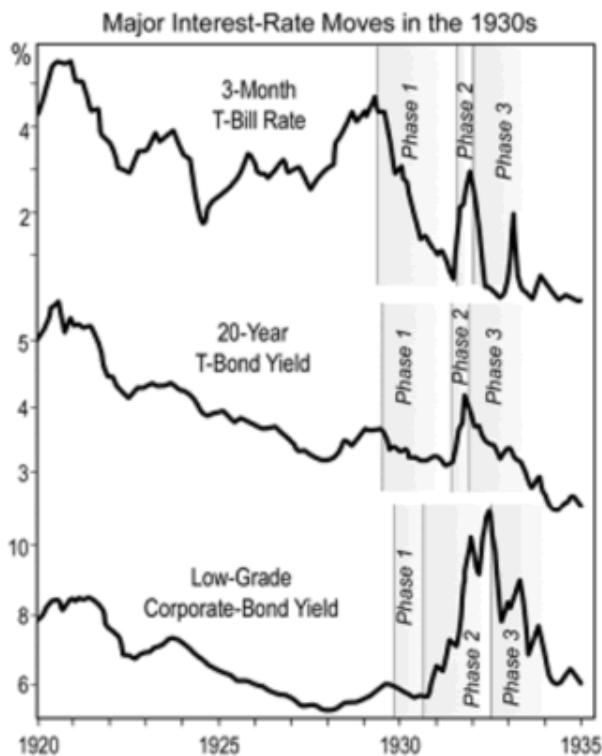


Bailouts Usher In Next Crisis

History (and our recent Report titled "The Invisible Hourglass") suggests how this financial episode will end. The bailout borrowings are ushering in [the next wave of the crisis](#). Just like the bankers who could not see their own downfall, it is the politicians and their Keynesian advisors that are now pushing us over the second cliff. As expected, [the Treasury bond yield has risen sharply](#) from 2.53% to over 4.5% in 5 months. [The Fed is confused](#). According to Russell Napier (author of Anatomy of the Bear), [yields over 6% could cause the next leg down](#). He expects this within the next two years. We disagree, there's no definite trigger point. As we mentioned in The Haughty Bond, yields rose as investors dumped Bonds (well, everything) for cash. Stocks and bonds were sold simultaneously. Regardless, the yield is on track to reach 6% by this fall. According to [Weiss Research's recent white paper](#) on banking bailouts:

"In the 1930s, interest rates moved down, up, and then down again, in three distinct phases: In Phase 1, all interest rates declined due to deflation. In Phase 2, however, despite sharp GDP declines, interest rates surged unexpectedly: The 3-month Treasury-bill rate jumped six fold - from about a half percent to 3 percent; the yields on 20-Year Treasury bonds surged beyond their pre-crash peak; and the average yield on low-grade corporate bonds exploded higher to 11 percent. At this juncture, like today, the federal government came under increasingly intense pressure from creditors to reduce its federal deficit; limit its efforts to save failing banks; and, shift to a more disciplined, austere, tough-love approach. Finally, in Phase 3, interest rates fell and mostly remained low for the balance of the decade."



Source: Weiss Research Inc.

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Instead of borrowing money to prop up Wall Street Firms, the U.S. Treasury should save its ammo. More important events could come along that would require government action.



BUY WAR BONDS

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As we wait for creditors to force the issue, Treasury bond yields continue to fly.

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<http://www.marketoracle.co.uk/Article11038.html>