1 Parasite

On Tuesday, March 3, 2020, the world's financial markets watched in stunned silence as Federal Reserve Chairman Jerome Powell announced an emergency interest rate cut of 50 basis points to the Federal Funds overnight interbank lending rate. At the time the Fed Funds rate was at 1.75 percent and Dow Jones was trading at 26,703 points.

> "My colleagues and I took this action to help the US economy keep strong in the face of new risks to the economic outlook. The fundamentals of the US economy remain strong."
>
> —*Jerome Powell*

Within minutes, the Dow Jones would sink over 1000 points. Powell's emergency move would ignite the most volatile few weeks in stock market history, causing the market whipsaw in 1000-point swings up and down in the coming days. As the week ended, what had been the highest flying stock market in history was monkey-hammered down over 10 percent and the rate on the "risk-free" 10-year Treasury had fallen to its lowest yield in history at nearly 0.3 percent. Unfortunately, this was just the beginning of a very long month.

President Trump, who for the first three years of his presidency had ridden the equity boom for all it was worth and had pinned his entire re-election campaign to the success of the economy in general and the height of the stock market specifically, seemed aloof to the situation. Weeks before, in February, he had enjoyed his highest ratings while in office as the stock market had boomed to all-time highs. On the night before the Fed's emergency announcement, Trump touted the American economy as the strongest economy in history and tweeted the following.

> "This is an incredible time for our nation—we are in the midst of the Great American Comeback! Jobs are booming, incomes are soaring, poverty is plummeting, confidence is surging, and we have completely rebuilt the awesome power of the U.S Military. PROMISES MADE, PROMISES KEPT!"
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> *Actual tweet, March 2nd*

What did the Federal Reserve know that the president didn't seem to? An outbreak of a virus in China called Covid-19 had spread in pandemic fashion globally. While the virus had originated and expanded quickly in China, causing government leaders to shut down much of their country and disrupting the global supply chain, it was initially viewed by most of the rest of the world as remote and temporary. That perception soon changed as the coronavirus spread across Europe, Japan, South Korea, and the United States.

The Fed understood the severity of the moment. This was less because of the medical science and more because they quickly realized the virus could be the catalyst they'd long feared. The coronavirus could be the black swan that could expose the entire global economy for what it was—a house of cards built on a mountain of debt, one that could collapse at any moment.

The immediate problem for the Fed was that the smart money was very aware of the economy's underlying weaknesses. For over a decade, the Fed had pumped liquidity into the system through a series of interest rate cuts and balance sheet expansions. Wall Street had taken full advantage. For over 10 years, CEOs and corporate executives had ridden the free-money elevator to the very top by taking on massive leverage and through stock buyback programs. The effect was a stock market that had risen to nosebleed valuations, completely untethered to underlying economic conditions. Stock prices had risen nearly 30 percent in the prior year while corporate earnings growth had turned negative for seven consecutive quarters. The annual chart displaying the trend lines between equities and earnings represented an "alligator jaw" that could collapse shut at any moment. The Federal Reserve hoped that the emergency cut announcement would signal calm to the market. The opposite occurred. On the announcement, Wall Street insiders, who had been looking for an excuse to exit, fled in unison.

This was definitely new territory. Over the course of the previous decade, the stock market had always reacted positively to additional Federal Reserve liquidity. What had often been bad news for the economy had been good news for Wall Street. The money changers realized that the worse the real numbers were, the more free candy the Fed would give away. The more "easy money," the bigger the sugar high and the higher the equity markets would rise. Anyone doubting that truth needed only look at the balance sheet of the central bank. Since 2009 anytime the Fed expanded their balance sheet, stocks soared higher. Any time their balance sheet contracted, stocks dropped precipitously. During this time, the phrase "Don't fight the Fed," once a Wall Street insider secret, became the popular investment strategy for Main Street investors.

This time, however, was different. Immediately after their emergency cut, the economy began seizing. Anyone expecting markets to soar on the lower interest rate news was made violently aware that the game was over. The rate cut didn't help to soothe the market. Instead, the paper markets dropped like a rock. The Fed's next regular meeting wasn't scheduled for another two weeks, which meant that markets would likely have to wait for more sugar. Those who believed the underlying economy was strong were surprised by the speed of the selloff. Those aware of the massive debt bubble underlying the economy turned immediately bearish. They understood that markets could drop much, much further.

The term *liquidity* as it relates to the paper investment markets means that assets have both buyers and sellers on either side of a transaction. When there are more buyers than sellers, asset values rise; when there are more sellers than buyers, asset values drop. When *everyone* is selling and *no one* is buying, it's called a *liquidity crisis*. As markets cratered in the days after the Fed's emergency rate cut, liquidity in the credit markets completely dried up. The spreads between the *bid* and the *ask* on paper assets widened massively. The lack of liquidity meant greater volatility. The VIX, an index that measures volatility and had hovered at a price of $15 for much of the past five years, rose to $82. This violent move wiped out multiple hedge funds who had been shorting volatility and using massive leverage. Within days, stocks dropped over 20 percent, their fastest fall into a bear market in history. The move ended an 11-year bull run, the longest running bull market in history. Markets that had been roaring just weeks earlier plummeted. Further emergency actions would be necessary, and sooner than the Fed's next scheduled meeting.

