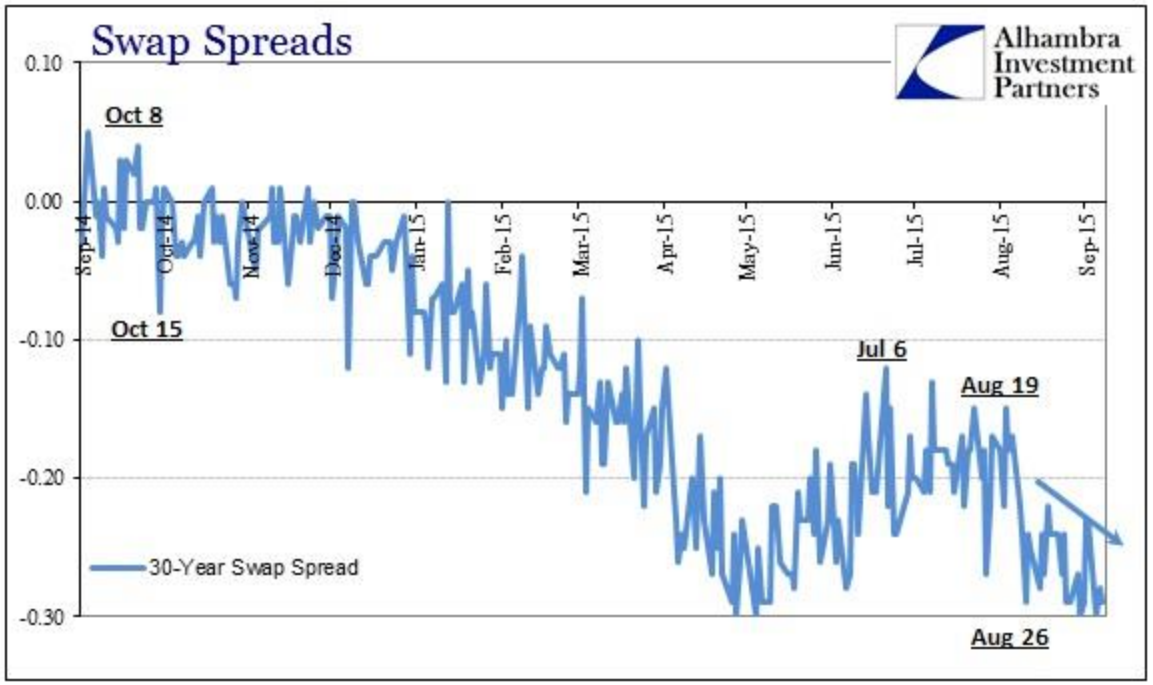
AIPIC Alhambra Investment Partners

Sept 25, 2015

MID AUGUST GLOBAL LIQUIDATION PROVIDED NO RELIEF

'Dollar' still agitated and global finance unsettled



Swap spreads compressed the entire curve in the liquidation, but have not retraced since. Instead, have continued to compress in a very concerning fashion.

MONTHLY CHART REVIEW

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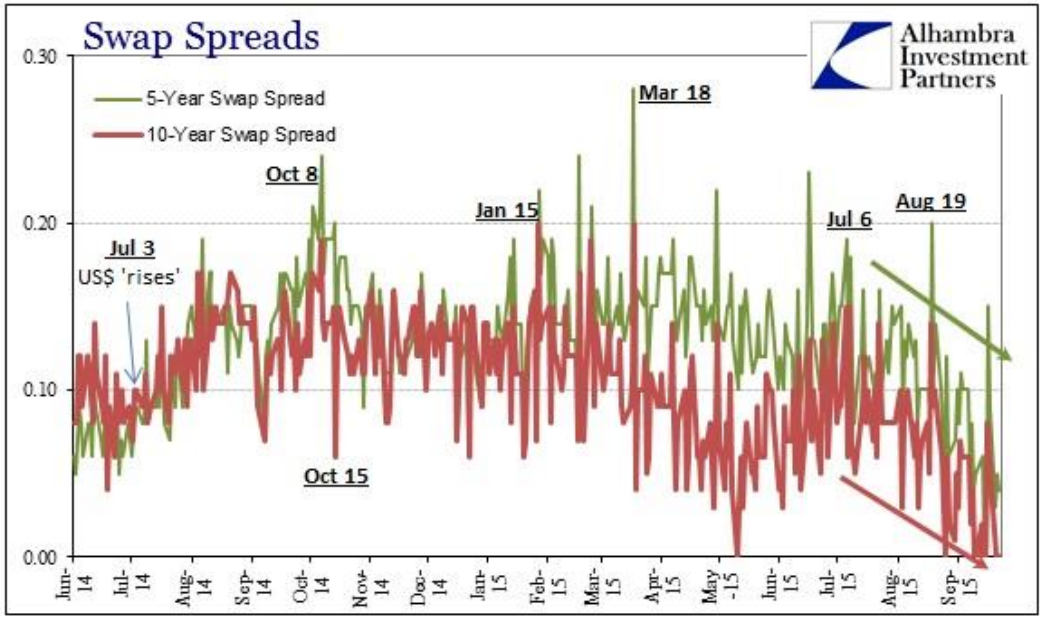

