonal excesses Mother Nature has arranged for seasonal lows in the fall.

Credit Markets

The long bond (TLT) rallied to 121.87 at the first of the month. This is the fourth attempt to get through 122. This could trade around the 120 level for some weeks. There is support at the 50-Day ma at 119.50. Getting through 122 is possible, but it could take into June.

Two weeks ago, we noted that lower-grade stuff (JNK) could recover for a while. The swing on the Daily RSI from overbought to oversold was impressive.

There is support at the 50-Day ma at the 87 level. It could get to 88, but we are concerned that after June low-grade bonds could turn down.

With a rally possible in TLT, this could move spreads to widening.

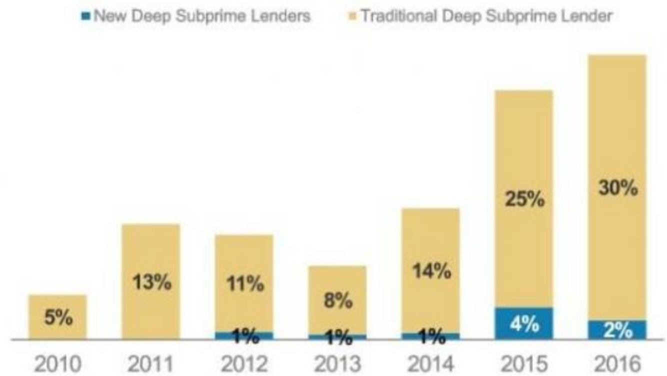
Link to April 7, 2017 Bob Hoye interview on TalkDigitalNetwork.com:

http://www.howestreet.com/2017/04/07/small-business-at-same-enthusiasm-as-2000-dot-com-crash/

BOB HOYE, INSTITUTIONAL ADVISORS
E-MAIL bhoye.institutionaladvisors@telus.net
WEBSITE: www.institutionaladvisors.com

Subprime Lending

Exhibit 6: Deep Subprime (Weighted Average FICO <550) share of annual Subprime Auto ABS deals

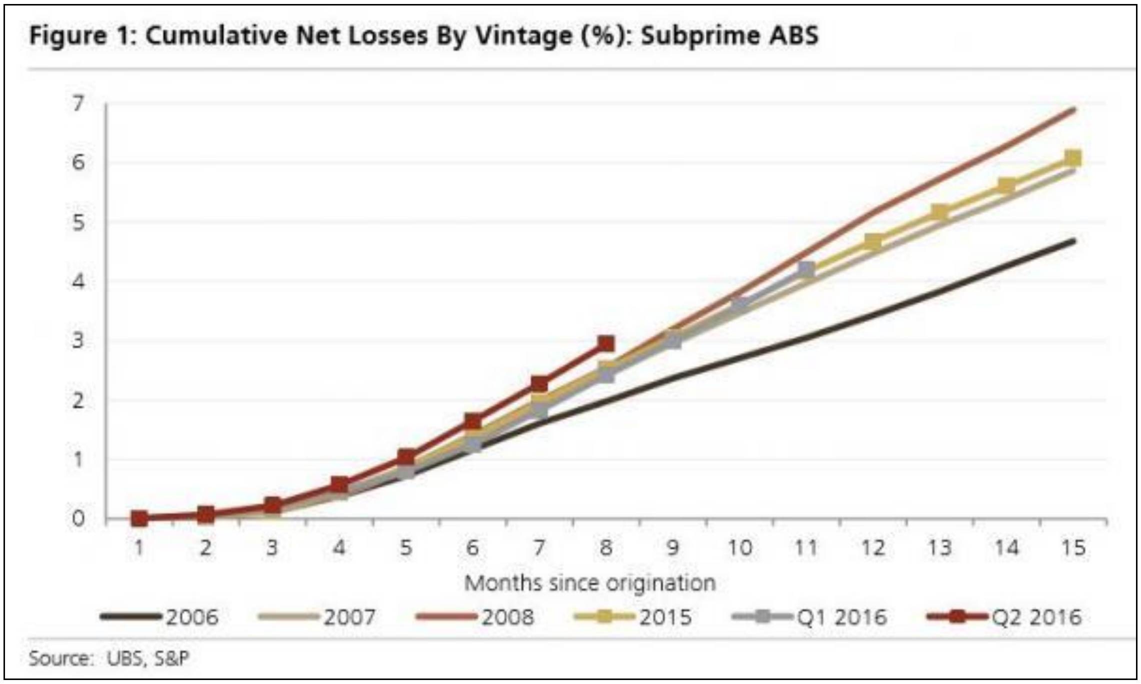


Source: Rating Agency Reports, Bloomberg, Morgan Stanley Research

Of course, so far negative equity hasn't been a problem for car buyers because lenders have been all too willing to roll those debt balances into new loans. **And, courtesy of low rates and stretched out terms, consumers haven't really cared that their debt balances are ballooning so long as their monthly payments remain low.**

