

## Bubble 3.0: End Game (Part I)

*“The creature from Jekyll Island always gets larger after any crisis.”*

– Jefferies’ chief market strategist, David Zervos, a noted “perma-bull”, referring to the Fed\*

*“Monetary and fiscal policy failed to position the economy for any kind of serious stress, particularly the severe impact of a pandemic...Low interest [rates] are the opium of a weak economic system. They dumb down everything and everyone.”*

– The Credit Strategist’s Michael Lewitt

\*The Fed was created on Jekyll Island, Georgia, in November, 1910; a century-long debasement of the dollar has followed.

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At the end of 2017, we initiated a special-edition EVA series with excerpts from David Hay's upcoming book titled “Bubble 3.0: How Central Banks Created the Next Financial Crisis”.

After nearly 2 ½ years of pontificating on the risks that “Bubble 3.0” posed to investors, the emergence of Covid-19 took many by surprise during the first quarter of 2020 and helped burst the decade-long bubble in US equity markets. If you are just joining us at the end of this series, which will soon culminate in a full-length publication, please read the prior installments in the series here:

- [Bubble Watch: A New Series Dedicated to Investors Interested in Preserving Their Wealth](#) (December 22, 2017)
- [Bubble 3.0: How Central Banks Created the Next Financial Crisis](#) (April 27, 2018)
- [Bubble 3.0: How Did We Get Here? \(Part I\)](#) (June 1, 2018)
- [Bubble 3.0: How Did We Get Here? \(Part II\)](#) (June 8, 2018)
- [Bubble 3.0: A Fast and Furious Challenge](#) (July 6, 2018)
- [Bubble 3.0: Up from the Ashes](#) (August 24, 2018)
- [Bubble 3.0: The Biggest Bubble Inside the Biggest Bubble Ever](#) (September 21, 2018)
- [Bubble 3.0: What Could Go Right](#) (October 12, 2018)
- [Bubble 3.0: The Upside of Downside](#) (November 30, 2018)
- [Special Edition EVA: The Stealth Bear Market](#) (December 14, 2018)
- [Bubble 3.0: What Price Prosperity? \(Part I\)](#) (January 11, 2019)
- [Bubble 3.0: What Price Prosperity? \(Part II\)](#) (January 18, 2019)
- [Bubble 3.0: No Way Out](#) (February 22, 2019)
- [Bubble 3.0: Can an Acronym Save the World? \(Part I\)](#) (April 5, 2019)
- [Bubble 3.0: Can an Acronym Save the World? \(Part II\)](#) (April 12, 2019)
- [Bubble 3.0: The Intersection of Bubble and Bubble](#) (May 17, 2019)
- [Bubble 3.0: A Blast From A Bubble Past](#) (June 14, 2019)
- [Bubble 3.0: The Post-Retirement Society](#) (July 12, 2019)
- [Bubble 3.0: Debt-End](#) (August 9, 2019)
- [Bubble 3.0: Deja Vu 2000 or Flashback 2007? \(Part I\)](#) (September 6, 2019)
- [Bubble 3.0: Deja Vu 2000 or Flashback 2007? \(Part II\)](#) (September 13, 2019)
- [Bubble 3.0: Back to the 2015 Future](#) (November 15, 2019)

◦ [Bubble 3.0: Bye-Bye Buybacks?](#) (February 14, 2020)

Over the next two weeks, David will put the finishing touches on his thesis that the Fed and federal government are largely at fault for allowing the latest bull run to charge past its exhaustion point, thus laying the foundation for an economic and market crisis. Please enjoy this final chapter of “Bubble 3.0: How Central Banks Created the Next Financial Crisis” where David discusses the Fed’s ultimate “End Game” and what he believes is in store for markets.

- EVERY bubble in human history has led to enormous wealth destruction.
- Bitcoin – which fell over 80% from its high in 2017 – was a sharp reminder of that and helped inspire our “Bubble 3.0” series on the many bubbles that existed at the time.
- Today, almost every bubble has decisively popped, thanks in large part to the emergence of Covid-19.
- The main instigator of Bubble 2.0 (in housing) and 3.0 (in almost all investments) was the Fed and other central banks.
- Their first error was in overreacting to the bursting of Bubble 1.0 (tech) in the period from 2002 to 2005, which led to an extreme rise in housing prices.
- After the housing market and economy imploded in 2007, the Fed resorted to previously unimagined tactics, adopting a one-two-three punch that included Quantitative Easing (QE).
- This worked – sort of – but also laid the foundation for what became the longest bull run in US
- As a result of the Covid-19 pandemic, QE 5 was rolled out to fight the economic paralysis of the current lock-down.
- And it’s the mother of all QEs: It promises to dwarf all of the prior iterations, likely doubling QEs 1 through 4, if not more.
- One of the reasons that Bubble 3.0 was so hard to resist as it was inflating was due to its length.
- And, while common sense tells us the longer and bigger a bubble inflates, the more dangerous it becomes, our innate human tendencies lead us to the opposite conclusion.
- In hindsight, it’s now clear that many powerful forces were aligned to keep whipping the aging bull to continue running well past its natural exhaustion point.
- The Fed gets an “F” for both allowing a plethora of bubbles to form and squandering its crisis-fighting ammunition during minor skirmishes.
- It’s astounding that senior Fed officials would routinely warn about a looming problem and then would do absolutely nothing to stop the insanity.
- Both the Fed and the federal government were basically in full recession-fighting mode even before the coronavirus emerged.
- The way most governments have reacted to this crisis will attract enormous and well-justified criticism.

