

*Weekend Reading:*

**Why Rates Are Still**

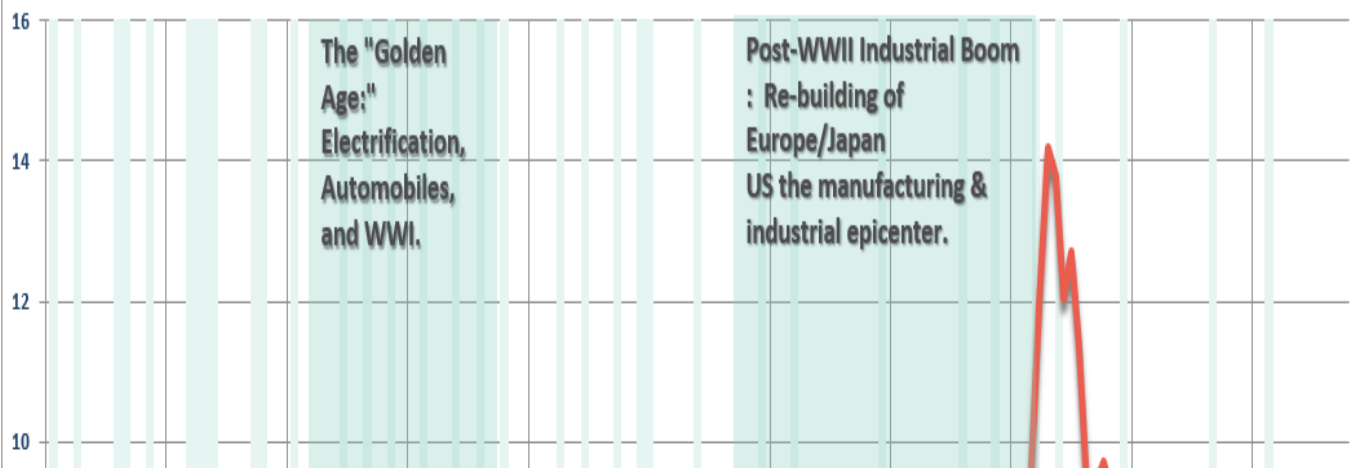
**Going To**

**0%**

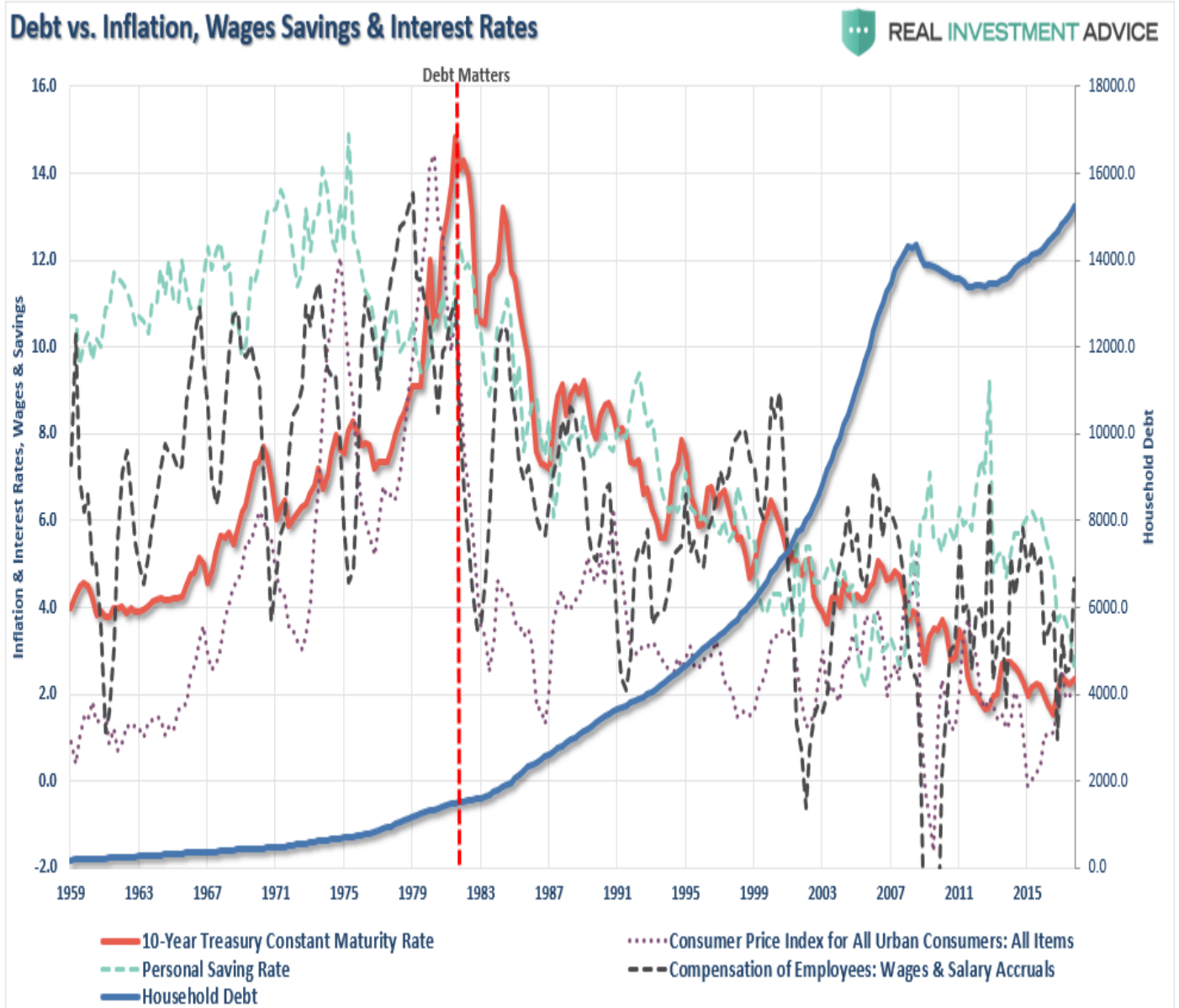
Just recently, I was accused of *"quietly abandoning"* my belief that rates are ultimately headed toward zero. **Nothing could be further from the case particularly as the recent rise in rates is accelerating my base case.** The chart below, which tracks rates back to the late-1800's shows, that rates can, and do, remain low for extremely long periods of time.

