IS A MELT-UP COMING?

SEVEN TAILWINDS BEHIND A FINAL MARKET SURGE

CRITICAL SIGNALS REPORT

WITH MATT PIEPENBURG

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Investor's Report
From: Matt Piepenburg
For: *Critical Signals Report* Members

Is a Melt-Up Coming?

Seven Tailwinds Behind a Final Market Surge

Dear Subscriber,

For most of 2018, I warned my clients of a yield/interest-rate spike in Q4 that would send markets tanking and wipe out any gains for the *entire* year, which is *precisely* what happened.

This was easy to see for one simple reason and signal: *The Fed*.

Namely, Powell was *raising* rates and *tightening* his balance sheet.

Heck, he even *forewarned* the markets of this in late 2017. His "forward guidance" meant more bonds were dumping into the 2018 market, which meant three things: Bond *prices* were falling; bond *yields* were rising; and hence interest *rates* would go up with bond yields.

The rest was simple. In a market driven by historically unprecedented debt levels, those rising rates were like shark fins to a surfer: bad news.

Hence, the market promptly got eaten alive in Q4 of 2018. The bear (rather than a shark) had roared.

But then something *bullish* happened...

Specifically, the Fed famously *pivoted* in March of 2019, and now, markets are once again ripping north due entirely to a forward-guided "pause" in rate hikes and the Fed halting its balance-sheet tightening in the fall.

In short, the Fed just signaled another green light for markets to rise with their rate pause and no more "tightening" in the fall. Simple as that, the Fed handed the markets another "fat pitch."

Whatever one thinks of the Fed, we can all agree it is now the *number-one* signal and driving force behind U.S. stock and bond markets.

And if the Fed is sending us another green light (assuming it doesn't back down and two-step again...), we have to take it seriously, which is why even a dumbfounded Fed and market critic like myself is turning temporarily bullish – *real* bullish for the near term.

The Seven Tailwinds for a Melt-Up

So, let's look at some key reasons why we could likely see the DOW and S&P break all-time records and *trend up* in 2019.

Reason #1:
The Fed – of Course

Again, *if* the Fed keeps its word, keeps rates low, and keeps its balance sheet from tightening, markets will rise. Plain and simple.

Since 2008, the U.S. central banks have completely taken over – and thus distorted – normal price action in the markets. Today's stock and bond market is literally a "Fed Market."

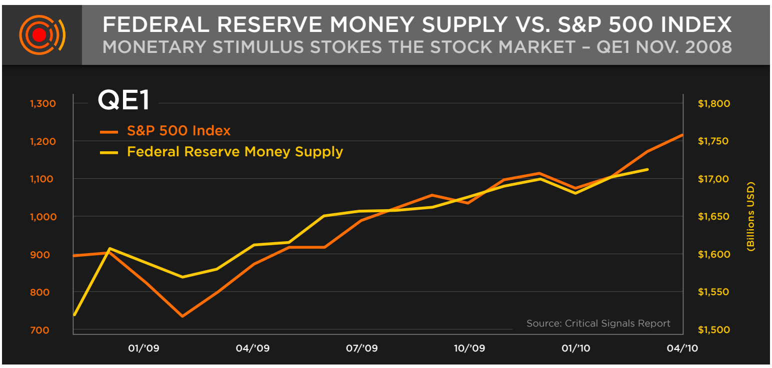
The evidence is crystal clear. In 2009, the Fed printed wheelbarrows of money ($3.5 trillion) to buy the toxic securities that our reckless banks had wrongfully packaged, sold, and held – single-handedly destroying the U.S. economy in 2008.