Well, it’s been quite an odyssey. Some of you have been around since the very beginning of my long resistance effort against Bubble 3.0. Those hardy souls may recall that this book, published in real-time, began in December of 2017 when Bubble 3.0 had its signature speculative blow-off, the great crypto mania of which Bitcoin was the shooting star. But like all such meteorites, its brilliant glow was short-lived.

Its subsequent 80% annihilation was another in a long list of reminders that EVERY bubble in

human history has led to enormous wealth destruction. Unfortunately, the cryptos were far from the only bubbles that grew to immense size over the past decade. This includes the art market and the ultimate absurdity of an actual banana duct-taped to a wall in an art museum that sold last year for a reported \$120,000. Now, though, nearly all of those artifacts of bubblemania have been popped, with the coronavirus applying the decisive puncture. Even with a shortage of food looming, as farmers destroy crops, en masse, bananas may get expensive but I suspect it will be several lifetimes until one sells for over a 100 grand again! (As you will soon read, there are still bubbly pockets within the US stock market that offer gullible investors the opportunity for return-free risk.)

To be fully accurate, [the December 2017](#) EVA that attempted to shatter the illusion of easy riches generated by the crypto mania, was originally meant to be part of an on-going series, not book, titled “Bubble Watch”. It wasn’t until a few months later “Bubble 3.0” officially launched. Yet, the *EVA* on ~~Biteon~~ Bitcoin, et al, was definitely my most strident on-the-record indictment up to that point of what I also started referring to as the Biggest Bubble Ever (BBE). This assertion, like so many others I’ve made since December 2017, attracted considerable and repeated criticism. In fact, one of my closest friends told me that a mutual friend—an individual who started in the investment business years before I did—thought I was crazy to write this book. Of course, he was right.

So welcome to the final chapter of this story, although it’s not quite the conclusion. My intent is to eventually create an Epilogue to “Bubble 3.0” which will be much more personal. For me, it will be a vivid recollection of the mental anguish endured in my extended battle against all who vehemently wanted to believe prosperity could be created—and indefinitely maintained—from what is the digital era’s equivalent of a central bank printing press.

First, I feel a brief overview of what’s happened over the last 15 year or so is in order. (For those that would like to read a more in-depth exam of the chain-reaction we’ve been experiencing since then, please click on [this link](#).) Briefly, my view is that the Fed and other central banks have committed a series of blunders that inflated Bubble 2.0 (in housing) and Bubble 3.0 (in almost everything). Their first error was in overreacting to the bursting of Bubble 1.0 (tech) in the period from 2002 to 2005. **The Fed, in particular, heeded the pleas from economists and pundits like Nobel Prize-winner Paul Krugman to create another bubble (he literally did) in order to offset the economic hangover that followed in the aftermath of the late ‘90s tech binge.** That wild bender drove the overall US stock market, and especially the NASDAQ, to levels that exceeded the valuations seen even in 1929.

Mr. Krugman suggested housing was a good candidate to become the next object of speculative debauchery and the Fed eventually complied with his urgings. As the economy recovered from the tech crash, as well as the trauma of 9/11/01, US home prices began to rise. What would become the greatest bull market in housing started modestly enough but by 2005 conditions were seriously overheating. It was that mania which actually gave birth to the macro-economic [version of this newsletter](#) in the summer of that year. In our *EVA*’s initial edition\*, I sought to go on-record that housing was becoming overdone and that stocks, still struggling to overcome the vicious bear market of 2000 to 2003, offered much better long-term returns. (This was the first time I opened myself up to public humiliation but it certainly wouldn’t be the last!)

As usual in my world, it wasn’t a very popular message. Also, as is my norm, US home prices went on an epic tear that lasted until around mid-year 2007. In other words, I was early. In those years, this newsletter repeatedly warned of a looming disaster particularly due to the reckless

lending behavior that characterized the late stages of Bubble 2.0. (Please use [this link](#) to see a representative EVA from back then.) **It was during this era that terms such as sub-prime, negative amortization, and NINJA (No Income, No Job, No Assets) mortgages became all the rage. These were the absurdities which “The Big Short” so brilliantly chronicled and, collectively, these insane lending practices nearly crashed the global financial system. This, in turn, led to the worst economic collapse since the Great Depression—at least until this spring.**

\*There were two issues from earlier in that year that focused on our Right Cycle Investing strategy.

