

# THE FUTURE IS NOW BEING SHAPED BY THE BOND MARKET

## VIGILANTES

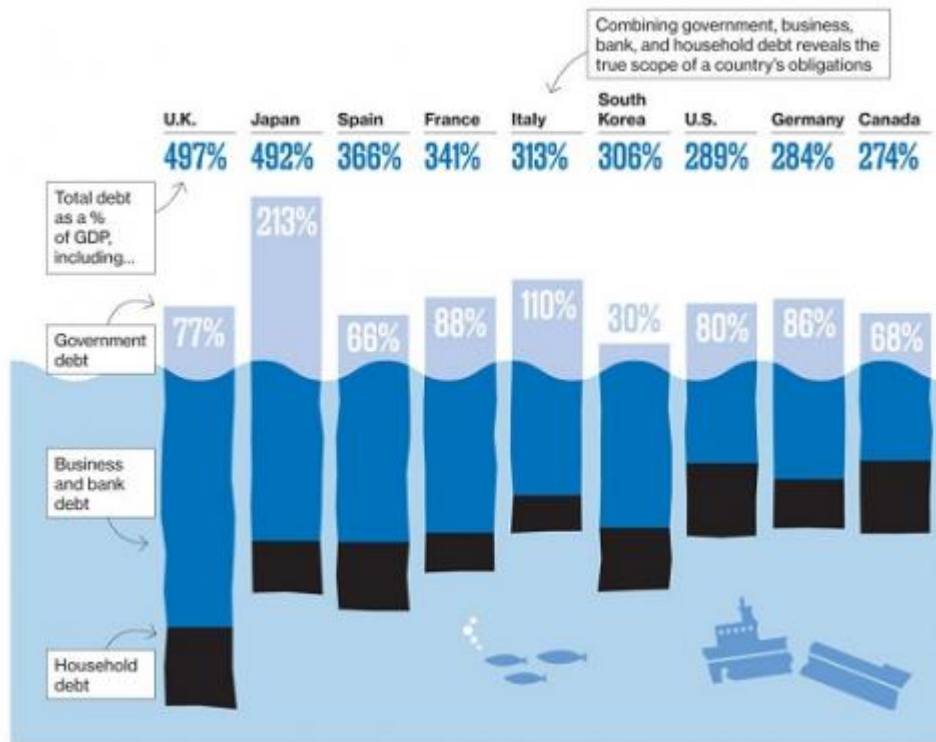
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Since the 1970s many have wondered what has happened to the bond vigilantes that brought inflation under control in the mid to late 1970s and early 1980s. As you may recall, long-term U.S. government yield went from 7% in 1977 to over 15% in 1981. They went that high primarily because inflation was accelerating from 4% to 18%. Please remember that long-term government yields are more closely tied to inflation rates than anything else. That is until the credit worthiness comes into question - which is exactly what is taking place with Europe right now. And thus the return of the bond vigilantes as sovereign Europe continues to go broke through overspending and underworking - a sure road to ruin. These countries are trying to solve their debt problem with more debt. The bond market is now clearly saying, "Not with our money!"

Study after study by independent third parties just using regular mathematics prove without a doubt that the PIIGS (Portugal, Italy, Ireland, Greece, and Spain) of Europe are beyond saving. Much has been written by us and by others concerning the Euro and the fate of the above weak European countries as well as maybe even France. The simple truth is that additional debt will not help. The game is over, and the bond market has descended on Europe with a vengeance; thus the return of the vigilantes. It's not inflation this time, it's solvency. These countries are broke. Socialism does not work!

Now the thing we need to worry about is U.S. sovereign debt. In Europe it is primarily Germany that retains the confidence of the bond market. The question we have is when will that cease and who is next? Make no mistake; the worldwide bond market is in absolute control of our future. All the king's horses and all the king's men will not be able to put our economies back together again when push comes to shove.

In ascending order (worst first) we believe those that command bond market confidence are Japan, Germany, England, and the United States. There are others; however, their markets are too small to represent a safe haven. Note the chart below.



Adapted from FinancialSense.com