GordonTLong.com

NEGATIVE SURPRISES NOW DOMINATE!

ANALYTIC INSIGHTS

Gordon T Long
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2015 will actually be the first year *since 2007* without some form of quantitative easing!

During this six year period the Fed's Balance Sheet has exploded by over $4 trillion and the US Government has spent another $11+ trillion. Between October and November of last year, the Federal Government issued $1 trillion in new debt in one month.

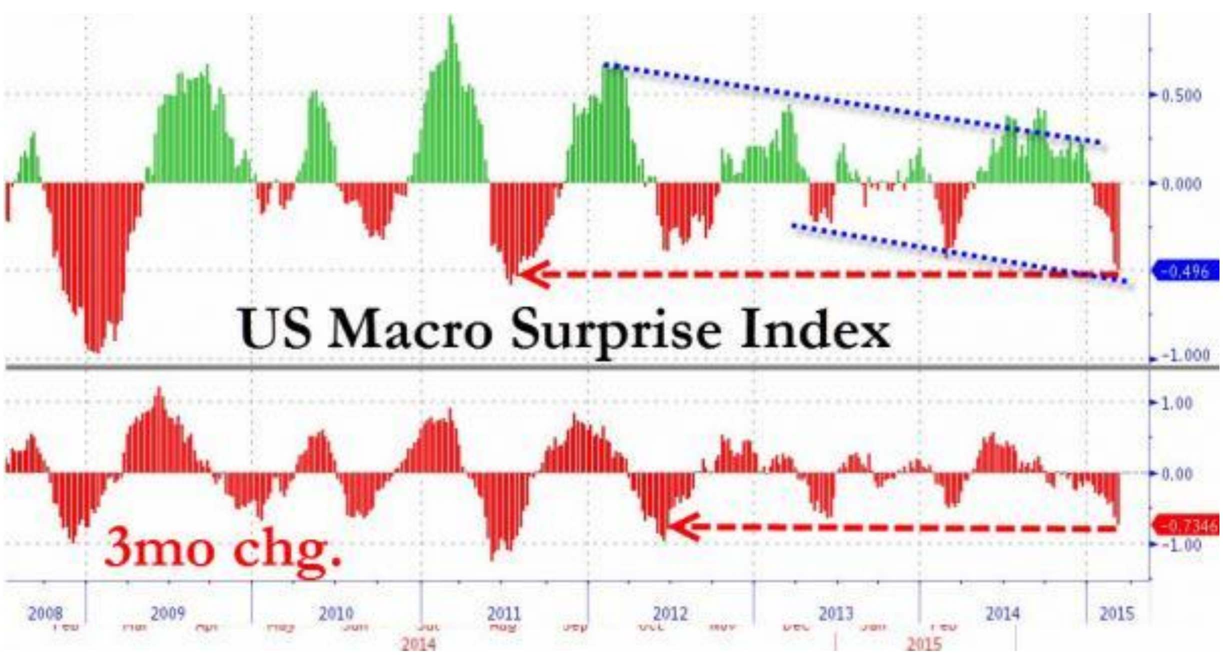
The bond bubble was $80 trillion going into 2008. Today it's over $100 trillion. The US had $5 trillion in public debt going into 2008. Today it has over $18 trillion.

Despite all of this the US has experienced the weakest recovery in 80+ years! That is assuming it's really a recovery? Every other recession going back to 1954 saw rates begin to rise a few years into the recovery.

It makes me pause and think that a year without monetizing bonds is going to be a big shock to the financial markets and stock traders.

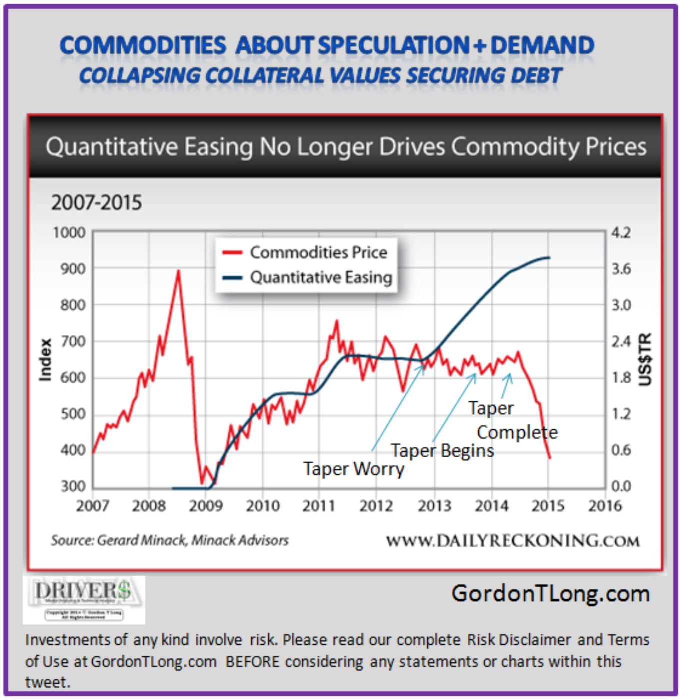
As we have spelled out in previous reports we are seeing global weakness around the world with very worrying signs coming from China and Emerging Markets. The US has been held up as the strongest economy with which to pin optimistic hopes.