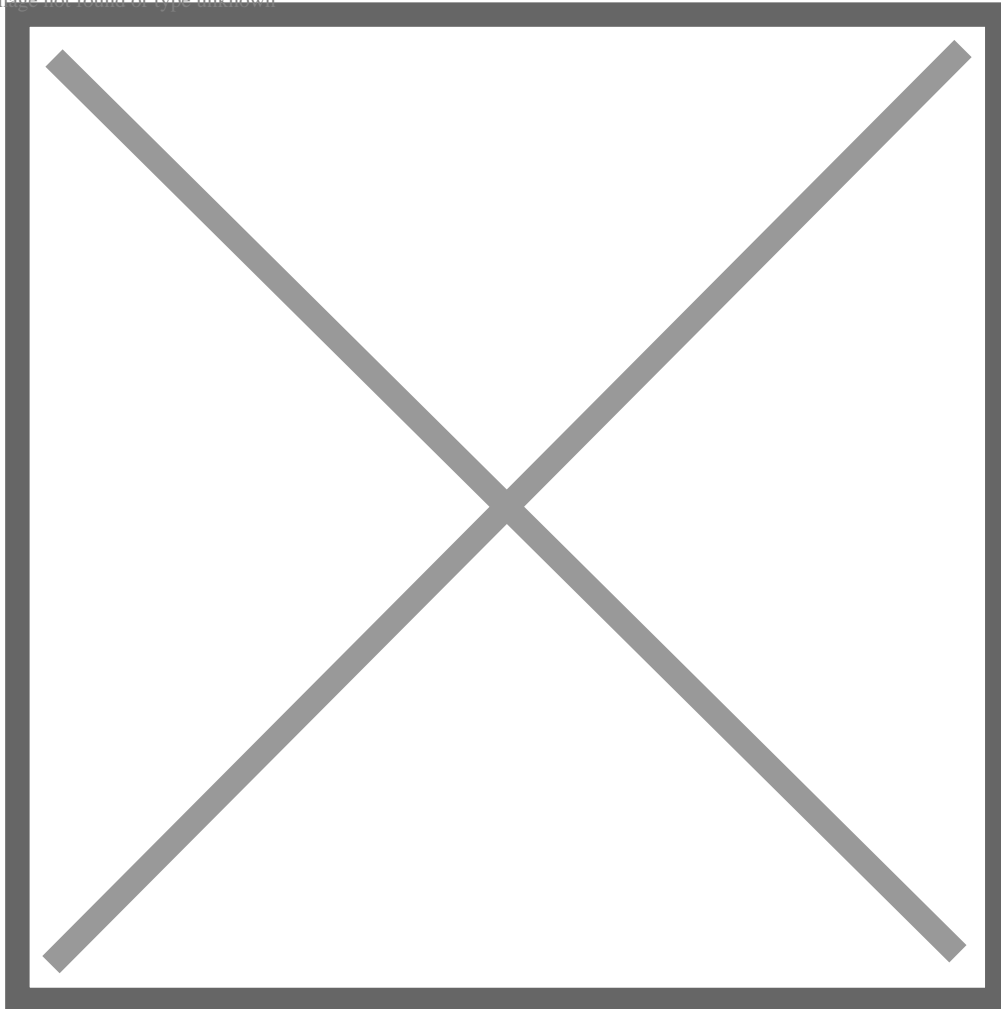
**With the economy and financial markets in melt-down mode, the Fed resorted to previously unimagined tactics. These included guaranteeing money funds, lending gargantuan sums of dollars to foreign central banks, and, eventually, engaging in what was then the highly controversial program known as Quantitative Easing (QE). With the latter effort, one that would prove to be shockingly hard to exit, the Fed created one trillion of its digital reserves and used that sum to buy an equivalent amount of government-backed securities.** At the time, these were the most overvalued assets on the Planet Earth and the Fed’s buying blitz of these did nothing to stop the on-going crash in non-government markets. Consequently, several more months of carnage in corporate securities and non-government mortgages ensued. (In my view, this was a colossal blunder but the events of March 2020, graphically illustrated the Fed learned its lesson.)

**At the time, Quantitative Easing was meant to be a temporary emergency measure, with a short life-cycle. Never before had the Fed (outside of a world war) fabricated money that hadn’t existed previously.** Part of the reason it did so was that interest rates had fallen near zero (for the first time); thus, its usual go-to procedure of reducing rates to combat economic and market dislocations was impotent.

**QE, as it became popularly known, worked—sort of. In reality, it was part of a three-pronged rescue strategy that also included the Troubled Asset Relief Program (TARP) and the suspension of the what had been a fairly new accounting rule, FASB 157. This arcane regulation forced banks and insurance companies to recognize impairments in the value of their holdings of securities and loans, even if the hits were expected to be temporary. This was also known as the “mark-to-market” rule but with asset prices everywhere in free-fall by in the autumn of 2008, and into 2009, it was more like “mark-to-mayhem”. And mayhem it did create.** (Some informed sources, like John Hussman, believe it was the suspension of FASB 157 which did more to turn markets around in early 2009 than any of the other emergency measures; in my view, it was very much a one-two-three punch.)

Regardless of the remedy, or remedies, a catastrophe of Biblical proportions was narrowly averted. Stocks and credit market instruments—such as corporate bonds, preferred stocks, and mortgage-backed securities—began to soar in March 2009. It was the beginning of what would be both the longest bull market and, also, the lengthiest economic expansion in US history. Consequently, the 2000-teens would be the first decade ever that didn't include at least one recession (obviously, we now know, the 2000-twenties will be a very different story).

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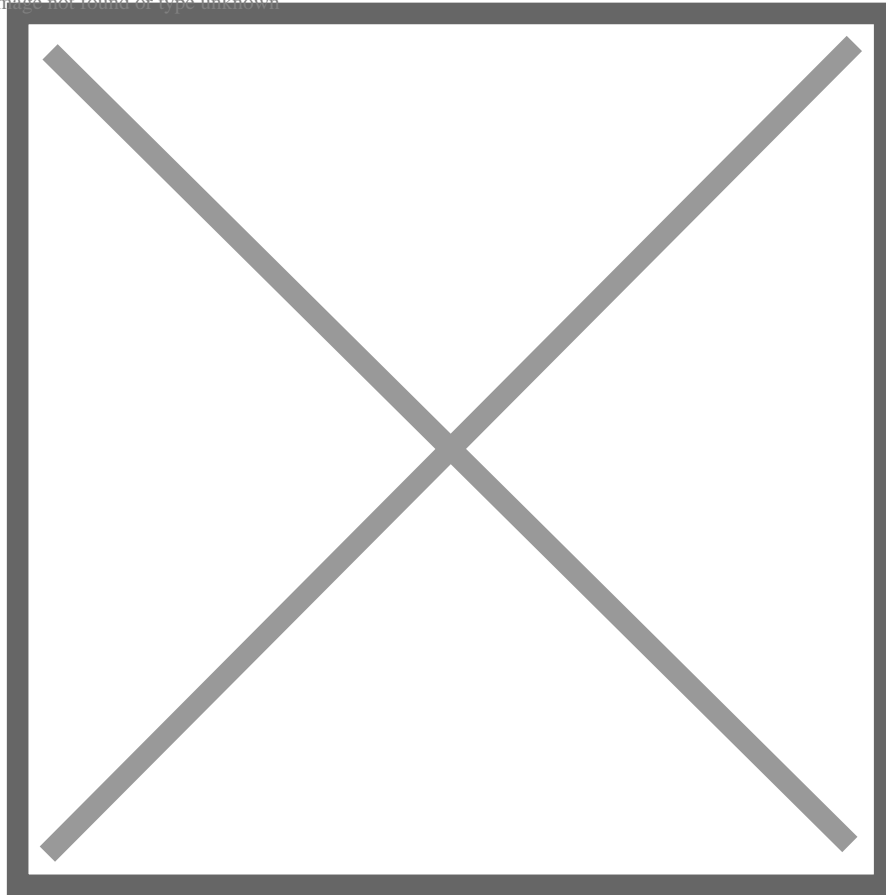