Adding literal fuel to the fire of the liquidity crisis was what was simultaneously happening in the oil markets. A game of chicken had broken out between former OPEC partners Russia and Saudi Arabia in the form of a price war. Rather than agree to oil cuts, a standard policy tool of the oil cartel during a demand shock, the Saudi's decided to increase production and flood the world oil markets with supply. In one week, oil prices dropped 50 percent from $44 to $22 per barrel. The Saudi's upped their daily production from 10 million barrels a day to nearly 13 million. This increase in supply was happening as the world's travel industry was shutting down. The combination equated to a terrible shock in both supply and demand. The oil collapse put additional pressure on the world's equity markets. Conspiracy theorists wondered if the price war in oil wasn't an indirect attack on the United States by Russian President Vladimir Putin.

Whatever the underlying reality in oil, it was clear that the Federal Reserve would need to step in with far more aggressive action. A second emergency press conference would take place on Sunday, March 15, and was intentionally presented *before* the premarket opened. In a live conference call, a jittery Jerome Powell announced that the Federal Reserve had officially cut interest rates to zero percent. In addition, he announced that the Fed had taken several other measures to ensure that the credit markets would continue to function. Powell continued to insist that these actions were being taken to "keep" the economy strong.

The actions contradicted the rhetoric of a strong and well-functioning economy. Over the course of several press conferences and additional Fed statements after their first emergency action on March 3, the central bank offered a bazooka of liquidity. In addition to pushing rates down to zero, the Fed also announced the restarting of 2008 crisis-era policy asset purchases. It offered US dollar swap lines and eased banking rules to encourage lending. It announced longer-term Treasury purchases and repurchase operations amounting to more than $1 trillion to address what was deemed "highly unusual disruptions in the Treasury financing markets associated with the coronavirus outbreak." The moves did nothing to help the market. In fact, they further ushered in the collapse, as investors wondered what the Fed was seeing that they weren't.

The extreme actions were signaling a much deeper problem to Wall Street. The following day, the stock market endured its largest one-day drop since the 1987 Black Monday collapse, falling 12 percent in one trading session.

By March 23, the Dow Jones had fallen 37 percent from its highs just six weeks earlier. According to Bloomberg, the collapse would wipe out $26 trillion from the equity markets from their February highs, nearly triple the wealth lost during the housing crisis in 2008. Despite assurances from the administration and the talking heads on TV, investors sold first and asked questions later. As investors fled the markets, the plumbing of the entire system got clogged.

The stock market exchanges have "shut-off" switches designed to stop the bleeding in a selloff. The action is called *limit down,* and anytime the market drops 7 percent or more during regular trading, or 5 percent in the after-hours market, trading is halted for 15 minutes. This collapse protection mechanism was added after Black Monday in 1987 when stocks dropped 27 percent in one day. They were put in place to eliminate mass hysteria selling. Since being introduced, the markets had only gone "limit down" in active trading twice in 33 years. In the two weeks following the Fed's first emergency cut, stocks would be sold so aggressively the market was turned off a record five different times in both regular and overnight trading sessions. The carnage was so deep that even safe havens like gold were sold as investors raced for the exits and liquidated anything with a bid.

The epic collapse would mark the fastest bear market in US stock market history. Unfortunately, news from the rest of the global economy was just as bad. Italy and France, who had already been suffering through economic recessions, both went into country-wide lockdown in an effort to stem the curve of the virus. Stock markets around the world collapsed in unison.

Central bankers from Australia, to Japan, to the European Union all held emergency press conferences and all slashed what had been record low rates even lower and into negative territory. They universally promised to unleash every "tool" at their disposal to fend off the economic collapse. They begged for fiscal support from governments in the form of tax cuts and stimulus packages.

On Tuesday, March 17, President Donald Trump, along with his Treasury Secretary Steve Mnuchin, announced plans for over $1 trillion in fiscal stimulus. The Treasury made it clear they were also prepared to pull out all of the stops. Their press conferences called for measures that were by far the most extreme ideas ever considered, especially by a Republican administration. In two weeks since touting "the best economy in American history," the president of the United States was proposing that the Treasury write checks to every adult American citizen for $1000 and delay the tax deadline indefinitely. In two weeks, the country went from capitalism to socialism. The act alone if approved meant that the Treasury would need to spend $1 trillion in the form of direct payments. They would also be short the $400 billion they had been budgeted to collect in April, the biggest month of the year for tax collection. By Sunday, March 22, the proposed stimulus package had risen from $1 trillion to a total of $4 trillion in emergency liquidity. Of course any fiscal stimulus would need the approval of Congress.

On Sunday night, March 22, Minneapolis Federal Reserve Governor Neil Kaskari was interviewed on prime time on the longest-running show in television, *60 Minutes*. In an orchestrated interview, Kashkari sent a message to the markets. The Fed would print as much new money as was necessary and wouldn't stop. It was as close to a hammer and nail as you'll ever hear from a central banker. The message was clear. The Federal Reserve was going to do everything in its power to weaken the dollar. By Tuesday, the price of gold surged over $200 per ounce, it's largest two-day move in history.