### Interest Rates Can Remain Low For A LONG Time

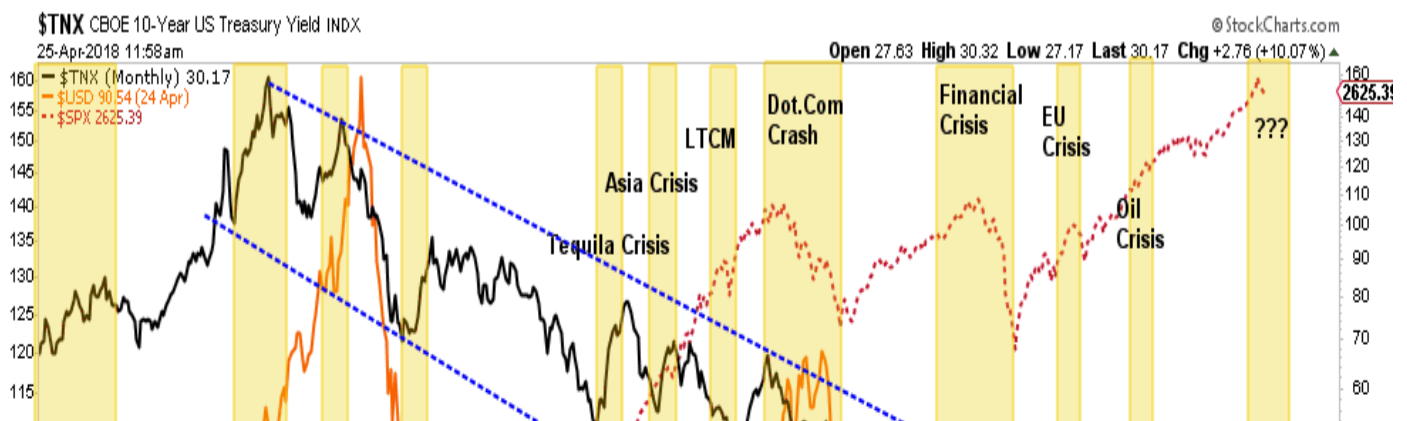
REAL INVESTMENT ADVICE



Rates are ultimately directly impacted by the strength of economic growth and the demand for credit. **While short-term dynamics may move rates, ultimately the fundamentals combined with the demand for safety and liquidity will be the ultimate arbiter.** What is clear is that the rise in rates in the 60-70's was combined with rising inflationary pressures driven by rising wages and ultimately economic growth. It was also a time where very low indebtedness allowed rates to rise without a severely negative consequences.



With households, corporations, the government and investors more levered today than ever before in history, the rise in rates is the "fuse" that will eventually ignite the next major reversion. **As I discussed yesterday, that epicenter of that reversion will be pension funds.** When the \$4-5 Trillion in required bailouts for pension funds begin, not to mention potential bailouts of mortgages, auto loans, and student loan debt, the demand for Treasuries will surge sharply driving rates lower once again. **The next rounds of Quantitative Easing will dwarf what we have witnessed over the last decade.**



What is clear is that sharp increase in interest rates, particularly on a heavily levered economy, has repeatedly led to negative outcomes. **With rates now at extensions only seen in 7-periods previously, there is little room left for rate acceleration before such an outcome spawns.** Given that such negative outcomes have always led to lower future rates, this time is unlikely to be any different. The only question is the timing, and as they say, *"timing is everything."* But don't dismiss my recent quietness on rates as a change of attitude, actually we remain heavy buyers of bonds every time rates hit overbought levels. However, while I am fairly certain the *"facts"* will play out as they have historically, rest assured that **if the "facts" do indeed change**, I will gladly change my view. **Currently, there is NO evidence that a change of facts has occurred.** Just something to think about as you catch up on your weekend reading list.