Yet, this is when one of Warren Buffett's savviest sayings – **“What the wise do in the beginning, fools do at the end”** – began to reverberate in my mind. It made total sense for the Fed to engage in QE 1 during the utter chaos of the Global Financial Crisis. But then a strange thing happened...and happened...and happened (for a fourth time, as we shall soon see).

Even as the global economy was clearly in recovery, with the US in the vanguard, the Fed decided it need to accelerate the process by engaging in QE 2. There was some justification for this because unemployment in the first years of the recovery remained stubbornly high.

**But even as the jobless rate came down to a moderate level, the Fed felt compelled to launch yet another monetary ocean-liner, QE 3. It also left its overnight rate at essentially zero until late 2016 when unemployment was at a mere 4.7% and the economic expansion had turned seven years old (even then, it was one of the longest ever).**

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*Source: Bloomberg, Evergren Gavekal*

It wasn't until Trumponomics triggered a surge in business confidence and a vigorous but, ultimately, short-lived boom, that the Fed began a very gradual rate tightening campaign (save for one timid rate bump in 2015, under former Fed-head Janet Yellen). However, it did combine this with the start of an unwind of the trillions it had fabricated with QEs 1, 2, and 3. **During this phase, numerous EVAs warned of the risks of the first ever “double-tightening”; i.e., both raising rates and sucking liquidity out of the system by shrinking its balance sheet (selling rather than buying securities).**

However, other than a brief spasm in the winter of 2018, markets (and President Trump) largely ignored this inaugural double-tightening. By the fourth quarter of that year, though, we received a sneak-preview of what the ignorance of another, far deadlier, threat could cause. The S&P, which had previously risen 40% since Donald Trump's election, fell by nearly 20% in the course of two months as 2018 drew to a close. **Most of the damage happened near year-end and the last 10% of the decline caused the relatively new Fed chairman, Jay Powell, to do a “blink” worthy of Nikita Khrushchev during the Cuban Missile Crisis.**

**By January of last year, it was obvious that the Fed's methodical rate-rising effort was history. It had managed to lift rates all the way to—drum roll, please—2 3/8%. Never in modern history had a Fed tightening phase “elevated” short-term rates to such a paltry level.** As we noted at the time, this was not good news for the long-suffering US saver. Nor was it positive for the dreaded day when Bubble 3.0 would pop because it left the Fed with a limited degree of rate-cutting room. This raised the specter of yet another round of QE and, incredibly, it didn't even take a bust to create such a reaction.

**September of last year was ominous in that regard. With the stock market on a thrilling joyride caused by the Powell blink, a run that would ultimately produce a 31% total return on the S&P 500 for 2019, something very strange occurred as last year's third quarter ended. Another market, one that is not nearly as well known to most people, yet, is vitally important—the repo or repurchase agreement marketplace—began to misfire.** This is where banks and other large financial entities lend trillions to each other on a very short-term basis, typically overnight.

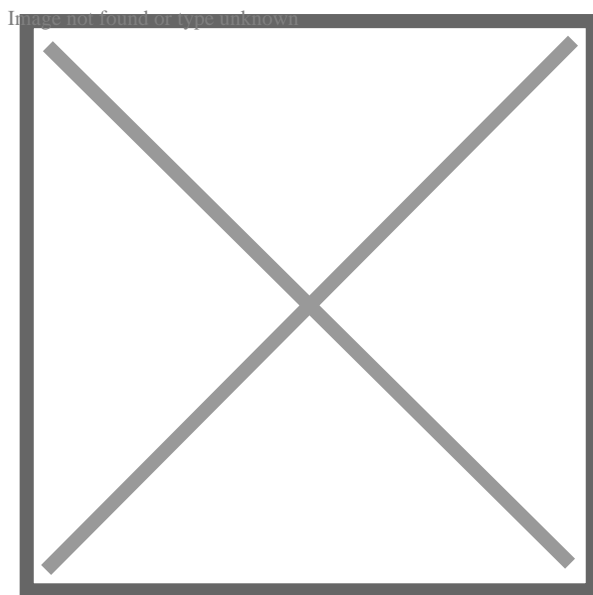
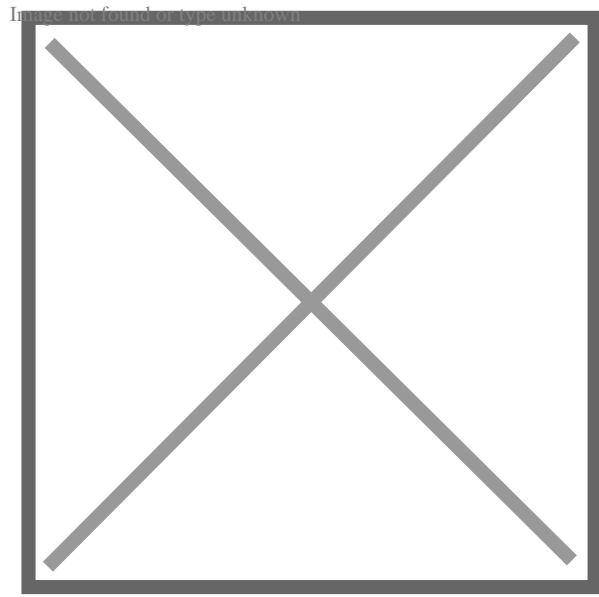
As the end of the third quarter of 2019 neared, the rate on these loans exploded to nearly 10%. Based on their riskless nature (the loans are secured by government bonds), this was an exceedingly odd development. The Fed initially blamed it on unusual factors such as corporate tax payments and the end of another debt ceiling battle in Congress which created some funding disruptions. **Naturally, in reaction to this sudden convulsion, it did what it does best in the post-financial crisis era—print money. For the first time since QE3 ended in late 2014, the Fed's digital printing presses were running again.**