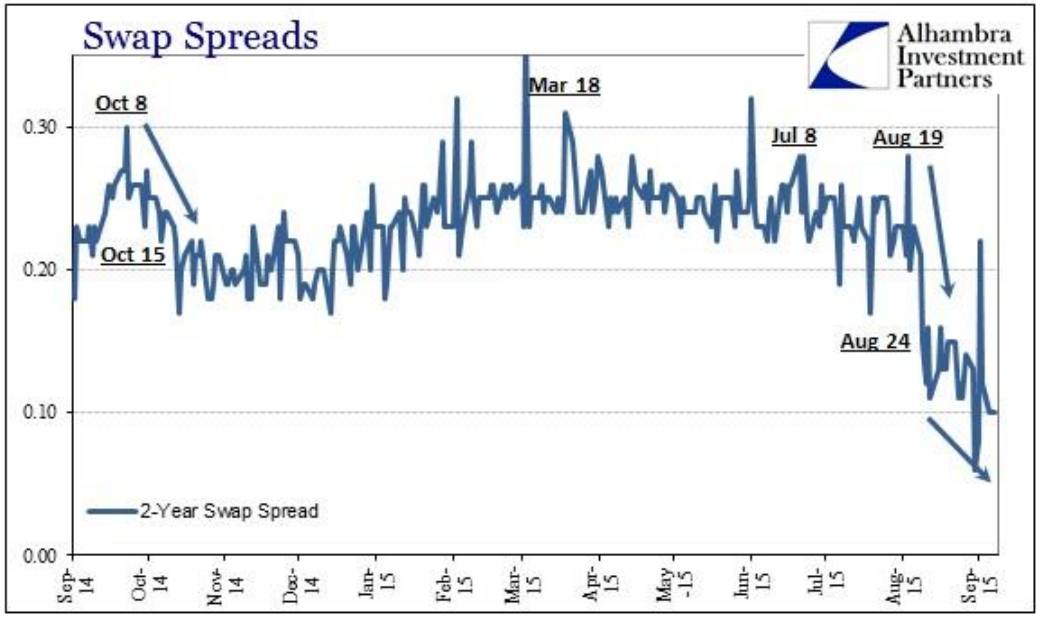

Most notable is the 2-year spread

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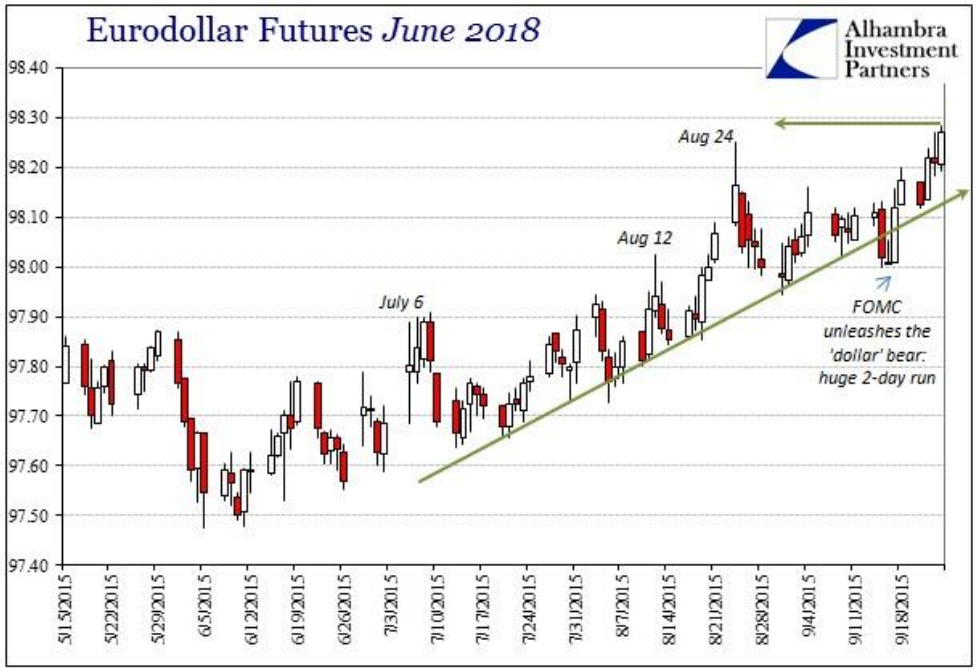
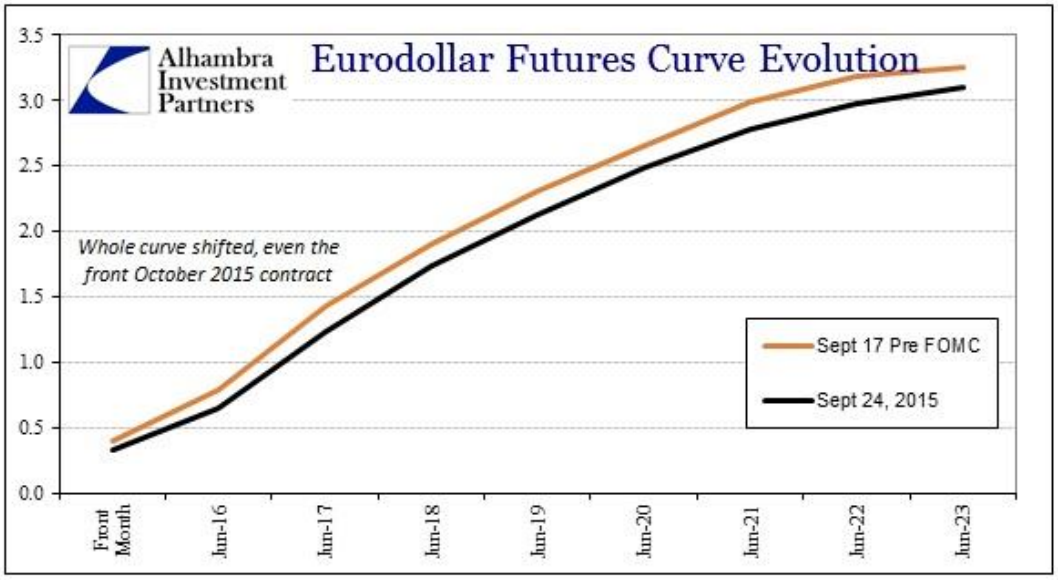


Eurodollar futures similarly (and relatedly) show the same increasing funding strain.