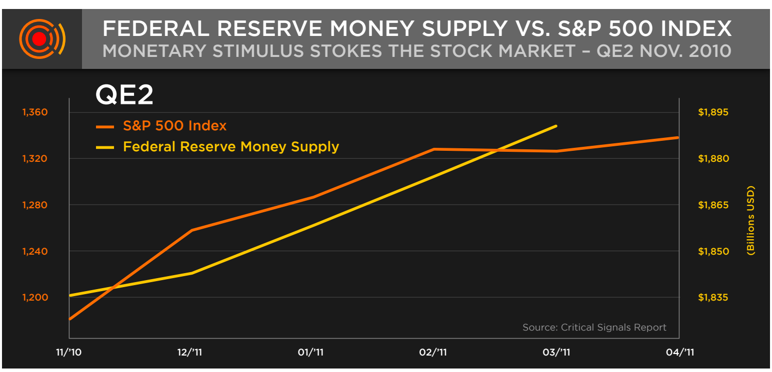
The Fed's subsequent "emergency measure" was euphemistically called Quantitative Easing; here, I'll call it "QE1." But it was just "faking it" as a blatant market steroid, pure and simple. Just look at how the markets reacted after QE1 began in November of 2008 (see **QE1 chart** on following page)...

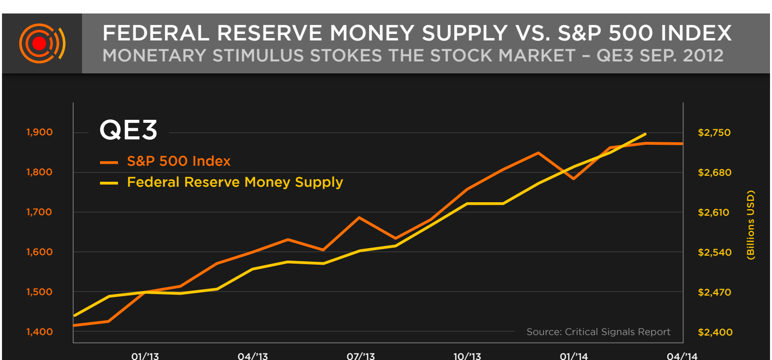
But like any steroid, quick fix, or whiskey shot, such *stimulus* can quickly devolve into an addiction. Thus, in November of 2010, the markets asked for – and the Fed delivered – a little more: QE2. And as expected, the markets got high (see **QE2 chart** on following page)...

And by this point, markets were not only drunk, but full-on *addicted*.

Addiction, of course, needs more steroids to thrive, and thus, once again in September of 2012, the Fed pumped in another batch of printed money – QE3 – and once again, the markets peddled even higher (see **QE3 chart**)...

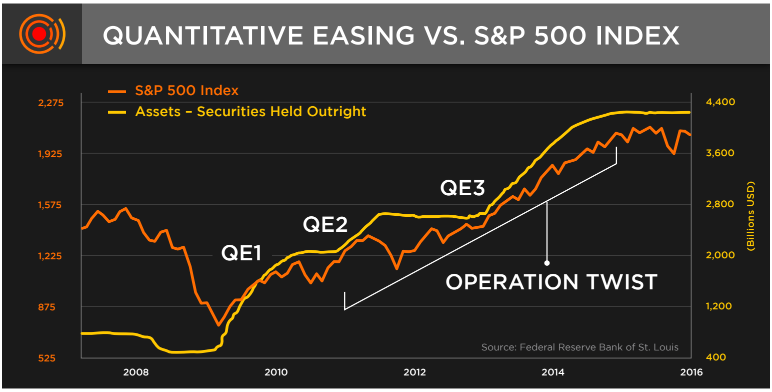




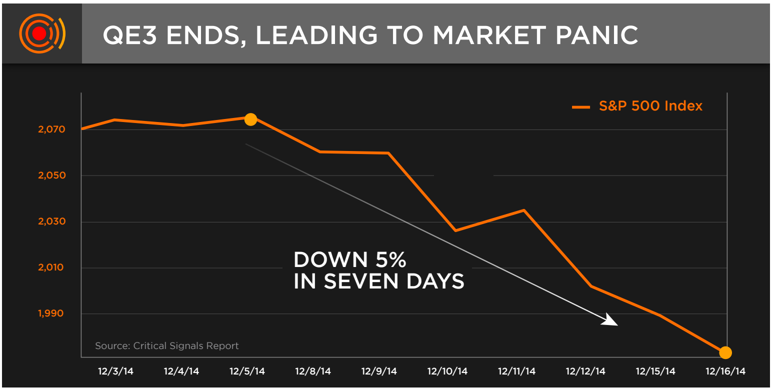


This was getting crazy – even embarrassing – so when another kind of "steroid request" came in from Wall Street in 2011, the media and the Fed tried to give it another name, which they cleverly called "Operation Twist."