This latest Fed magic trick was supposed to end shortly and be too minor to actually be considered QE4 (a label the Fed assiduously avoided). But it quickly ramped up to \$60 billion per month and the months just kept rolling along. By the time the pandemic panic was raging, the Fed had already willed into existence some \$400 billion of fresh QE, offsetting most of the unwind it had done during the double-tightening that ended in mid-2019.

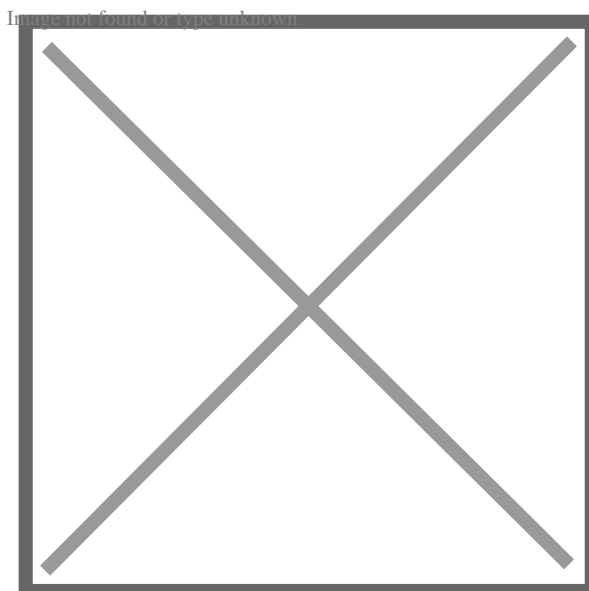
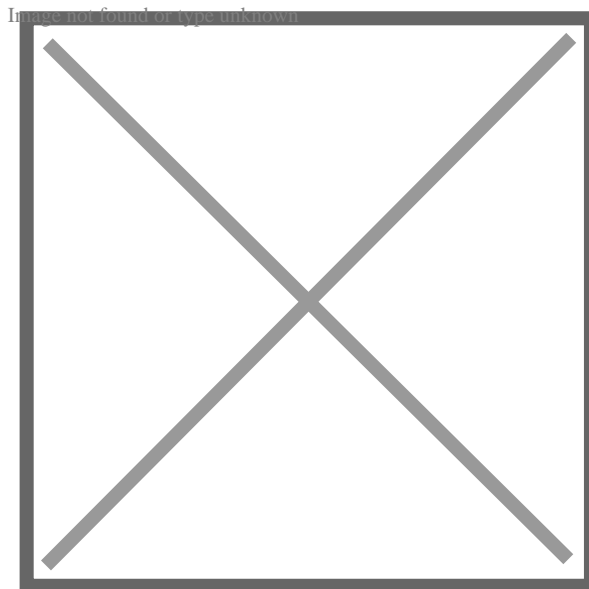
**Now, of course, we've got the mother of all QEs, QE 5, rolled out to fight the economic paralysis of the lock-down. It promises to dwarf all of the prior iterations, likely doubling QEs 1 through 4, if not more. Accordingly, we are truly looking at QEternity. But let's not get ahead of ourselves; rather, let's reflect a bit on the pre-pandemic golden era of Bubble 3.0, or as I have referred to it, The Biggest Bubble Ever. Or, even more to the essential and unique nature of it, The Longest Bubble Ever.**

As I've asserted in prior chapters of this book-in-real-time, it was the length that made this one so hard to resist. It just seemed like it would never end which caused some to note, as recently as last year, that it could last another 10 years. That sounded outlandish but the fact that myriad pundits (yours truly included) were warning of the unsustainability and danger of Bubble 3.0 as

far back as 2014, or even earlier, made it plausible. **There simply had never been a bubble phase that had stayed inflated for such an extended timeframe.** The following charts, courtesy of my friend Paban Raj Pandey and his invaluable data service, [Hedgopia](#), illustrate this crucial aspect.