The FOMC inaction on Sept 17 did not help (made it worse), which is likely why Janet Yellen was 'forced' into a big 'inflation speech' on Sept 24.

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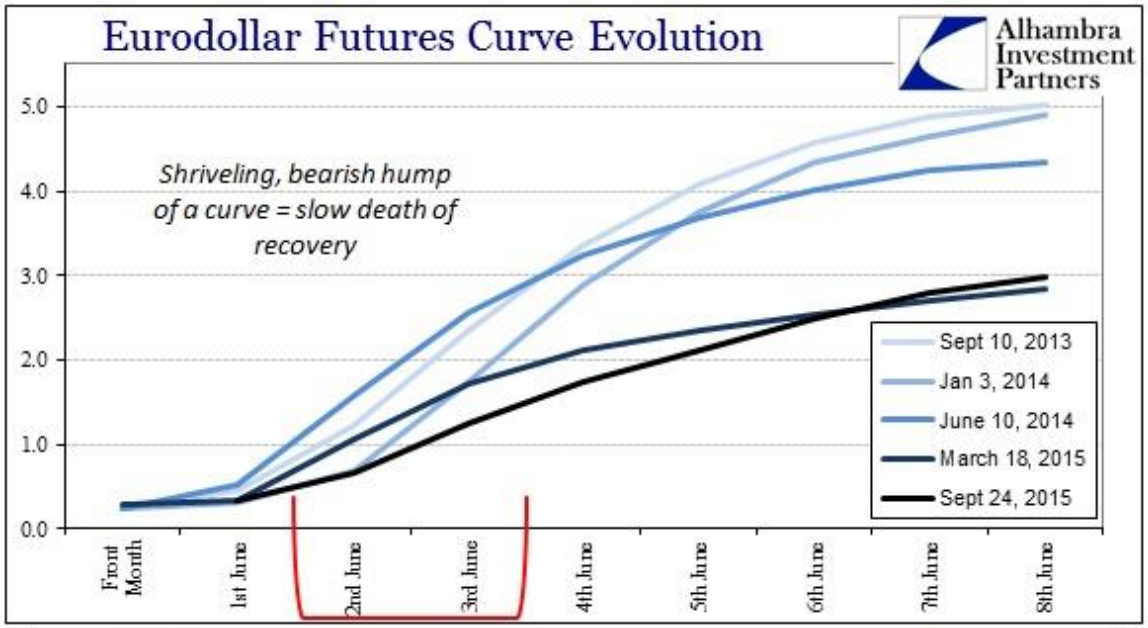
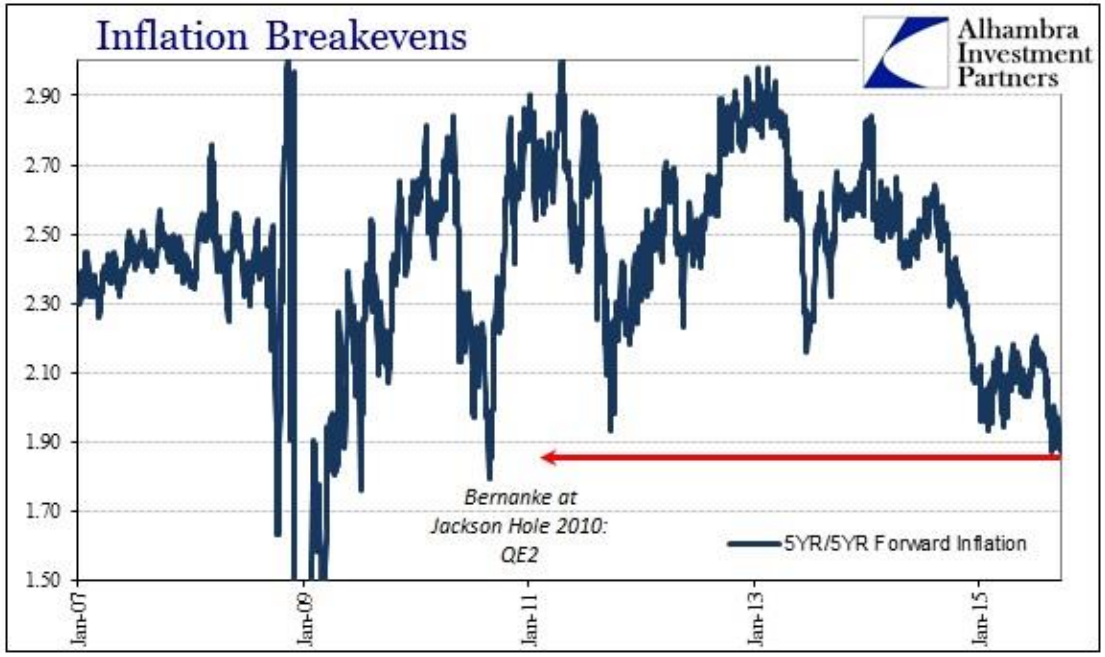


As swap spreads, money markets are unconvinced of either inflation or recovery. Instead, money markets are shifting to extreme bearishness.



That has transferred to credit markets which have seen, contra Yellen, 'inflation expectations' drop to multi-year lows.