Call it whatever you want, but again, it's just "faking it" and simply boiled down to a clever Fed maneuver to reduce *long-term* rates (short-term rates were already at zero) and thus encourage more "debt solutions" to an existing debt problem. Taken all together, none of us can deny how these market steroids propped up the biggest and fakest market bubble in the history of capital markets...



Officially, this "money printing" ended in late 2014, and as expected, the markets immediately panicked, and Wall Street threw a hissy fit, like the spoiled child of the rich Uncle Fed...



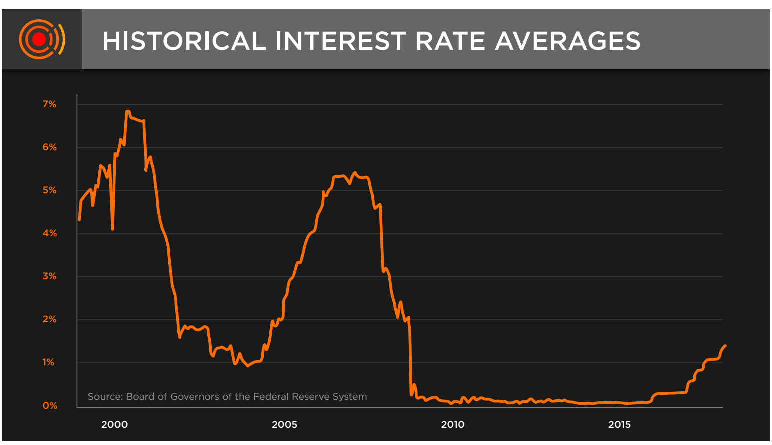
Naturally, the rich uncle came to the rescue of its spoiled nephews on Wall Street. Not long after the markets dropped, they rebounded on more low-rate debt, the second "syringe" in Uncle Fed's dirty bag of steroids.

And now, the markets also know their rich Uncle Fed will break out more QE when the markets really tank again, which means the markets can still act like drunken kids on spring break – free of all fear and only looking to get lucky at every turn.

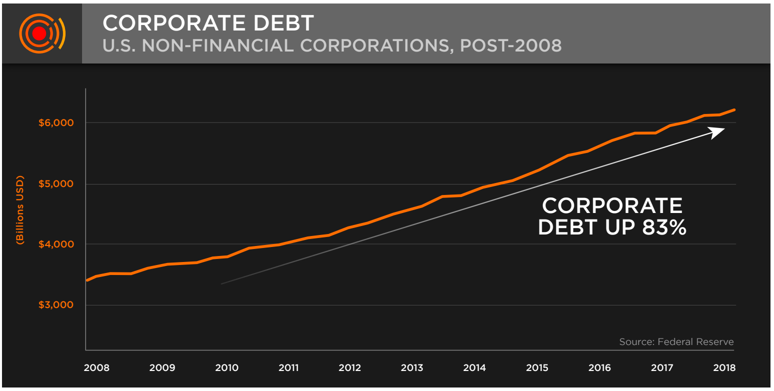
And remember: The Fed still has the other steroid in its dirty medical bag, namely low rates – in fact, once it even had *zero* rates – known as ZIRP, or "the Zero Interest Rate Policy."

This lasted from 2008 to 2015. Thereafter, the Fed took baby steps to raise rates (eight times in two years), but at 2.4% today, this interest rate is still *ridiculously* low by *any* historical measure – effectively giving the markets a "zero-bound" interest rate market.

Just look how low rates are today compared to their historical averages...



Of course, when interest rates – i.e. the cost of borrowing – are this pathetically low, *everyone* borrows, including the companies in our stock and bond markets. Since 2008, this borrowing spree has surpassed all-time records, and now U.S. companies have more debt than at any other time in U.S. history...



Such debt levels *guarantee* – and I mean *guarantee* – that markets will eventually collapse in equally record-breaking fashion under the weight of their own decadent borrowing. Just as sub-prime mortgages ushered in the 2008 crisis, bad corporate debt will usher in the *next* crisis.