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## Economy & Fed

- Oil Prices Release Gusher Of Nonsense [by Caroline Baum via MarketWatch](#)
  - Markets Must Prepare For Stagflation [by Danielle DiMartino-Booth via Bloomberg](#)
  - Reform Entitlements [by National Review](#)
  - **CBO's Budget Analysis Paints A Grim Picture** [by Committee For A Responsible Federal Budget](#)
  - Building More Highways Won't Reduce Traffic [by Scott Sumner via The Money Illusion](#)
  - Looking Past Slowing Global Growth [by Edward Harrison via Credit Writedowns](#)
  - Ignoring Wealth Gap Isn't Economically Sound [by Patrick Iber via The New Republic](#)
  - Spending Never Gets Blamed For Deficit [by J.T. Young via Washington Times](#)
  - Dems' Get A New Plan - Socialism [by IBD](#)
  - A 1990 Playboy Interview Explains Trumponomics [by Jibran Khan via National Review](#)
  - **Don't Worry About Recession, Worry About The Fed** [by Matt O'Brien via Wonkblog](#)
  - Do Tax Payers Know They Are Handing Out Billions To Businesses? [by Nathan Jensen via NYT](#)
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## Markets

- ECB Launches A Stealth Taper [by Tyler Durden via ZeroHedge](#)
  - **The Most Important Chart Of The Century** [by Shawn Langlois & Jessica Shaw via MarketWatch](#)
  - Fed Is Behind, Still Screwing Up [by Tom McClellan](#)
  - Trump's Stock Market Looks Like Reagan's [by Keris Lahiff via CNBC](#)
  - Why Are Investors So Afraid Of Bonds? [by Mark DeCambre via MarketWatch](#)
  - Have Investors Given Up On Bull Markets [by Luke Kawa via Bloomberg](#)
  - **Yes, It's A Bubble. So, What?** [by Rob Arnott via Research Affiliates](#)
  - Is Diversification A Free Lunch? [by Gary Mishuris via Enterprising Investor](#)
  - Amazon Baffles Investors With BS [by Shira Ovide via Bloomberg](#)
  - The Real Message Of The Yield Curve [by Conor Sen via Bloomberg](#)
  - Reminiscing On Reminiscences Of A Stock Operator [by Seth Levine via The Integrating Investor](#)
  - Where Did All The Dip Buyers Go [by Brian Maher via The Daily Reckoning](#)
  - Key Trendlines Are Being Tested [by Dana Lyons](#)
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## Most Read On RIA

- **Analyst Estimates Go Parabolic, Are Markets Next** [by Lance Roberts](#)
  - **5-Indicators To Watch** [by Lance Roberts](#)
  - **Nowhere To Hide** [by Michael Lebowitz](#)
  - **Investors Must Be Their Own Fiduciary** [by Richard Rosso](#)
  - **Smart Money Is Bullish On The Dollar** [by Jesse Colombo](#)
  - **Pension Crisis Is Worse Than You Think** [by Lance Roberts](#)
  - **See A Bubble, Get Out Of The Way** [by John Coumarios](#)
  - **The Return Of The Bond Vigilantes** [by Doug Kass](#)
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## Research•/ Interesting•Reads

- **An Orderly Unwind Of Market Leverage** [by Wolf Richter via Wolf Street](#)
  - **More Couples Keeping Separate Bank Accounts** [by Caroline Kitchener via The Atlantic](#)
  - **The Great Exodus From Blue Cities Accelerates** [by Kristin Tate via The Hill](#)
  - **Debt-Enabled Bubble Crashing Into Demographics** [by Danielle Park via JugglingDynamite.com](#)
  - **More Than 50% Of Americans At Risk Of Retiring Broke** [by Katie Brockman via Motley Fool](#)
  - **New Homes Have Never Been Less Affordable** [by Ironman via Political Calculations](#)
  - **18-Failed Predictions Since 1st Earth Day** [by Mark Perry via AEI](#)
  - **The Greatest Two-Year Cooling Event Just Happened** [by Aaron Brown via RCM](#)
  - **How Not To Run Out Of Money In Retirement** [by Liz Weston via LA Times](#)
  - **Where Alpha Really Comes From** [by Michael Harris via Price Action Lab](#)
  - **Gender Pay Gap? Not In The Corner Office** [by Andrew Ross Sorkin via NYT](#)
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***?The individual investor should act consistently as an investor and not as a speculator." - Benjamin Graham***

Questions, comments, suggestions ? please [email me](#).