MONTHLY CHART REVIEW

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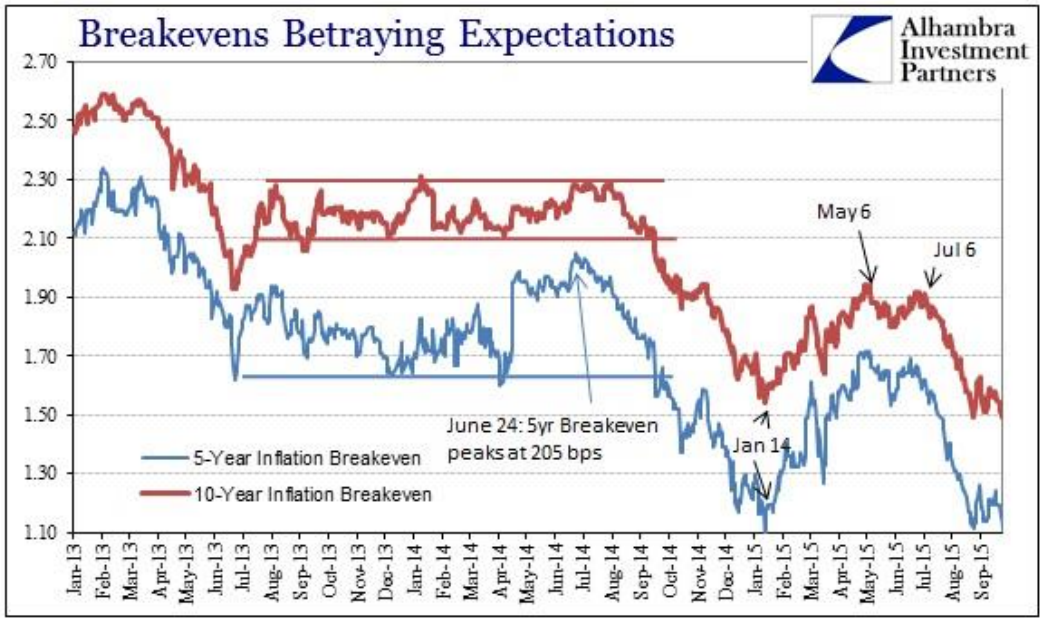
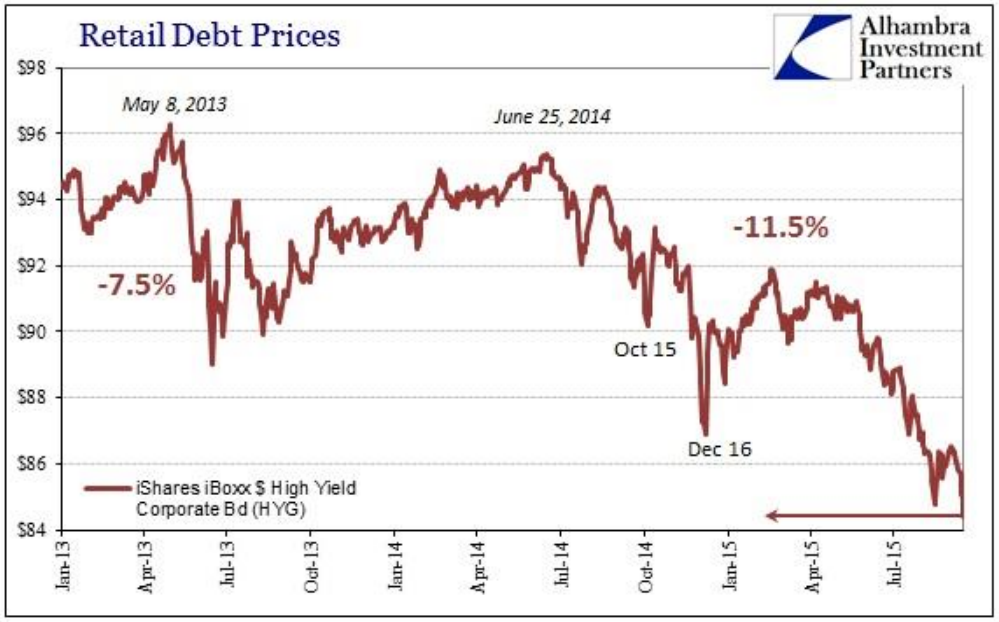
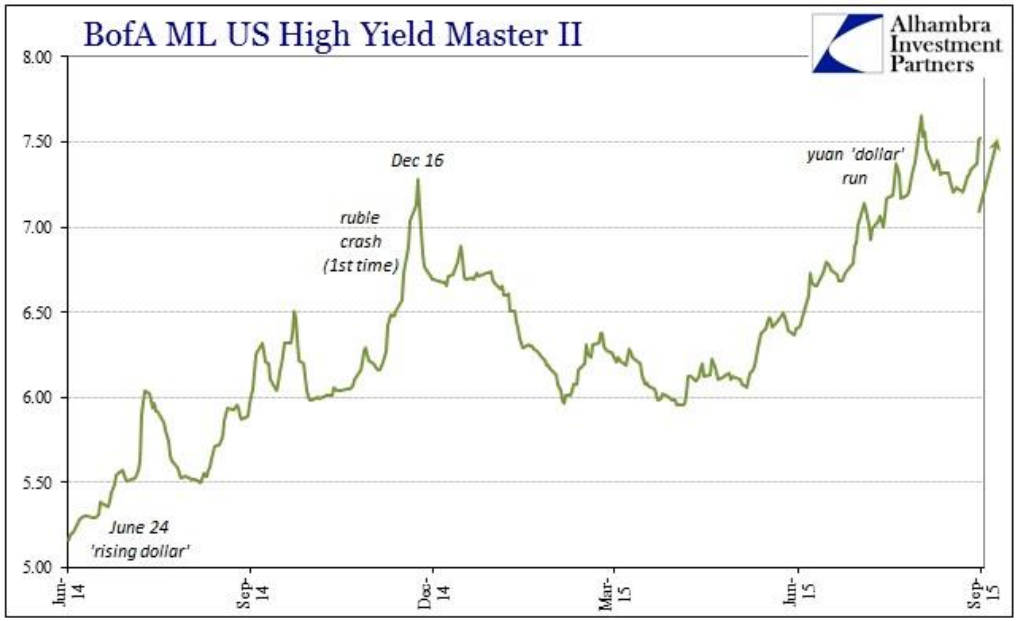


Corporate debt bubble thus remains under heavy pressure.

