Dear client,

I am sending you a special report written by my friend and colleague, Chen Zhao, at Alpine Macro. Many of you may remember him when he spoke at our summer investment conference a few years back. This report is easy to read, not complicated, and not full of economic jargon. However, it is important in the regard that the article puts today's speculative bubble in perspective.

Bubbles can go on for a long time, even defy rationality and common sense. However, from my research and that of Chen's, bubbles have one common enemy: a sustained rise in interest rates. Without a rise in interest rates, bubbles can continue for a long time.

Although the U.S. Government, both the Biden Administration and the Federal Reserve, are pumping out money at an incredible rate, the Fed should continue to keep the economy going by keeping interest rates close to zero. I think the Fed is crazy but that is because I am a sound money person. However, I suppose inflation is preferred over a depression.

With the Biden Administration continuing to spend money on stimulus and spending packages, the Treasury selling Treasury notes and bonds to pay for them, and the Fed buying the majority of them, this financing scheme can continue to power the stock market. Federal Reserve Chairman Jay Powell has committed the central bank to extraordinary low interest rates for the foreseeable future until the economy recovers and all low-income jobs have been recovered.

This means that interest rates should remain low and the stock market should continue to rise, regardless if there is a bubble or not. As I said before, the Fed will let inflation "rip." Therefore, we believe bonds are riskier than stocks. Although there may or may not be a short-term correction. However, if there is one, I think it will be short lived, and the bull market will continue until the Fed raises interest rates.

One caveat, if the economy overheats because of too much stimulus, the Fed will have to raise interest rates, or they will rise on their own. My magic number is 1.75% to 2% on the 10-year U.S. Treasury. We are not there yet.

At this time, we are not reducing our stock or gold exposures and we will continue to keep you posted. Enjoy what Chen had wrote and stay tuned.

Click here for Chen Zhao's report.

All the best,

Steven Yamshon
Managing Principal

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