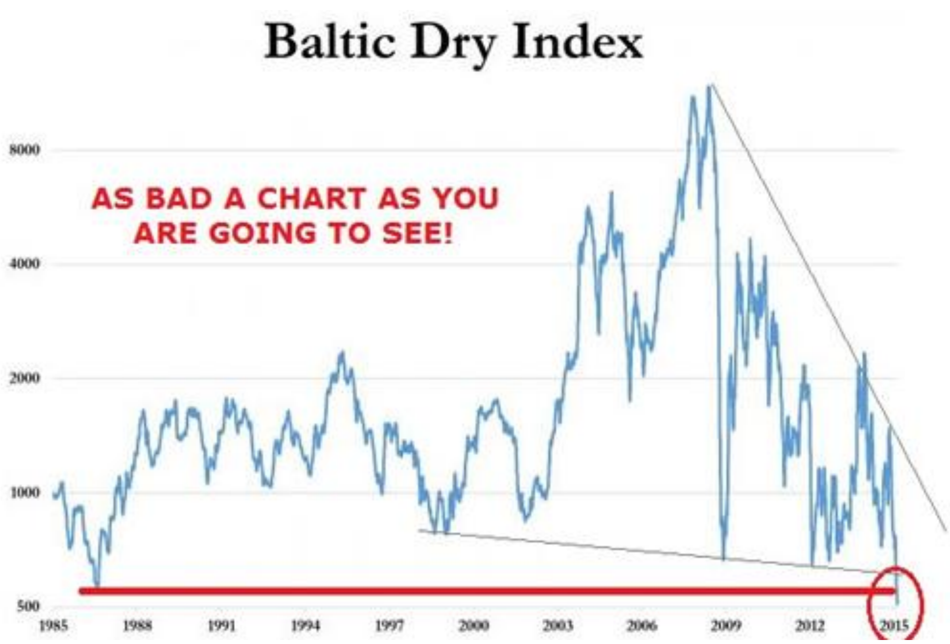
However, US Macro Surprises have suddenly become alarmingly negative (see bottom below) and are clearly following forward earnings estimates lower (above right).



"LEVERAGED" SUPPLY REACTING TO DEMAND

Highly leverage Supply was built out around the world to support elevated demand brought forward by Quantitative Easing and easy money. Investment was readily available. When TAPER talk started becoming a real possibility, commodities disconnected from rising stock prices and central bank balance sheets. Suppliers saw the potential for demand to be impacted and acted accordingly to protect over extended balance sheets. Commodities collapsed, the Baltic Dry hit a low not seen since the 80's and the world experienced an energy shook of falling prices. A temporary respite for debt burdened consumers.

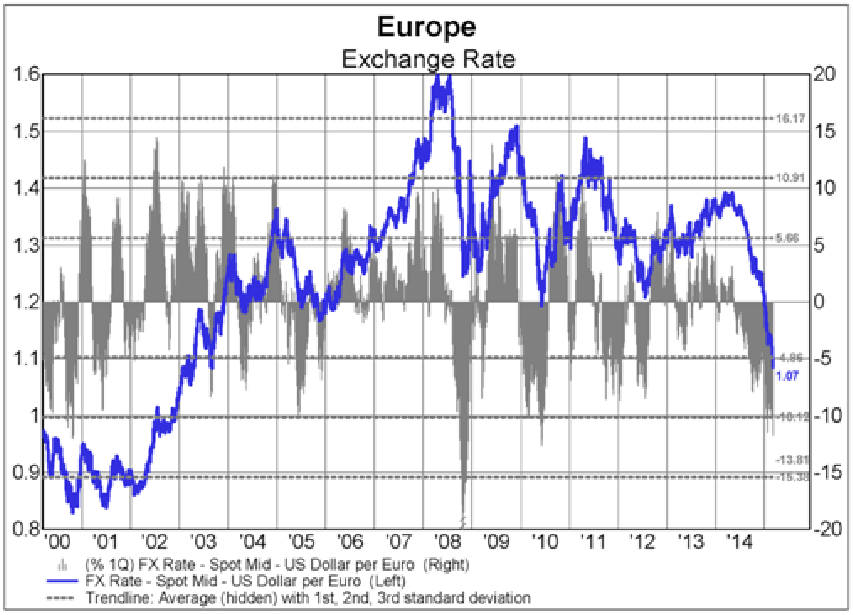




COLLAPSING EURO

To stimulate falling demand many countries have accelerated their efforts to gain competitive export advantage by devaluing their currency. Global Currency Wars have accelerated in intensity.

The Euro has followed the Yen into an unprecedented collapse. The strong dollar is more about collapsing Euro, Yen and Emerging Market currencies.