MONTHLY CHART REVIEW


Retail Debt Prices
Alhambra Investment Partners
$98
$96
$94
$92
$90
$88
$86
$84
May 8, 2013
June 25, 2014
-7.5%
-11.5%
Oct 15
Dec 16
iShares iBoxx $ High Yield Corporate Bd (HYG)
Jan-13
Apr-13
Jul-13
Oct-13
Jan-14
Apr-14
Jul-14
Oct-14
Jan-15
Apr-15
Jul-15

Con't


BofA ML US High Yield Master II
Alhambra Investment Partners
8.00
7.50
7.00
6.50
6.00
5.50
5.00
Dec 16
ruble crash (1st time)
yuan 'dollar' run
June 24 'rising dollar'
Jun-14
Sep-14
Dec-14
Mar-15
Jun-15
Sep-15

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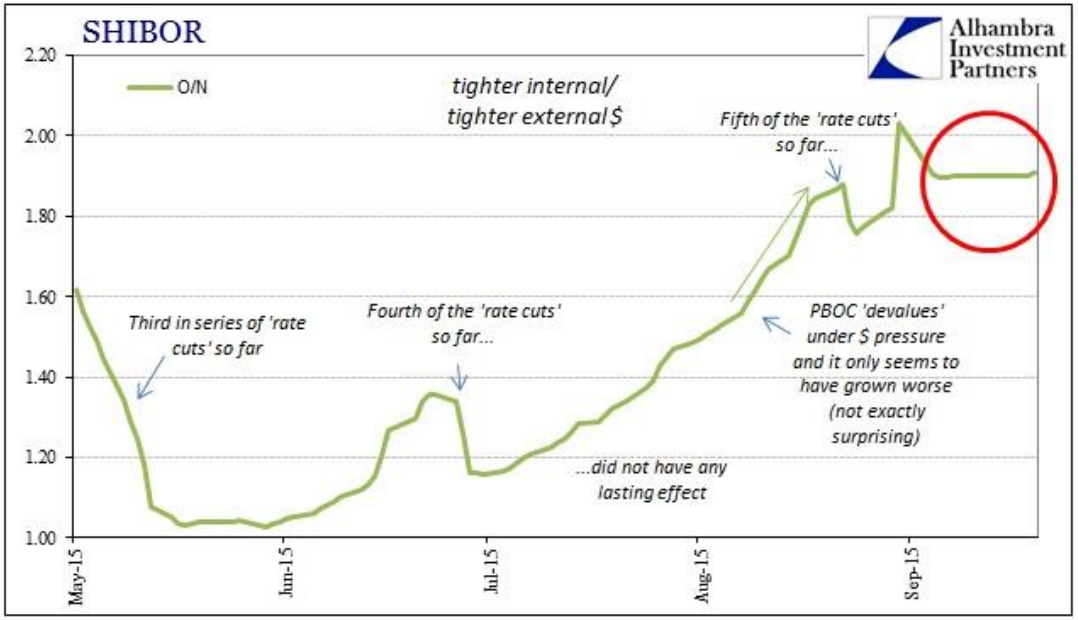
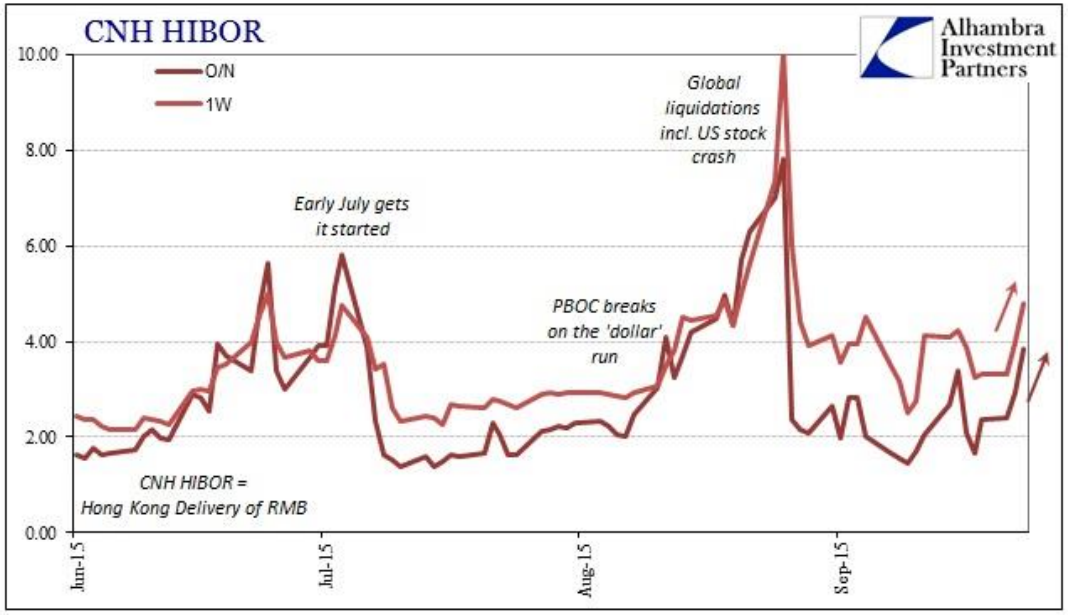
Sept 25, 2015



Asian 'dollar' clearly in the mix. Continued yuan problems (to the point the PBOC is actively supressing SHIBOR) mean continued 'dollar' disruption.



