

Alps Precious Metals Group

Commentary – July 1, 2021

Valuations, Part Deux - Bonds

From Q4 2005 through Q1 2010, I was a co-founding partner of Point Clear Capital Management. Our firm was formed because of financial market conditions which we believed offered an historically rare chance to short corporate bonds given their extreme overvaluation. We believed we had a once in a lifetime opportunity - and we were wrong. As the Bloomberg article below describes, we have come full circle back to the valuations that were described at the time as “out-of-touch with reality”, “silly” or “insane” in the ubiquitous writings of the smoldering aftermath. Somehow, someway, here we go again:

U.S. Junk Bond Coupon Sets Record Low in Race to Rock Bottom

By [Alex Wittenberg](#) June 25, 2021, 11:00 AM CDT

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Centene prices high-yield notes at 2.45% amid strong demand

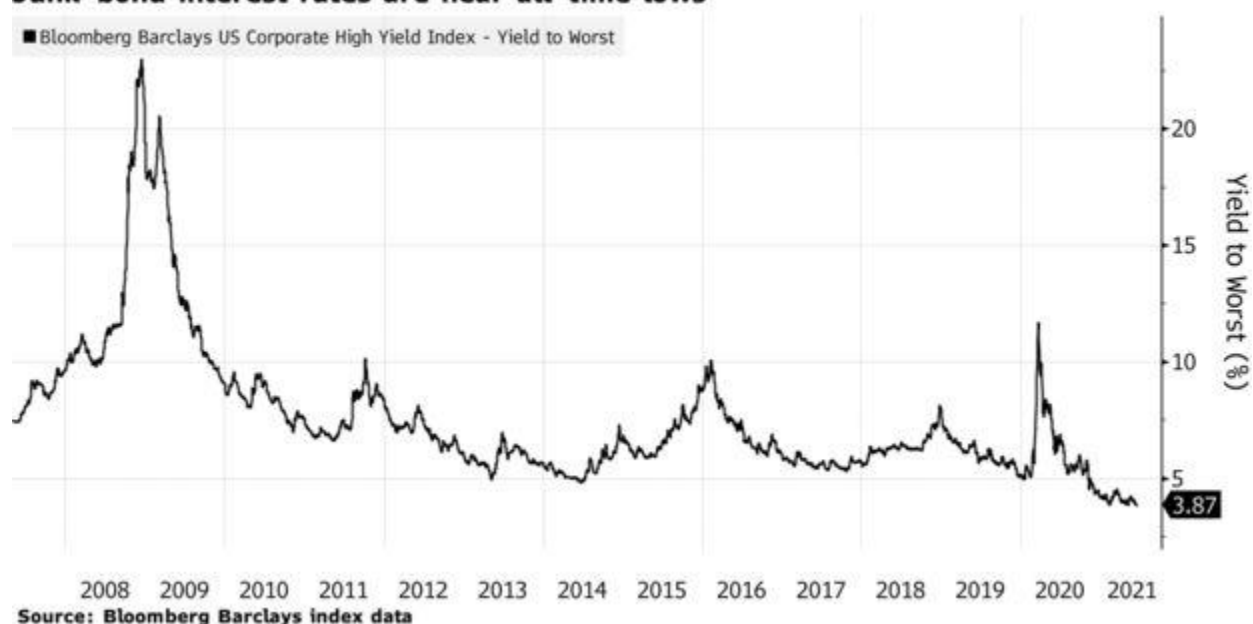
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Junk supply continues to expand as rates to borrow fall

Centene Corp. sold \$1.8 billion of junk bonds with a record-low coupon for the high-yield market in a sign that investor demand for debt is making cheap financing ever more available to speculative-grade borrowers.

The health-care company priced its sale Thursday with a yield of 2.45%, said a person with knowledge of the matter. That's an all-time low for a U.S. junk bond maturing in seven years or longer, according to data compiled by Bloomberg. High-yield spreads have tightened to levels not seen since June 2007 amid a relentless rally in speculative-grade debt. Investors are still pouring money into the sector as they search for yield in an era of historically low rates. Average junk-bond yields stand at 3.89%, just five basis points from their all-time low.

High Yield in Name Only Junk-bond interest rates are near all-time lows



Centene's bonds are rated one notch below investment grade by Moody's Investors Service and Fitch Ratings.....

Companies have sold \$8.6 billion of junk-rated debt this week to bring total volume for June to \$34 billion. Investors have made a beeline to new bond offerings this year, while low funding costs and a rise in oil prices have encouraged companies to seek debt financing. The market has rallied despite some concerns among investors that inflation will pick up and undercut the value of bonds.

Junk-rated borrowers of all stripes sold a record amount of notes in May, and even first-time issuers have found highly receptive buyers. Square Inc. last month raised \$2 billion in its debut after raking in \$6 billion of orders.