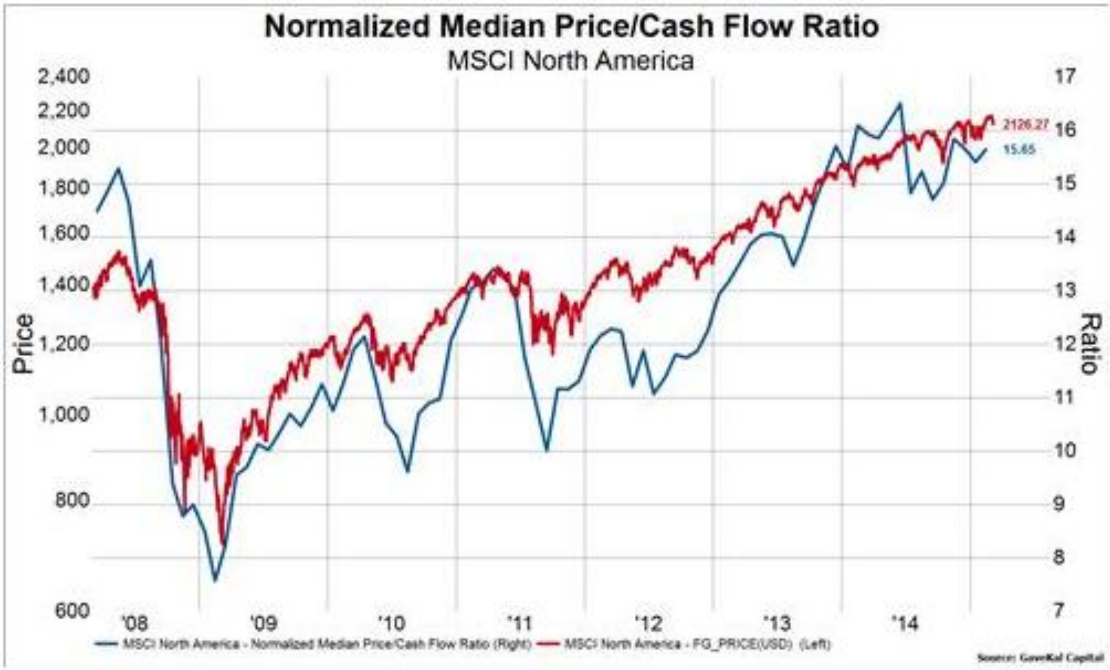


… and it is seen getting much worse!

Exhibit 1: We expect the euro will fall by 10% during the next 12 months
as of March 13, 2015

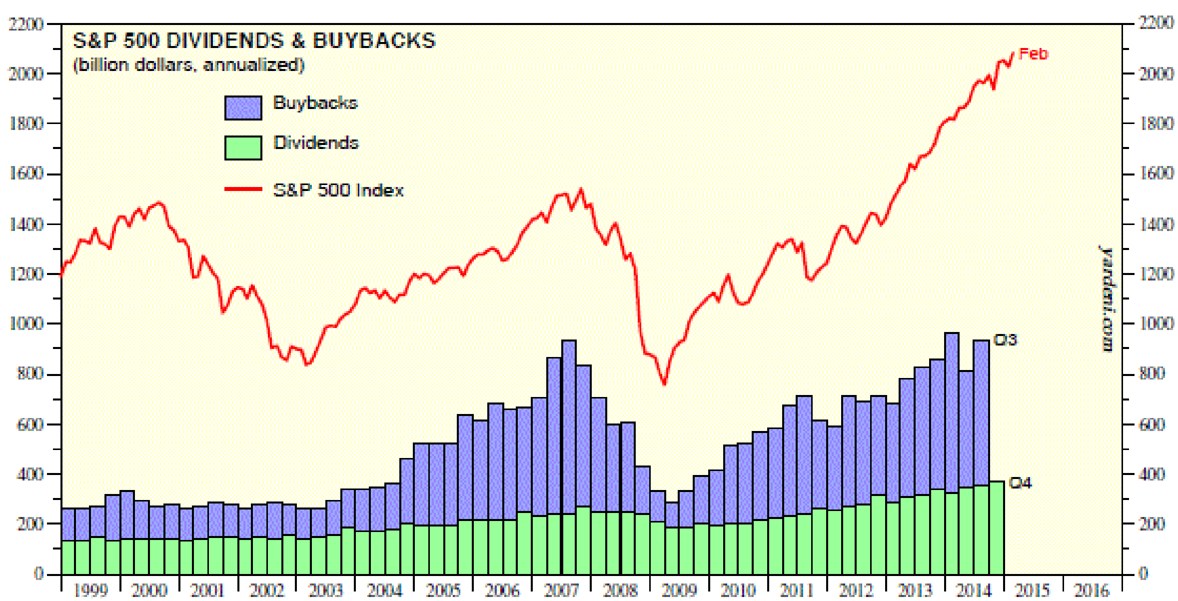
MARKETS CONTINUE TO BE OVER-EXTENDED

US Equity markets continue to be overvalued by any traditional measure.



BUYBACKS CAN'T BE SUSTAINED

When 90% of all profits are being returned to shareholders in the form of buybacks and dividends you know it is unsustainable and will soon come to an end. How can top line Sales growth be maintained without re-investment of profits?



Source: Standard & Poor's Corporation.

CRACKS BEGINNING

Many are obviously becoming worried. When Margin Debt starts to fall markets traditionally soon follow suit!

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