But this won't happen until interest rates rise, and for now, the Fed is doing "whatever it takes" to keep rates stapled to the floor. *Literally everything hinges on this point alone: keeping rates low*. To keep interest rates low, the Fed has two "tricks" up its sleeve. First, it artificially sets them low. Second, because interest rates rise when inflation rises, the Fed blatantly lies about U.S. inflation, a clever little Wall Street secret that I have made mathematically clear in a full report, ***The Inflation Lie***. Full stop. Period.

Despite such dishonesty, debt, and distortion, we must accept the signals for now and not "fight the Fed." Because now, however disingenuous or corrupt the Fed is, we must nevertheless accept that even a corrupt cop is still a cop. In other words: Don't fight him...

Again, *as long as the Fed wants to (and can) keep rates low, the markets will continue to rise*.

Reason #2:
Accounting Tricks and Rising Earnings

Speaking of corruption, another little insider secret on Wall Street is a legalized accounting trick called "ex-items" accounting, which – like Al

Capone – allows companies to carry two sets of "financial books" – one that's real, and one that's fake.

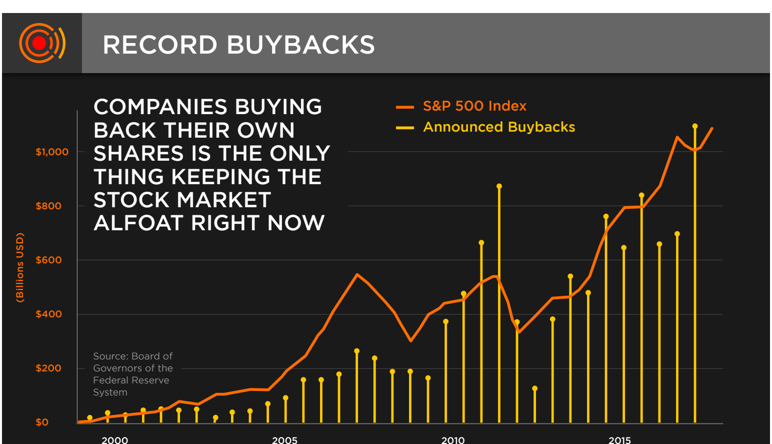
The fake set of books is the one the market sees, and it allows broke companies to otherwise look profitable. I have written an entire report on this: ***The Profit & Earnings Lie***, and I won't go into details here, but suffice it to say this accounting trick makes earnings look better than they really are, and so long as earnings *appear* strong, the markets go up.

Today, earnings are "strong" on the surface.

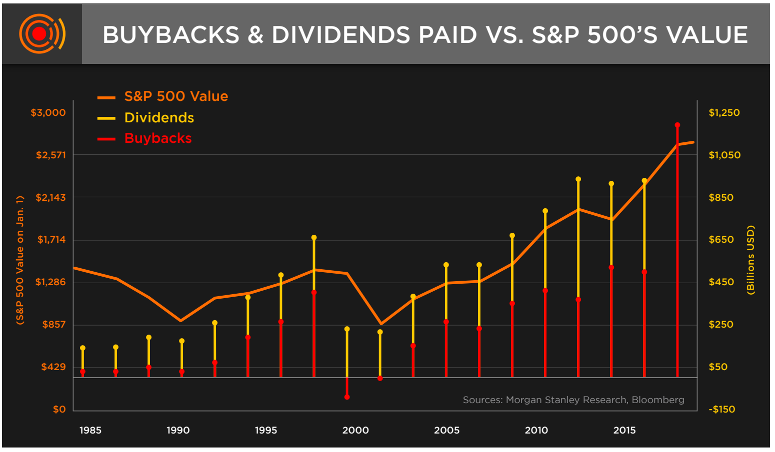
Again, the fact that these earnings are *empirically* dishonest is not the point now; dishonest or not, rising earnings push up markets, and like the dirty-cop Fed or that dirty-cop earnings game, one can't fight it. One can only ride with it for now.

Reason #3:
Stock Buybacks

As mentioned, the Fed has artificially (as well as dishonestly) kept rates low for over a decade; this means over a decade of record-high debt in the markets. Companies have used this debt to buy back their own shares at record levels since 2008...