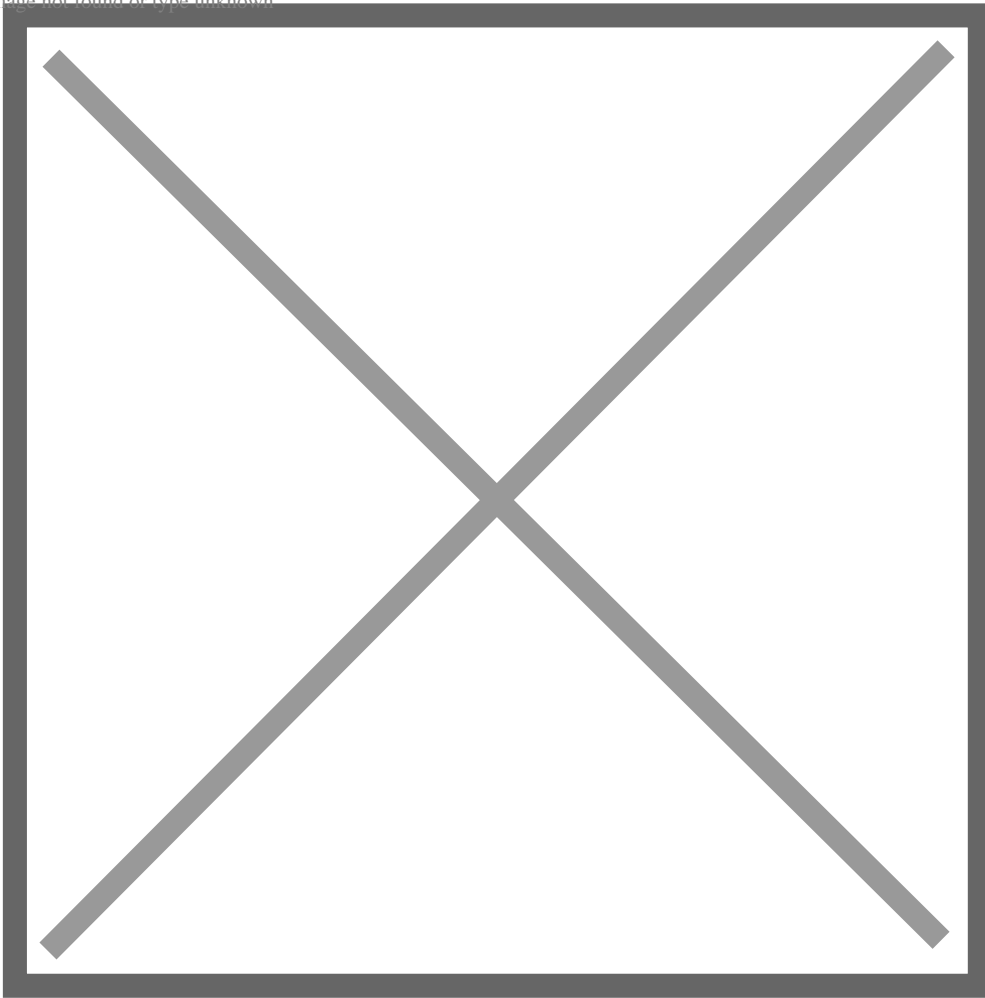


Source: [Hedgopia](#)

**As you can see, even the great tech bubble in the late 1990s had a shorter time in the exoshpere than did the stock market during this longest of all manias. It's also fascinating, per the above profit margin chart, that the second half of the longest bull run of all-time occurred even as profit margins peaked and began a long decline. As Paban correctly notes, margins typically crest well before the stock market does but in this case, it was roughly *six years* earlier! That's quite a lag and one without a historical precedent, at least since WWII.**

As the indefatigable David Rosenberg wrote in his April 21<sup>st</sup> edition of Breakfast with Dave, "pre-tax corporate profits for the entire business sector, big and small, listed and unlisted, have not increased one iota since the first quarter of 2012 (\$2.12 trillion) in hard-dollar terms. In fact, over the past five years, profits in nominal terms for (the) entire business sector have actually contracted at over a 1% annual rate."

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Therefore, good reader, most of the great bull market was not earnings driven, outside of some of the tech behemoths and a handful of other elite companies. Rather, it was pumped up by relentless amounts of helium in the form of fabricated funds either by the Fed or its overseas counterparts who stepped in when the Fed stood down. The monetary uppers just kept coming and coming, despite plentiful warnings—and not just from this newsletter--that central banks were setting us up for another disaster.

**When our grandchildren ask us how we could have been foolish gullible enough to have stayed invested in Bubble 3.0, I believe our best defense is to exclaim: “Because it lasted SO long!”** It was the seeming eternity of it all that emboldened “the lovers”—in other words, those market cheerleaders who believed that the Fed could print us to prosperity. The up-cycle’s perceived never-ending nature also chastened “the haters”, i.e., those skeptics who refused to buy into the notion that fake money, zero interest rates, tax cuts late in an expansion, trillions of buybacks, and equivalent trillions of corporate debt issuance, wouldn’t ultimately end in another calamity. **Basically, because the warnings were years early, it gradually became assumed they were wrong—a conclusion that defied both logic and historical precedent.**

**Common sense tells us the longer and bigger a bubble inflates, the more dangerous it becomes. Yet our innate human tendencies lead us to the opposite conclusion. The longer a speculative orgy lasts, the more human nature causes us to think the naysayers must be wrong and the revelers right.**

Humans like to see fairly quick confirmation of a viewpoint, be it about the weather, politics, or the markets. When near-term evidence runs contrary to what the predictor opines, the assumption is that they are full of...insert your favorite apropos word here. This is no matter how sound their historical and statistical evidence was and is. If there's ever a time when "it is, what it is" pertains, it's when it comes to market outcomes. As the legendary stock technician and strategist Bob Farrell has often said, paraphrasing slightly, "The market makes the news, not the other way around."