Same goes for offshore yuan, via Hong Kong and same Asian bank balance sheet factors.

MONTHLY CHART REVIEW

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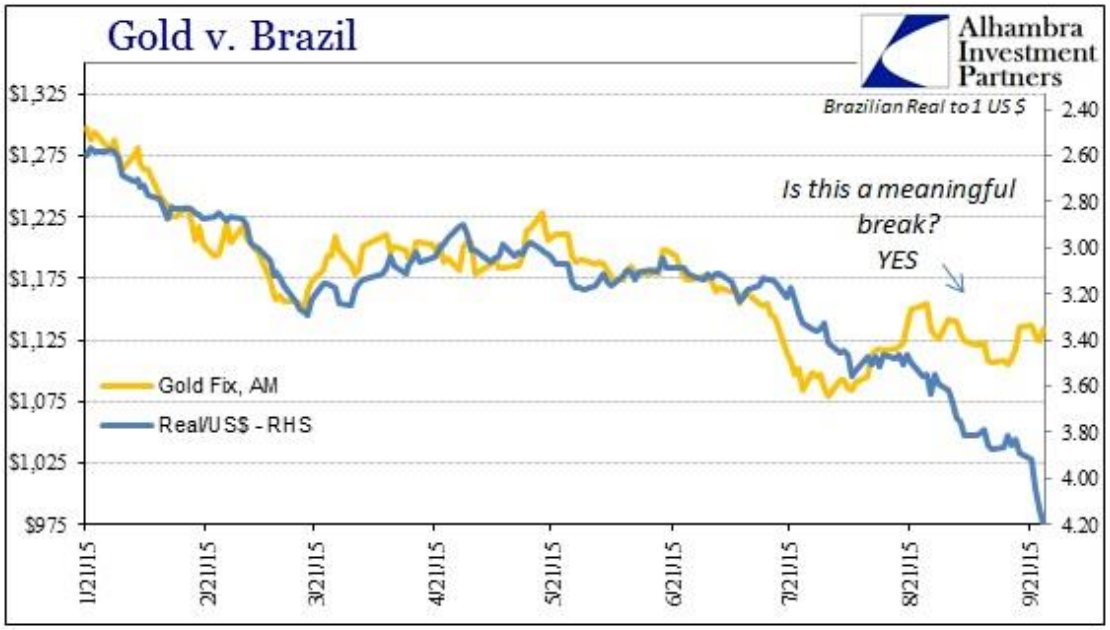
No surprise consistent anxiety, uncertainty and even a little fear…



…given the ongoing wholesale violence.

MONTHLY CHART REVIEW

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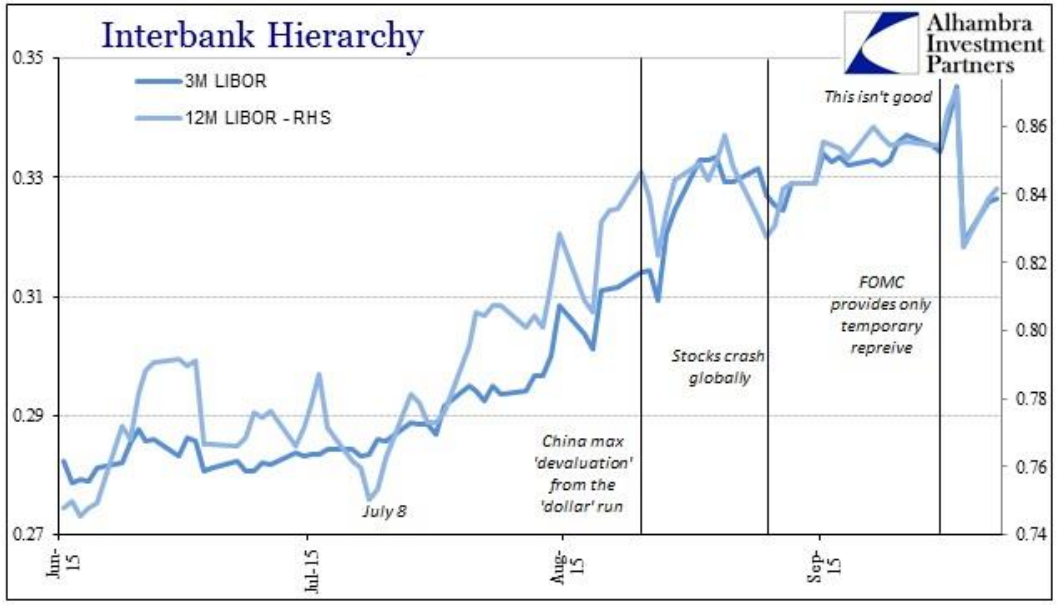
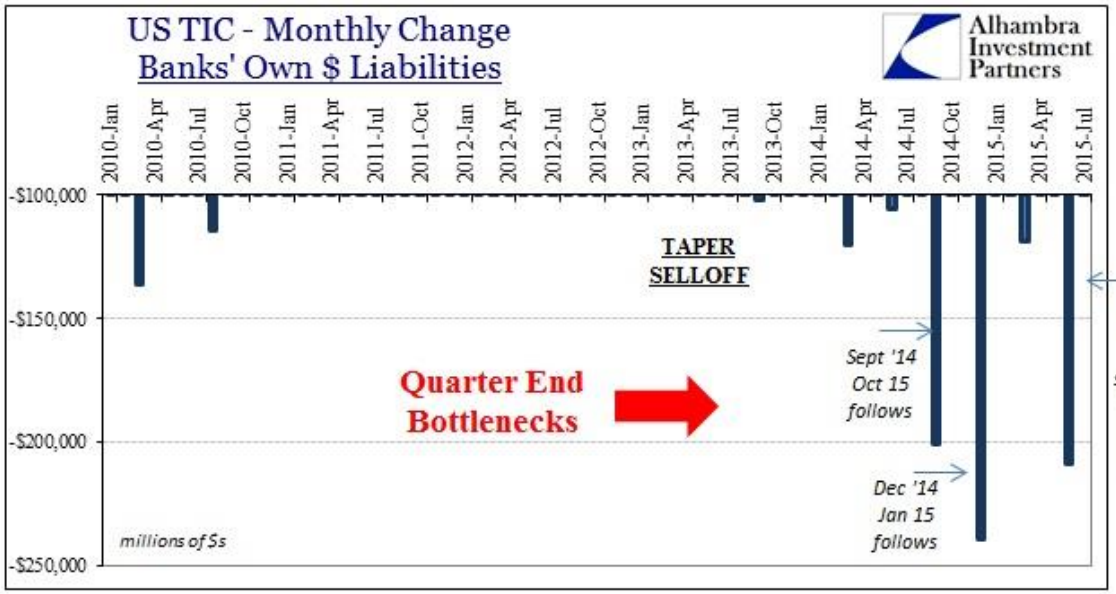


