

Friday Pearls of Folly Oct 12

Never write off the US consumer, particularly when the Fed is providing them with financing.

There is a recovery underway in the US, beginning in housing, but through legislation and Fed policy, expected to extend to consumption through the potential monetization of home equity.

The Fed is not only no longer the safekeeper of the punchbowl, they are spiking the brew.

Given the track record of the experts, the EUR is likely to be strong, and European yields will go to zero in the long run, supporting bonds of Eurozone members, at least the ones who are less insolvent than others. Check out Euro area competitiveness and trade balances if you think I'm crazy.

Correlation is introduced between assets by vehicles which connect them in unexpected ways. For example, US treasuries being widely used as collateral in total return swaps can correlate with swap reference assets even if they are unrelated in any other way. Think of Gold ETFs done on swap.

Yield addiction beats rationality every time.

For every yield junkie, there exists a dealer.