The actions of the Federal Reserve and other central banks around the globe, coupled with the promises of fiscal relief from the US government, represented an historic onslaught of never-before-seen monetary and fiscal stimulus. These stimulus packages would be unleashed everywhere around the globe. *The Great Devaluation* had officially begun.

While these actions were shocking to most investors in the world, some were prepared. I was among them. These were events that I had been predicting for over two years. I not only expected what was coming, I had also game planned what was coming next. These events occurred as I submitting the final manuscript for *The Great Devaluation* to the publisher. While I wasn't certain what was going to happen in the short term, I felt confident that the road ahead was going to be a long and painful depression that would witness the largest transfer of wealth in human history. The Great Devaluation coming in the 2020s could prove to be more painful than the Great Depression of the 1930s.

The main question that no one seemed to be asking was, "Where was all of this money going to come from? Governments around the world were all broke. Over the previous 20 years, global debt had risen sevenfold. No country in the world was solvent. Even Germany, which had since the days of the Weimar Republic been stoic defenders of sound money, caved. Germany announced it would issue over $400 billion in new debt, amounting to 10 percent of its entire GDP. Making matters all the more real, on Sunday March, 22, German Chancellor Angela Merkel announced she was undergoing a 14-day self-quarantine due to concerns she had contracted the virus.

The combination of the oil shock and coronavirus presented a black swan. A *black swan* is an event so big it changes the entirety of mankind's perspective. These events are characterized by their extreme rarity. They cause catastrophic damage to the economy and cannot be predicted by any standard forecasting tool. A black swan event by definition is unpredictable.

The coronavirus was a medical black swan that was spreading globally. The virus attacked the human respiratory system and was highly contagious. Early reports were that the mortality rate was nearly 3 percent. For the young and the strong, the virus wasn't deadly. This reality only further enhanced the true danger for those most at risk. Signs for most people often went unnoticed. Many who contracted the virus showed no symptoms whatsoever. Those who did often were unaware until as many as 14 days after contracting the virus. This fact made the virus much harder to contain, since individuals carrying and transmitting the virus often were unaware that they were even infected.

Early on, the president called the virus a "hoax from the left." He argued the virus was a political football being used by Democrats to make the administration look bad. Even after the emergency cut from the central bank Trump seemed disconnected to the gravity of the situation. He continued to tell the country that the pandemic was "under control." While the governors of New York, California, Illinois, Ohio, and Pennsylvania had all ordered statewide lockdowns, Trump refused to admit the nation needed to be shut down. His dismissive tone in the early stages only further enhanced the chaos that was to come. Trump and his chosen scientists held press conferences nearly every day. While his top scientist Anthony Fauci warned of the true danger, Trump insisted it would all quickly blow over and that there was little for most Americans to worry about. He seemed far more concerned about the stock market than the impending health crisis. By St. Patrick's Day the president had changed his tune. There was no denying the reality of the health crisis. People were dying.

In the course of just two weeks, the Federal Reserve would unleash an alphabet soup of monetary stimulus. On Tuesday, March 17, the Fed relaunched CPFF, a Commercial Paper Funding Facility offering liquidity to businesses and households, and PDCF, which supports primary dealers stuck with large inventories of commercial paper. On Wednesday, the Fed established MMLF, the Money Market Mutual Fund Liquidity facility, an emergency liquidity program to back the money markets. On Thursday the Fed opened up USD liquidity swap lines with a wide set of central banks. The Federal Reserve had taken on the responsibility of lender of last resort to unthinkable levels. What few people would understand is that these extreme measures became necessary because of the actions taken over decades by the central banks of the world. The central banks were the arsonists and were being called on to put out the fire of their own making.

By March 22, just six weeks after the highest stock market of all time, central banks and governments around the globe had added an additional $3 trillion in liquidity and were proposing another estimated $7 trillion in the coming weeks.

The coronavirus, it turned out, was also an *economic* black swan. The term *underlying conditions* refers to structural issues beneath a surface that impact the foundation. These two words quickly became a part of the world's vernacular. Medically, they referred to the dangers that the virus imposed on weaker individuals suffering from health conditions. While the virus was sometimes unpleasant for the strong, it was proving deadly for those with high blood pressure, diabetes, heart disease, cancer, asthma, and other chronic illnesses.

The words *underlying conditions* perfectly applied economically as well. No two words better described the world economy. The reality was that the economy that had been touted as the strongest in American history was a mirage—something that looked strong from the outside but suffered from serious underlying conditions. The entire foundation of the global economy had been built on a pile of cheap and leveraged debt. The coronavirus could very well prove deadly to the entire monetary system that had stood for more than 75 years. Not only was the system old, it stood on a broken foundation suffered from underlying conditions of insolvency too big to overcome.

The problems facing the world were so much greater than just the financial insolvency. An underlying condition of polarization and anger had grown rapidly amongst the people of the entire world. It was an anger derived from inequality suffered by decades of monetary manipulation. The culprits were the central banks themselves, most especially the Federal Reserve, and their response to the crisis would put a spotlight on their culpability.