Con't



Distinct edginess heading into quarter end which has proven in the recent past to be quite warranted.

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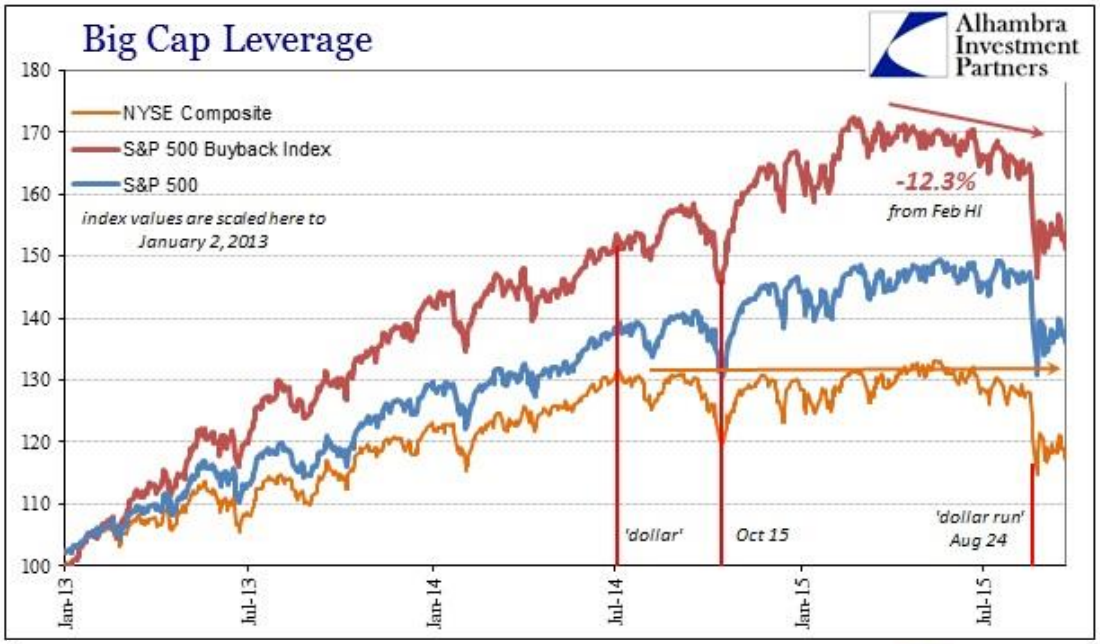
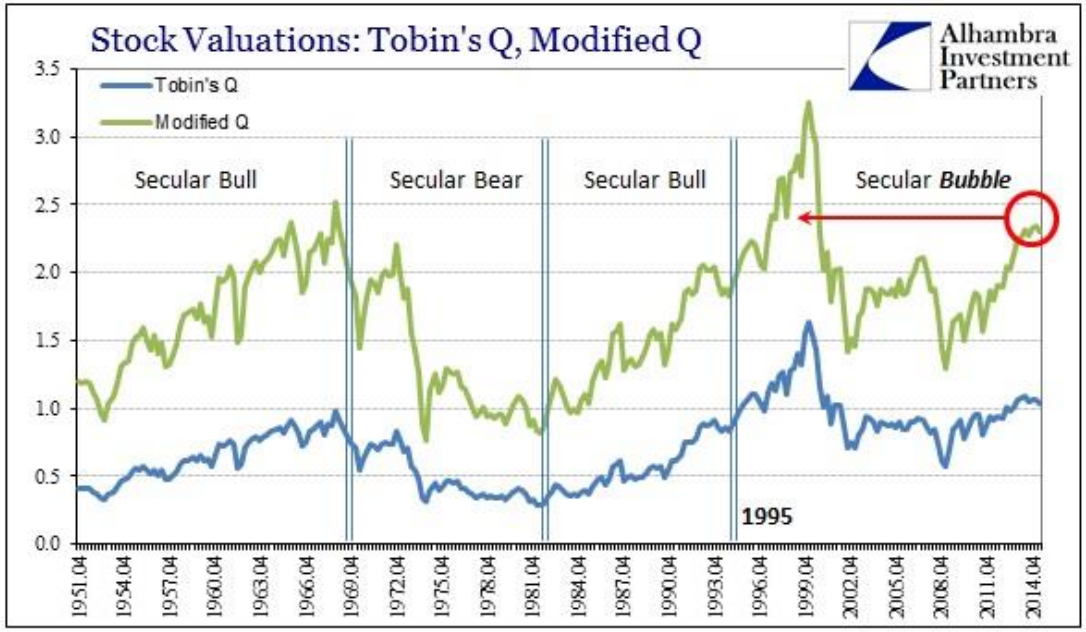


Lack of further stock momentum, especially with buybacks in such jeopardy (related to corporate debt) valuation becomes again an issue.

