



The Big Squeeze

Last week, I talked about trouble brewing in bond land.

There's been a massive rally in stocks. It's a trade that worked out beautifully, and I highlighted my aggressive buying during a deeply oversold and pressed market in this space.

The easy days are...OVER!

Market sentiment is too complacent now, and my concerns about the bond market are greater than they were a week ago.

Since I published my piece last week, Moody's has downgraded the U.S.' long-term debt.

Long-term U.S. bonds and the U.S. Dollar are often reliable safe havens during turbulent times. Neither provided much cushion during the recent stock market malaise.

Now the trends are moving in an unfavorable direction.

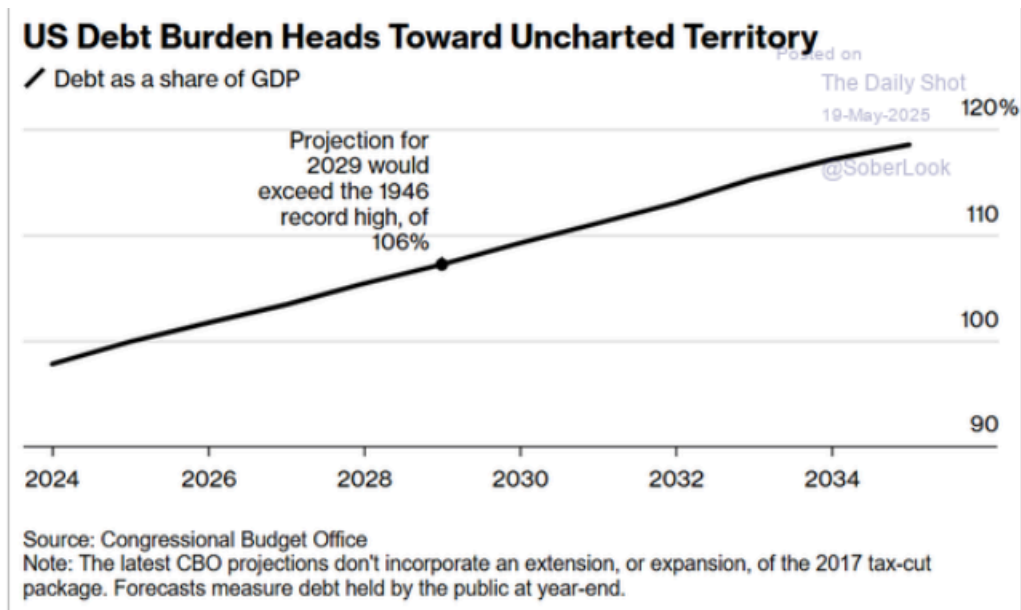
Rates are on the rise big time.



The Dollar is also tanking.