Source - <https://www.bloomberg.com/news/articles/2021-06-25/u-s-junk-bond-coupon-sets-record-low-in-race-to-rock-bottom>

Centene Corporation is paying a mere 2.45% per year to borrow \$1.7 Billion for 7 years. Centene is rated BB+/Ba1 by Fitch and Moody's, respectively. Bonds with such ratings have an average default rate of 19%. Compare and contrast to AAA rated corporate bonds which have an average default rate of 0.52% - meaning that the risk of default on the typical Ba1 issuer (such as Centene) is 35x to 40x higher than the best corporate credits available.

Cumulative Historic Default Rates (in percent)

Rating categories	Moody's		S&P	
	Municipal	Corporate	Municipal	Corporate
Aaa/AAA	0.00	0.52	0.00	0.60
Aa/AA	0.06	0.52	0.00	1.50
A/A	0.03	1.29	0.23	2.91
Baa/BBB	0.13	4.64	0.32	10.29
Ba/BB	2.65	19.12	1.74	29.93
B/B	11.86	43.34	8.48	53.72
Caa-C/CCC-C	16.58	69.18	44.81	69.19
Investment Grade	0.07	2.09	0.20	4.14
Non-Invest Grade	4.29	31.37	7.37	42.35
All	0.10	9.70	0.29	12.98

Note the following table of stunningly priced, recent bond “deals”:

High Yield USD Corporate Bonds Maturing in 6 to 8 Years – By Lowest Coupon					
Issuer	Issue Date	Maturity Date	Bond Rating	Size (\$ mn)	Coupon (%)
Centene Corp	1-Jul-21	15-Jul-28	BB+	1,800	2.450
T-Mobile USA Inc	14-Jan-21	15-Feb-29	BB	1,000	2.625
Ford Motor Credit	16-Feb-21	16-Feb-28	BB	750	2.900
CrowdStrike Holdings	20-Jan-21	15-Feb-29	BB-	750	3.000
CDW Corp	13-Aug-20	15-Feb-29	BB+	700	3.250
American Airlines	3-Oct-16	15-Oct-28	BB+	204	3.250
T-Mobile USA Inc	23-Mar-21	15-Apr-29	BB	1,250	3.375
Twilio Inc	9-Mar-21	15-Mar-29	BB-	500	3.625
American Airlines	16-May-16	15-Jun-28	BB+	205	3.650
Royal Caribbean	28-Nov-17	15-Mar-28	B	500	3.700

Source: Bloomberg | Showing only bonds with amount outstanding >\$100mn

Point Clear Capital was born because we were extremely confident that the madness of the crowd in 2007-2008 would lead to an inevitable and unpleasant conclusion. Fortunately, we positioned our funds in such a manner that our clients enjoyed positive returns when few were to be found. Today is no different in the bond market, and one can rest assured that a new film entitled “The Big Short, 2.0” will be in theaters soon.

So what’s all this fixed income information have to do with Gold and Silver? Remember that the true, sustainable bid for Precious Metals prices arrives to the scene when the “world goes chaotic”. Inflation, which is the direct result of the debauching of the currency (to which we all have a front row seat in these corrupt days), is certainly an outward and visible sign of chaos. However, it is not the only sign. Massive DE-flation (see the Great Depression when Gold stocks rallied from 1929-1933 when all other equities fell in value), and sometimes even DIS-inflation (see 2001-2011), are also the signs of chaotic times. Stagflation, that lovely phenomenon last seen in the 1970’s, may be the worst of all possible worlds – a slowing/anemic economy accompanied by rising prices – yet it was the *best* of all possible worlds for Gold as it rallied from \$35/oz to \$800/oz.

Another sign of chaos is a collapsing Bond market. What was true about the last time the Bond Market got this disconnected from reality? Go back a mere 14 years and one finds the beginning of the Great Recession. The current pricing of the bond market is yet another megaphone telling us that the end of the present silliness in “markets” is closer to the end than the beginning. And what is different this time? When the bond market began to fall apart in the summer of 2007, the Fed Funds rate, the Federal Reserve’s main instrument to affect the markets, stood at 5%. Today? It’s at essentially 0%.

The next stop after 0% is negative interest rates. Bother not with what Fed officials have muttered in the past about “not going there” – there they will certainly go if capital markets are caving in. And negative interest rates combined with any inflation at all means massively negative real rates, which is both chaotic and the most fertile ground in which the price of Precious Metals can thrive.

To conclude, here are a number of hyperlinks that the always insightful Jesse Felder attached to his e-mail of June 26, 2021. Bonds and the predestined flight path of the current euphoria are all addressed in short, yet broad, strokes;



Jesse Felder
@jessefelder



'With U.S. deficits set to rise, the country will have to sell a lot of bonds. As a result, the Fed won't be able to taper or cut back on its own purchases of bonds and may have to actually step up those purchases to prevent interest rates from rising.'