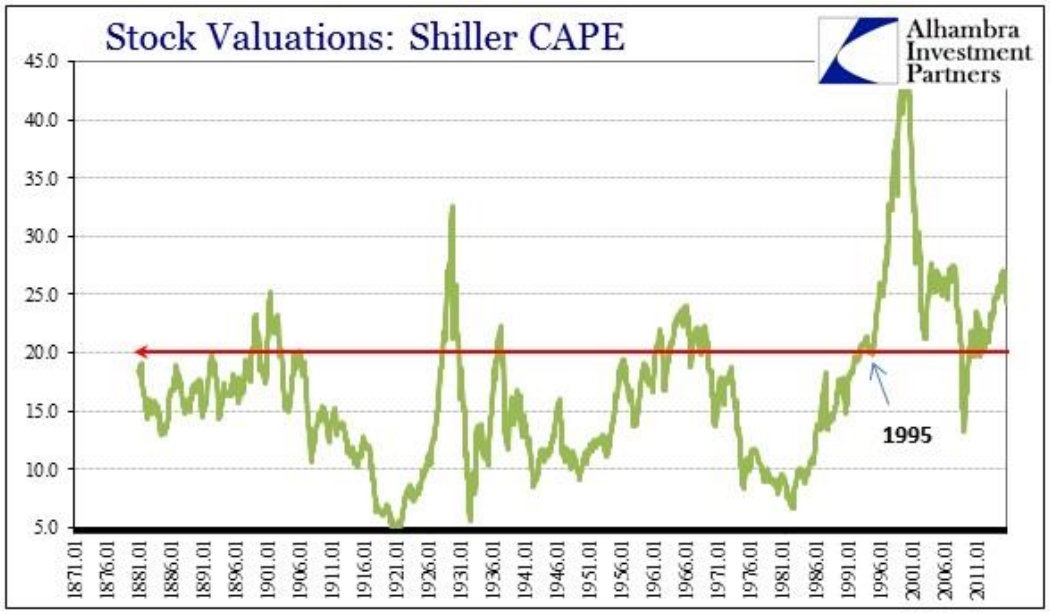


Valuations still near or above (depending on measure) 90th percentile. Without momentum, that is a bad potential combination.

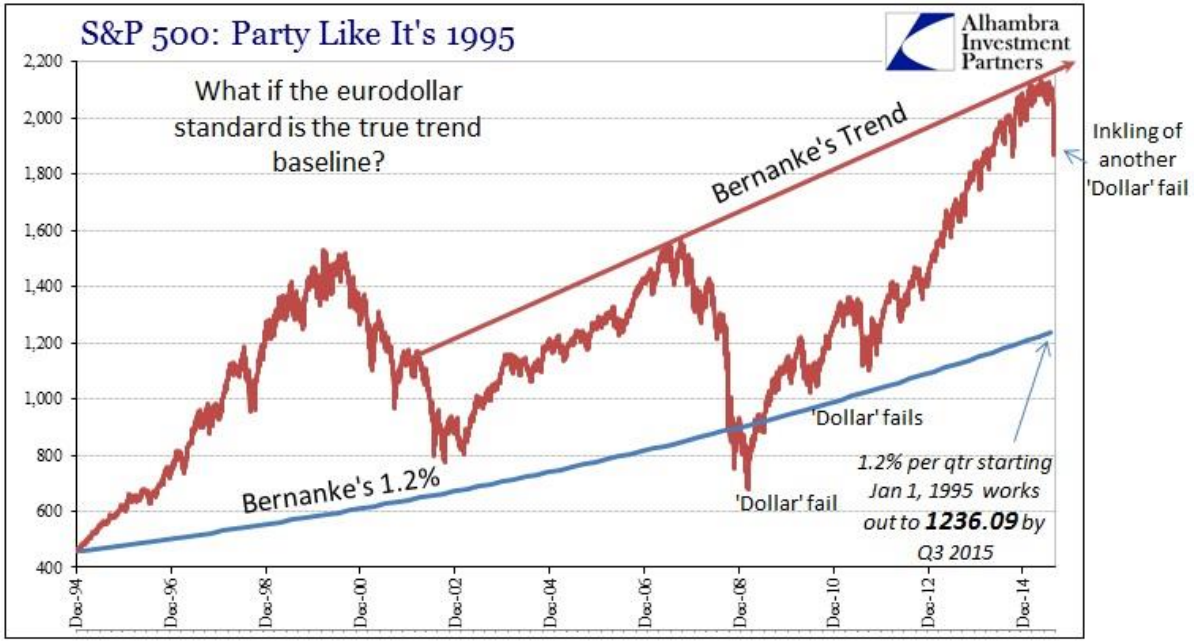
BUBBLE WATCH

AIPIC Alhambra Investment Partners

Sept 25, 2015



Take away the eurodollar rise and debasement, there really isn't much left at the current lofty valuations.



Especially with a 'dollar' run still in play and earnings (operating basis) set to be negative or flat for the 4th straight quarter.

BUBBLE WATCH