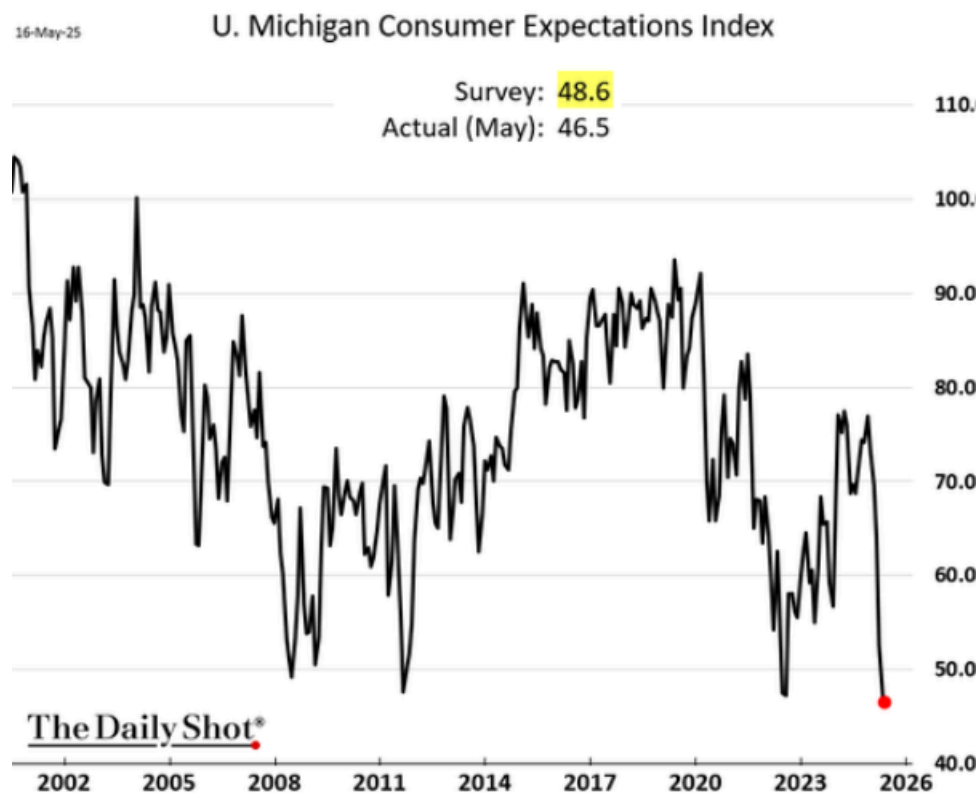
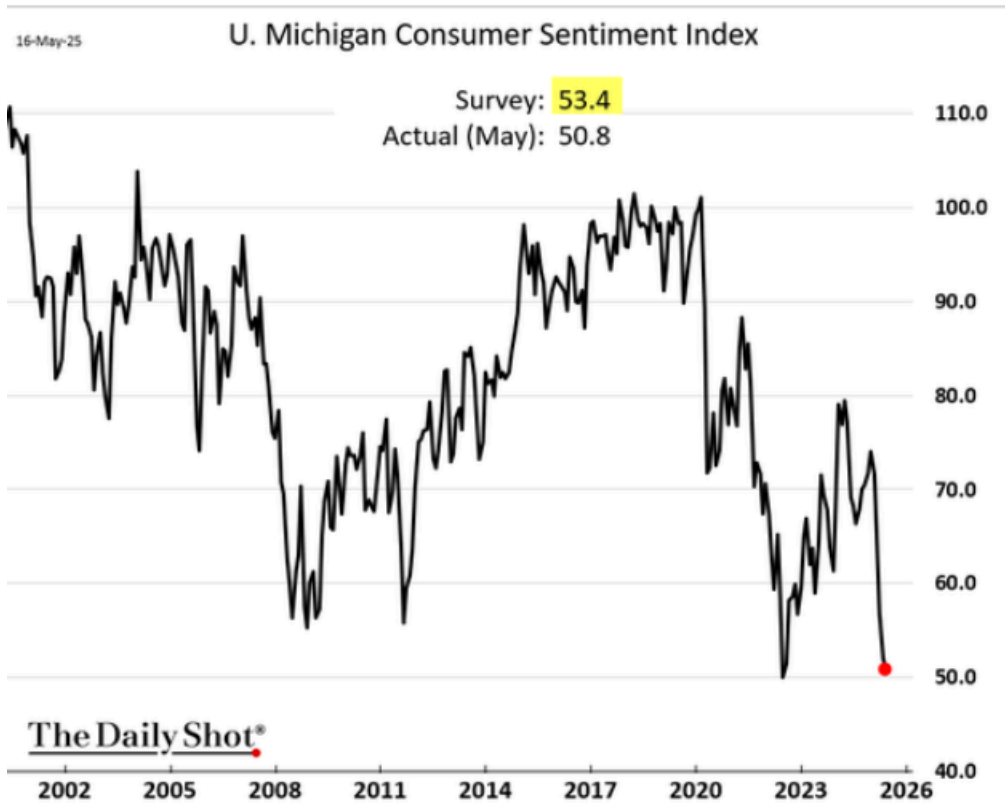
Meanwhile, the debt troubles only get worse. Never better. And, let's be realistic. Almost none of this stuff can be cut, no matter who is in charge at the White House.



Trillions of dollars of debt are going to roll at much higher rates. The same can be said for the commercial real estate market. According to the Mortgage Banker's Association, 22% of commercial real estate debt, or \$957 billion, is set to roll in 2025.

That won't be pretty.

At the same time, consumer sentiment and expectations are nosediving.



To be clear, the economy and the stock market are two separate things. One problem for the stock market is that companies borrow money at cheap rates to buy back their stock. This factor has been the key driver of stock market returns since the Great Recession.

Those days are over.

Companies will now have to fend for themselves with strong financial performance when the cost of capital has gone up. Furthermore, end consumers are becoming entrenched.

As a result, I think this will be a good market that differentiates between winners and losers. Low-quality companies are likely to suffer now that the big rally is over (low-quality stocks often bounce the most from a deeply oversold condition).

That sets up well for many of my models, although 2025 may continue to be challenging. Another butt kicking that takes all stocks down in the short-term wouldn't be out of the norm. That is the base case.

I'm taking it one day at a time.

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