Stock buybacks push markets up, for when companies buy back their own shares (i.e. drink their own Kool-Aid), the size of the share pools shrinks, and thus the value/data on the earnings per share artificially goes up, sending more investors chasing after stocks and thus pushing the markets up even further.



Reason #4:
Investor Confidence

At the end of the day, markets run on faith, and faith loves good news. Markets are no different – they run on good news, not *real* news, and certainly not *really bad* news.

The markets, for example, have been telling us for years about record-breaking "synchronized global growth," "low inflation," equally "record-breaking low unemployment," and even "profits and earnings surges."

That's all good news – great news. But again, and as I've shown *mathematically* elsewhere: Not one word of this is objectively true – *not a word of it*.

But as I've also said, there's no use in fighting a corrupt cop, corrupt Fed, corrupt accounting, or even a bias-contaminated and sell-side financial media if the markets are otherwise drinking the spiked Kool-Aid.

As I've written elsewhere, the greatest lie behind this otherwise duped investor confidence is the record-high job data coming out of D.C., which my free report ***The Unemployment Lie*** completely demolishes.

For now, the majority of trusting yet *misinformed* investors still think all of these "good news" reports are true, and thus the markets will continue to climb on this "fake news," – a phrase we are all otherwise tired of hearing...

Reason #5: Politics

Whatever one's politics, be it red, blue, or polka-dotted, we can all likely agree that politicians of every era, stripe, and leaning are primarily driven by one thing: staying in office – i.e. getting re-elected.

And nothing, and I mean nothing, kills a political career like a tanking market and tanking economy. One can just look at the terms of Jimmy Carter or the first George Bush for confirmation of this.

As for 2019, the last thing our current administration wants is a financial meltdown before the 2020 elections. That's why it put such inordinate pressure (or a "tweet storm") on the Fed to pause the Fed's prior rate-hike trend and balance-sheet tightening in March of 2019.

And the Fed, as we all saw, quickly and obediently bent to Washington, D.C., which is funded by Wall Street. There are five financial lobbyists from Wall Street for every member of Congress in D.C.

Such pressure to keep the Fed "dovish" cannot and should not be underestimated. There is tremendous pressure to keep the Fed "accommodative" – and thus the markets rising – into 2020.

Furthermore, any potential political "good news" quickly sends markets up. Take the tariff war with China. I've examined this is in great depth in a separate **special post on China** as well, and the math confirms that *nobody* wins a trade war.

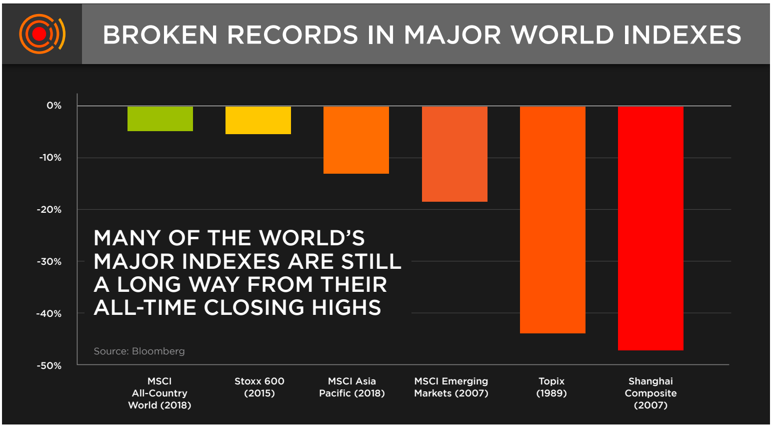
That fact aside, *any good news* regarding a "trade agreement" with China, or even *talks* of an agreement, will act as a short-term political tailwind for the markets.

The unspoken fact, however, that both the U.S. and China are otherwise too over-their-skis in debt anyway will be largely ignored in *the short term*.

Reason #6:
The U.S. Is the Best Horse in the Global Glue Factory

We have already shown (and will continue to reveal) just how fundamentally debt-soaked, Main-Street-sick and collectively (as well as historically) broke the U.S. is today. The data is objective and staggering.

But as someone who lives half the year in Europe and tracks global markets obsessively, I can report that as bad as conditions are in the U.S., they are *even worse* in Europe and Asia.