Source: Morgan Stanley, Zero Hedge

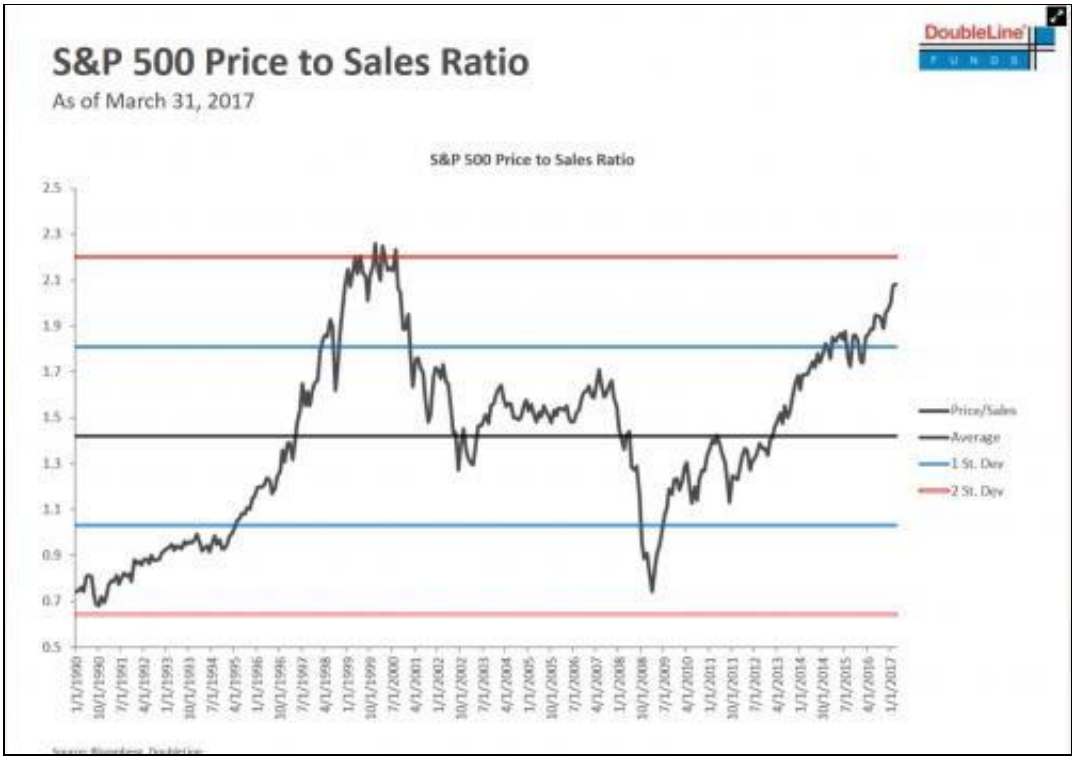
Auto Subprime Default Rates



Source: UBS

- The current cycle of failures is rising faster than in 2008.

Valuation

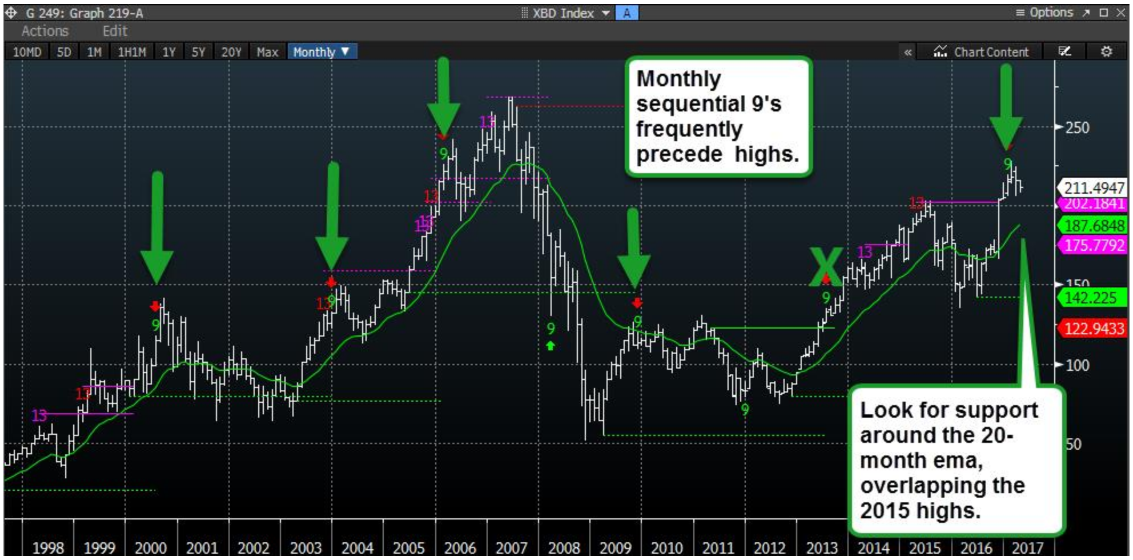


- Approaching 2 standard deviations beyond the mean.
- Not seen since the bubble that climaxed in March 2000.

Amazon
Huge Upside Exhaustion and Sequential Sell

- The readings are in Hourly, Daily, Weekly and Monthly.
- One dimension above a “Trifecta Sell”.

Broker-Dealers (XBD)



- Sequential (9) Sells have preceded important highs.
- Highs for Broker-Dealers can precede the peak for the senior indexes.