**In hindsight, it's now clear that many powerful forces were aligned to keep whipping the aging bull to continue running well past its natural exhaustion point. Donald Trump certainly deserves considerable "credit" for the last three plus years of the bull market. Through most of his first term, he pointed to its rise as validation of his economic policies. Moreover, he pulled out all the stops to force share prices higher—not just via 2017's massive corporate tax cut but also his constant badgering of the Fed to cut already low interest rates and, further, to emulate the negative interest rate policies of Europe and Japan. (He never seemed to connect the dots that those economies and markets were far weaker than the US despite the "panacea" of rates below zero.)**

The Fed itself seemed determined not to allow an actual bear market to occur, as opposed to brief- duration and shallow corrections. It allowed the very commendable goal of getting interest rates up to a level that would both reward savers and also give it enough room to meaningfully cut rates in the next crisis to become subordinate to the stock market's preference for continually lax monetary conditions. Thus, the last ten years became what I've previously referred to as "The Big Easy", a time when it was hazardous to a money manager's or strategist's career to challenge the paradigm of ever-higher stock prices. To question the notion that a 2% growth economy could continue to generate double-digit annual S&P returns became both heresy and foolhardy. How well I personally know! It's a pain I'll never forget...but that's a topic for the epilogue of "Bubble 3.0".

Unquestionably, you will hear and read a torrent of commentary that the Fed didn't cause the demise of this latest asset inflation episode. After all, the coronavirus killed it, certainly not Fed tightening (which has often led to prior bear markets and recessions). That's definitely valid and, as noted, the Fed was frantically cutting rates and re-printing its digital reserves even as the economy remained healthy and stocks kept making new highs as recently as February.

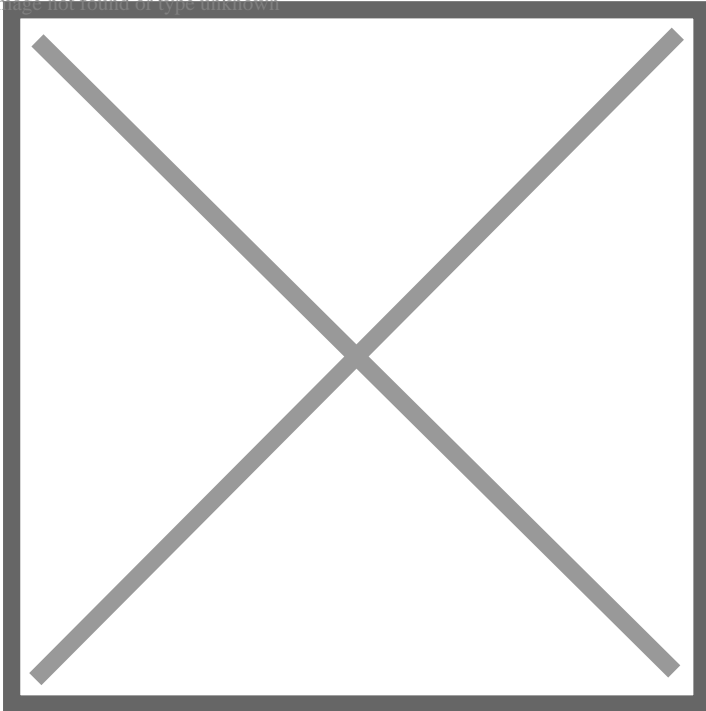
**But where the Fed gets an "F" in my grading system is for both allowing a plethora of bubbles to form, especially over the last five years, and, critically, squandering its crisis-fighting ammunition during minor skirmishes.** The most egregious bubble it allowed to form, in my view, was the reckless leveraging up of US corporations in order to repurchase their own shares. This was the main theme of our February 14<sup>th</sup> EVA titled "[Bye-Bye Buybacks](#)", one of those rare events, as with my Bitcoin call, when I got the timing almost perfectly right.

**Frankly, it astounds me that senior Fed officials would routinely warn about a looming problem—one that was staring them in the face as they uttered their cautions—and then would do absolutely nothing to stop the insanity. A case in point were statements by former Fed chair Janet Yellen during a recent Brookings Institution COVID-19 webinar.**

My friend Mike O'Rourke caught the irony of her remarks in his typically spot-on April 6<sup>th</sup> *The Closing Print*: "She started by noting that banks entered this crisis well capitalized and in good

shape.” She then moved on, noting **“But non-financial corporations entered this crisis with enormous debt loads, and that is a vulnerability. They had borrowed excessively in my view through issuing corporate bonds and leveraged loans, many with weak loan covenants and poor underwriting. And much of that borrowing wasn’t to finance investment spending, but rather for stock buybacks and to pay dividends. Arguably, this was a borrowing binge that was incited by the long period we had of low interest rates.** Investors were also engaged in a search for yield, so this debt was attractive to pension funds, insurance companies, and investors generally looking for high yield opportunities.” It was during the time of Yellen’s leadership at the Fed that Corporate Debt to GDP exceeded its previous peaks in 2009\* and 2001\* (chart below). Note those peaks were recorded during recession as GDP shrunk. In this most recent scenario, debt growth handily outpaced GDP growth.”

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\*My note: i.e, in the aftermaths of Bubbles 2.0 and 1.0. It will be interesting to see how high corporate debt-to-GDP rises with the former soaring and the latter plunging.

Mike then proceeds to quote Ms. Yellen issuing past warnings, including during her time at the helm of the Fed, about the negative consequences of keeping rates too low, for too long, and allowing leverage to rise to highly hazardous levels. But, again, she didn’t lift a finger during her tenure as Fed-head to stop the madness. Then, her successor, Jay Powell, did a field reversal worthy of Wrong Way Corrigan (and it did turn out to be very much of a wrong way shift) when he faced market turbulence at the end of 2018. The infuriating reality is that neither Ms. Yellen nor Mr. Powell took effective action to prevent the shocking leveraging up of Corporate America and the related buyback mania. This lethal combination, the main topic of our February 14<sup>th</sup>, “Bye-Bye Buybacks” *EVA*, has now predictably led to US companies begging for government hand-outs to stay in business (the airlines being the most galling example).