Again, we provide separate and extensive data confirmations elsewhere on the levels of debt and recessionary pressure in places like **China** and its real estate bubble or Europe, rotting from within thanks to Italy, Greece, Spain, and Brexit. For now, I am sticking to broader themes.

And the key theme to point out today is that European and Asian economies are poised to crash *prior* to the U.S. markets.

This means there could be a brief but very real period of foreign investors seeking a "safe haven" in U.S. markets, a force that will be a temporary but massive tailwind for otherwise dangerously over-valued U.S. stocks.

Right now, year-to-date flows from overseas confirm that the U.S. is still a "safe haven" – the best horse in the global glue factory.

Reason #7:
War Is Good for Markets

Contrary to both common sense and popular assumptions, both the facts of math and history confirm that war has been universally good for U.S. markets.

Once again, I have written a full and separate report on this, **War Is Sadly Good for U.S. Markets**, but I want to touch on some key themes here.

The simple facts boil down to this: When the world is fighting, money comes into the U.S.

After the Iraq war opened in 2003, for example, hundreds of billions of dollars flowed into the U.S. markets from the Middle East as NATO bombs landed on Baghdad. Between 2003 and 2008, the Dow rose steadily upwards.

During the Vietnam War (which killed 58,000 Americans and 1.2 million Vietnamese), the Dow gained 53%. When the war ended, the markets promptly fell – and fell hard. In the 1970s, unemployment, inflation, and market risks skyrocketed.

During the Great War (1914–1918), the Dow nearly doubled.

And as for WWII, the Dow rose by 164% between Pearl Harbor in 1941 and V-J day in 1945.

If one were to follow such simplified historical correlations, one might defy logic and be bullish rather than bearish in times of war – especially during our modern version of permanent war.

In the Middle East today, there are now eight countries officially at war involving over 160 different militia, separatist, and anarchist groups. And as for the globe in general, today 61 countries are actively engaged in war, with 540 anarchist, separatist, and rebel groups falling beneath this sad, statistical umbrella.

In short, as the world struggles in military quagmires, money flows to the "safety" of U.S. markets.

Other Reasons Markets Will Rise

In addition to each of the foregoing tailwinds, numerous data-focused experts have tracked other trends and cycle metrics, which point to near-term spikes in the U.S. markets *prior* to an inevitable and historical crash.

There are some, for example, who track the economic data and cycles of a long-dead Russian economist killed under Stalin. This otherwise unknown economist's pattern recognition was remarkably accurate in predicting booms and busts based on political division metrics, wealth disparity peaks and sovereign debt level data.

According to such metrics, the U.S. is ripe for one last market surge before a final and crushing collapse.

Others track demographic and Fed data with consistent accuracy, and they too are calling for a melt-up cycle in the near term, one that follows historical patterns (1748, 1838, 1928, 2008) that lead to a last-gasp, needle-peak high just before collapsing into a significant, historically painful crash.

Given these cycles, as well as each of the points and tailwinds we track at ***Critical Signals Report***, there is abundant evidence to foresee U.S. markets making a final and significant surge to record-breaking highs, with a Dow well past 30,000, which in fact is just 15% higher than where it is today.

At ***Critical Signals Report***, we will guide you through this melt-up cycle to capture these tailwinds and massively improve your portfolio returns.

One other and important caveat we are noticing, however, is that unlike prior market melt-ups, such as in the late '90s, we are not seeing the same "exuberance" or "mood" in this otherwise "most-hated bull market" in recent history.

That is, despite many similarities with past melt-ups – i.e. tech surges, rising IPOs, and excess valuation spreads – the evidence of "exuberant over-valuations" and ecstatic investor sentiment is generally not as pronounced this time around.

In this way, the recent rise in markets after the December pains may already be evidence of a more tempered "melt-up." In the end, the degree of this melt-up will hinge on interest rates and thus dangerous Fed manipulation/engineering.

In short, things are altogether "weird" out there, and the temporary rise ahead faces an even bigger fall thereafter.

We will warn you about the market meltdown that follows the melt-up. In our next report, we'll show you eight reasons/triggers for the equally inevitable (and historical) meltdown to come.

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