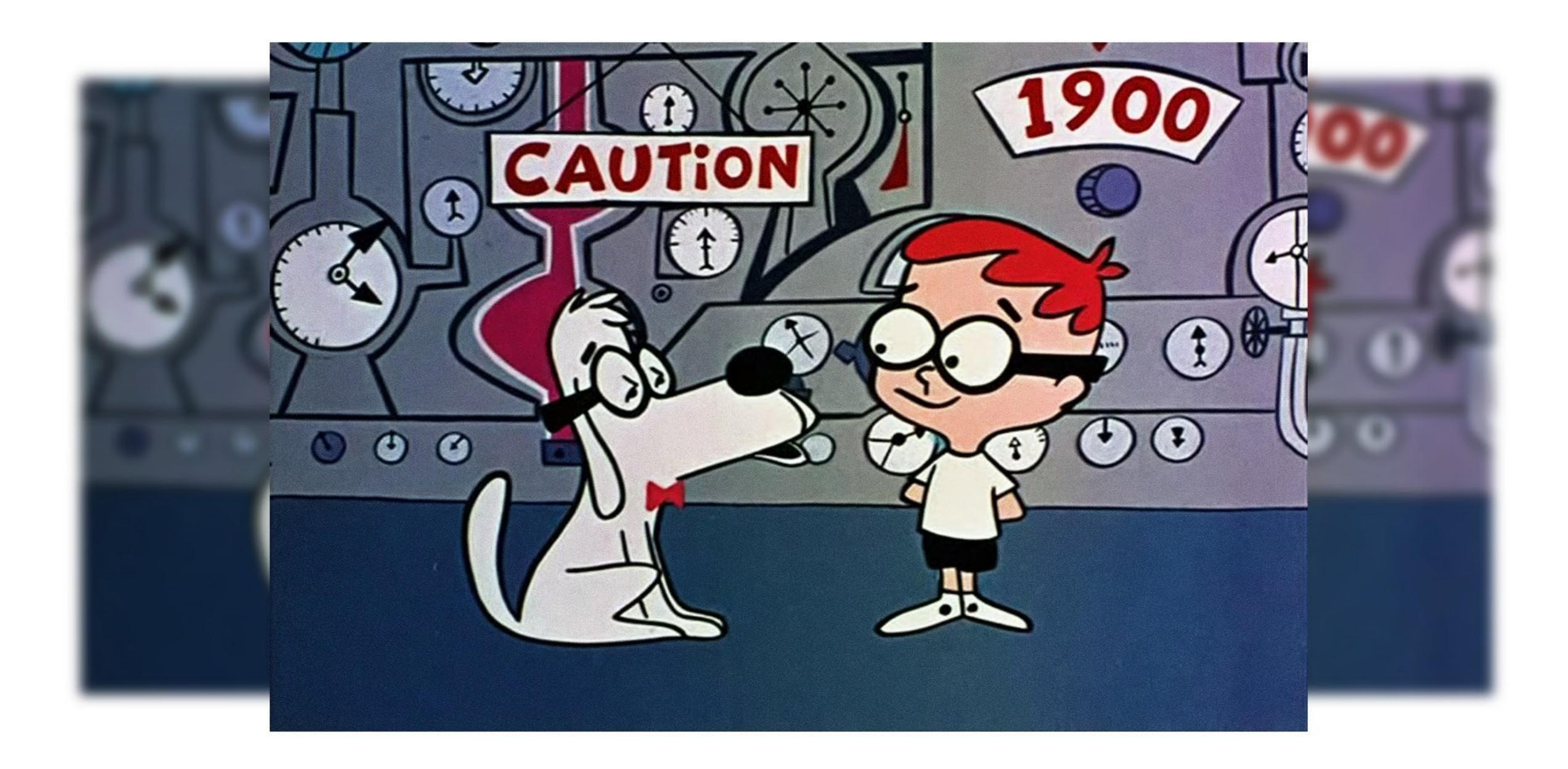
TIME TRAVELER

By William H. Gross | March 22, 2024



I came upon a time machine quite innocently the other day as I was hunting for a wayward drive off the 8th tee on a golf course in toney Newport Beach. Skipping the incredible details of my discovery, let me just say that it couldn't take me into the future but was programmed to take me 20 years into the past a la Rip Van Winkle in reverse. It showed me the difference between now in 2024 and then in 2004, as I had forgotten much. In the interim here are some of the changes it reminded me of:

- College athletes are now paid on top of the table instead of under it!
- Bikinis on the beach now feature butt cracks instead of yellow polka dots.
- Gas prices have doubled but no worries: drivers can now fill up their tanks with electricity.
- Passengers are now required to take off their shoes before boarding planes, and you have to pay for water, as well as the rubber chicken.
- No faxes anymore. Messages called "texts" today are now sent over little "cell phones." The world has 5 billion of them in 2024.
- Biological males now compete in female sports thanks to "woke nation's" pursuit
 of diversity and lack of common sense.
- Red carpet actresses display 99% full frontal instead of plunging cleavage.

- Hal has changed his name to Al or ChatGPT or whatever. He's still trying to control the world though.
- Bill Gross has aged from 60 to 80, exposing cracks in the mirror as well as his golf game.
- 10-year Treasury yields over 20 years are unbelievably unchanged at 4.2%, but stock prices on the Nasdaq 100 are 12 times higher than in 2004. Jeremy Siegel's "stocks for the long run" have done just that!

So #10 is what concerns most of you I'm sure so I'll stick with that instead of expanding on changes in ladies dress codes. First of all I find it remarkable that 10-year interest rates are unchanged since the beginning of 2004 although the interim saw huge swings, mostly in my opinion due to mistakes in Fed policy. First too tight until 2007, then too loose from 2009 onward until 2022. Cramer's famous rant that "they know nothing" characterized most of the 20 years and believing now that they "know something" is more hope than pragmatism. Yes there was a financial crisis (but because the Fed had no knowledge of "shadow banks" and their hidden leverage) and Covid which pumped up fiscal deficits to \$3 trillion and more. But 0% interest rates from 2009 to 2022? An old saying from centuries past in the gilt market said that "John Bull can stand many things but he can't stand 2%" -- meaning yields too low create "exuberance" in financial markets that Alan Greenspan wondered about but never answered.

There should be no doubt that a decline in 10-year real interest rates from 2% in 2004 to a negative 1% in early 2022 had something to do with the twelvefold increase in the Nasdaq 100 although corporate tax rates, historically high profit margins and earnings, as well as momentum, momentum, momentum, were largely responsible. And the fact that the stock market has been unaffected by the 300-basis point rise in 10-year reals over the past 2 years tells an observer something. It tells me that fiscal deficit spending and AI enthusiasm have been overriding factors and momentum and "irrational" exuberance have dominated markets since 2022. But "how will we know" as Greenspan once queried? Hard to say. An investor can only gauge a measure of his/her own exuberance and assume it somewhat resembles the masses. That and high Shiller P/Es and the potential for Fed cuts in the second half of 2024. And continuing fiscal deficits in the \$1-2 trillion range as far as one can see will continue to prop up the economy.

My exuberance in the past 12 months has been confined to MLP pipelines and regional banks. MLPs have never been covered by the press and are unowned due to legal constraints by most mutual funds. That and higher oil prices have led to 28% average gains along with 9-10% tax-deferred yields since 2023. Better total

I mention this not to slap my own back because I have been whipped back and forth by AI favorite Broadcom -- first short then on the long side this past week. It hurts to be irrationally exuberant on the wrong side of exuberance -- especially when I know nothing about the company except it's a big AI "wonder stock."

So where from here? The MLPs are far above RSI and Bollinger Band averages. Be cautious. I do like WES though. The market doesn't seem to know about its recent 40% hike in its dividend and its current yield of 10.1% -- tax deferred.

Banks? I tweeted ("X'ed") recently not to try and catch a falling knife, but if the Fed lowers short rates later this year, they could catch a bid. Some like Truist (TFC) are relatively clean as far as commercial real estate and trade at .89% of book. Be exuberant in a month or so.

And lastly about 10-year Treasury rates. Too much supply. And real rates at 2% imply a 2.3% breakeven rate against inflation with 10-year nominals at 4.3%. If inflation gets to 2.3% by the end of the year (not likely in my book) what can the 4.3% yield do? I don't understand any of the new bond gurus on CNBC when they tout bonds over the next 12 months. Bet on a flattening of the negative yield curve. Sooner or later it must go positive if the economy is to stay positive. I am long 2's and short 5's and 10's.

We will all be time travelers over the next 12 months and beyond. Travel Safely. Buckle up for excessive exuberance.