Ray Dalio says Fed can't tighten 'without having big, negative effect' on markets
Billionaire hedge-fund investor Ray Dalio says the Federal Reserve might find itself in a jam where it can't significantly tighten policy "without having a...

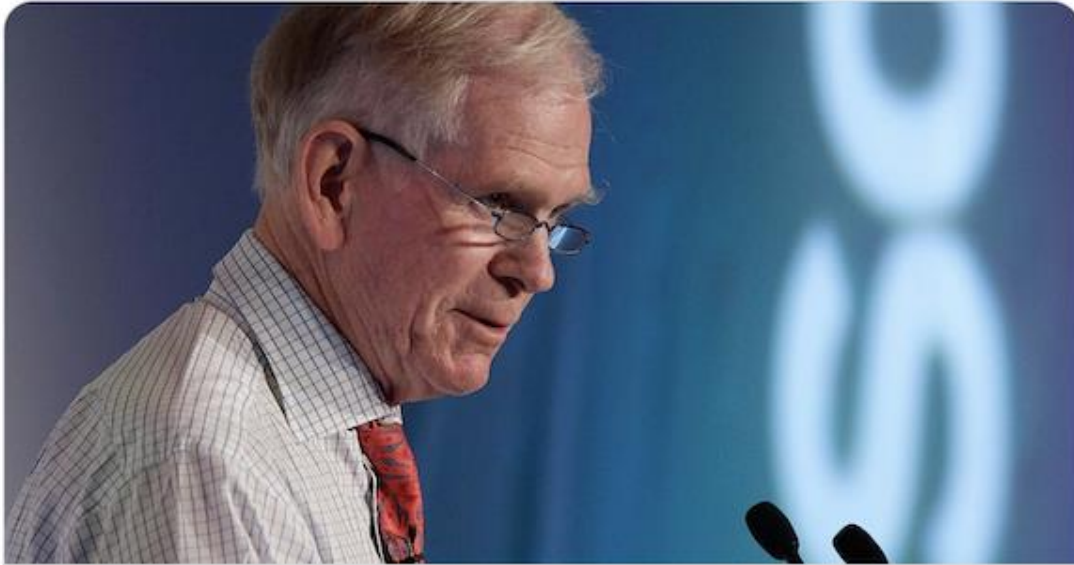
[marketwatch.com](https://www.marketwatch.com)



Jesse Felder
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"This is it guys, the biggest U.S. fantasy trip of all time."



Bubble Expert Jeremy Grantham Addresses 'Epic' Equities Euphoria

It's been just over a year since the last stock market crash, and investors are wondering if another one is on the way. With economic momentum slowing as ...

[bloomberg.com](https://www.bloomberg.com)



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'Throughout history, when manias fade, prominent figures who amass wealth through deception posing as optimistic innovation end up bankrupt and sometimes exiled, spat out by the empire that sponsored their wild experiments.'



The Coming Collapse of Elon Musk

The modern-day John Law is slowly losing control of the "green genius" narrative

concorda.substack.com



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"All hype/speculation is doing is drawing in retail before the mother of all crashes. When crypto falls from trillions, or meme stocks fall from tens of billions, Main Street losses will approach the size of countries. History ain't changed."



Michael Burry Warns Retail Traders About the 'Mother of All Crashes'

The fund manager of 'Big Short' fame issued a stark series of tweets about cryptocurrencies and meme stocks.

[bloomberg.com](https://www.bloomberg.com)

Alps, LPMG, St. Joseph Partners and Monetary Metals

Alps Precious Metals Group via our partnerships with Liechtenstein Precious Metals Group (Global and Offshore clients) and St. Joseph Partners (U.S./Canadian focused clients) is dedicated to providing the global standard for the finest and most secure storage and trading of Physical Precious Metals. Our Vaults have some of the highest security standards in the world (“Class 10” at LPMG) and, via our insurance partners, each client’s specie is insured at 100% of its market value. Our trading desks provide liquidity on each and every business day with as little as next day settlement. All of these benefits are enjoyed while simultaneously being freed from the status quo global financial system.

We have an additional partnership with Monetary Metals (“MM”). MM has a unique niche in the Precious Metals markets, which is summarized in their motto: “A Yield on Gold, Paid in Gold”. For investors who would like exposure to the Precious Metals sector but require an income flow from the investment, our partnership with MM can provide the same.

Contact us (www.alpspmg.com) to discuss how Alps can become a trusted partner in the creation, protection and utilization of the hard money portion of your portfolio.

James P. Hunter
Managing Partner
Alps Precious Metals Group

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