**Mike nailed the Fed’s complicity for this latest fiasco with this zinger at the end of his note (click [here](#) to access his full missive): “This behavior illustrates the asymmetrical policy approach of the twenty-first century Federal Reserve. It is an institution that has codified moral hazard with the ‘Fed Put’ and magnified the boom-bust nature of the US economy.” In other words, the Fed not only sits on its hands when asset bubbles are inflating, it aggravates the price inflation with excessively easy money, a failure to**

**prevent financial excesses, and a proven track record of non-intervention to stop reckless yield-chasing by cash-flow starved pension funds and retail investors. We're reaping what the Fed has sown once again and it is a most bitter harvest indeed.**

Once again, the Fed has ignored the warnings of the late economist Hyman Minsky who attained posthumous fame during the global financial crisis. Prof. Minsky had warned well before that blow-up that "stability breeds instability". His basic thesis was long periods of tranquil market conditions lead to excessive leverage and imprudent investment activities. It's doubtful he ever envisioned the Fed actively encouraging such dangerous conditions but that's exactly what it's done—again!

(It's borderline comical to read that Jay Powell is now the most popular a Fed chairman has been since 2005 when Alan Greenspan was in charge—just two years before the mortgage market crashed. It's also humorous to read that Americans hold him in higher esteem than Mr. Trump and Congress right now which is a classic case of damning with faint praise. As the famed Jim Grant has noted, for the last 20 years the Fed has acted as both arsonist and fire brigade. Personally, I don't think the one who pours gasoline on a fire should get credit for putting it out.)

**For sure, the Federal government also deserves copious criticism due to its lack of preparedness for a pandemic and its ponderous response as it escalated.** (The US spends five percent more of its GDP on healthcare than any of its peer countries but we can't mass-produce masks and reliable tests? Somehow, Taiwan is producing 15 million masks a day.) **Moreover, as previously described, the \$1 trillion plus deficit spending that was occurring even before the outbreak was unconscionable. The red ink blow-out since Donald Trump was elected left America scant chance to be able to responsibly fund (i.e., without resorting to QE) the crisis outlays that are now staring us in the face. These could lead to \$3 trillion or higher annual deficits for the next year or two.**

**Thus, both the Fed and the federal government were basically in full recession-fighting mode even before the coronavirus began to terrify the planet. How smart was that? How about, how dumb was that? In my book—literally--very, very, VERY!**

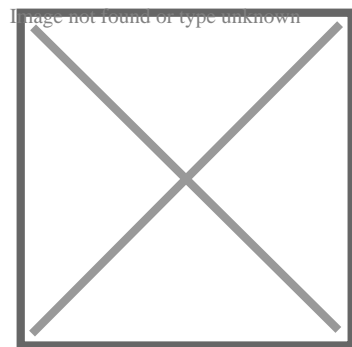
As usual, though, there is plenty of blame to go around when the Wily E. Coyote off-the-cliff moment arrives. Per the February 28<sup>th</sup> *EVA*, most investors were incredibly complacent as they bid the stock market to new highs a mere two months ago even as former FDA-commissioner Scott Gottlieb bluntly warned on CNBC in mid-February that we were on the verge of a global pandemic. In my 41-year career, I'd never seen hundreds and hundreds of stocks selling at 50 times earnings or more—if they had any earnings at all--until the late stages of Bubble 3.0, not even during the whackiest days of the late 1990s tech blow-off. (What's worrisome currently is how many of these have gone back up to extreme levels again, including everyone's favorite electric car company. The days of the COPS—Crazy Over-Priced Stocks—are clearly not in history's dustbin...yet.)

The pushback I received through nearly all of February about our COVID19 warnings, including from readers of this newsletter was almost universal, particularly about from where it emanated (intriguing information has come out lately on that topic; move on that in a future *EVA*). There were a few who shared our concerns but they were as scarce as stores open for business these days.

Even now, there are many who think this has been an exercise in mass economic suicide. In their view, we should restart the economy right away and, frankly, based on the experiences of Japan, Taiwan, Germany and Sweden, they may be right. But that's a very, very big "may be". **As I've previously conceded, the more I study COVID19, the more confused I get by this virus, including what I think is the most confounding datapoint I've come across: the total number of active military deaths due to the virus. As of April 20<sup>th</sup>, there have, thankfully, only been 22! And this is out of 1.3 million Americans in uniform. Perhaps this relates to the linkage between COVID fatalities, obesity and diabetes. It's doubtful many servicewomen and men are obese, unlike about 100 million of their fellow citizens.**

Without a doubt, the way most governments have reacted to this crisis will attract enormous and well-justified criticism. They will be compared to those that have responded quickly and competently; the list of those is fairly short while that of the bunglers is quite long (and, unfortunately, the US is on the lengthy one). Yet, as seen last week with Gilead's Resmedivir news, there is an excellent chance effective anti-virals may soon be ready for prime-time.

So, is the end-game I was referring to: coming up with the trio of testing, antidotes and vaccines for COVID19? Will that signify the conclusion of this modern-day plague and our global nightmare? Maybe as far as the virus is concerned. However, as far as the ultimate outcome, or denouement, that's not what I had in mind when I titled this chapter. My apologies, but that reveal will have to wait until next week, when I will wrap up this nearly 2 ½ year effort.



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