CHICKENS COMING HOME TO ROOST?
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The common market in Europe has always been a problem due to monetary policy being conducted with a common unit of payment, the Euro. Putting Italy and Germany together is akin to the Martin's and McCoy's engaging in intermarriage. Germany has—since the end of WWII—been the bastion of good economic fiscal policy, and Italy just the opposite. Why bring this up> Sometime in the next several years, the same problem may occur in the U.S. Is the fiscal policy of Illinois, New Jersey, and California (just to name a few) the same as Texas, Florida, and Wyoming, for example? No, it isn't. In my mind the comparison is apropos. Italy-Germany and Illinois-Texas. Things start to go wrong on the periphery and migrate to the center. Please pay attention to the following excerpt from Real Investment Advice (original article can be found here). In Europe, it has hit the center.

Why Deutsche Bank Is Important…

By Lance Roberts – 06/02/2018

I penned this on Friday, but it is important to understand.

On Tuesday, the market tumbled on concerns over Italian debt. *(A problem, by the way, I discussed a couple of years ago.)* However, on Wednesday, the market reversed course and apparently the crisis was over. Make no mistake, nothing was fixed or resolved, investors just chose to ignore the problem under the belief that Central Bankers will unite in some form of bailout.

It isn't just Italian debt, which is magnitudes larger than Greece's debt crisis, but it is also Spain, and a host of other smaller European countries that continue to ramp up debt in hopes that economic growth will someday bail them out. However, sustained economic growth has failed to appear.

As long as interest rates remain low, and negative in some cases, debt can continue to be accumulated even with weaker rates of economic growth. More importantly, as long as rates remain low, the banking system can continue to play the *"hide-the-debt game"* through derivatives, swaps and a variety of other means.

But rates are rising, and sharply, on the shorter-end of the curve.

Historically, sharply rising rates have been a catalyst for a debt-related crisis. As long as everything remains within the expected ranges, the complicated *"math"* behind trillions of dollars worth of financial instruments function properly. **It is when those boundaries are broken that things *"go wrong"* and quickly so.**

People have forgotten that in 2008 a major U.S. financial firm crashed as its derivative based exposure *"blew up."* No, I am not talking about Lehman Brothers, the poster-child of the financial crisis, I am talking about Bear Stearns.

In just 365-days, Bear Stearns stock went from $159 to $2, with about half of the loss occurring within a few weeks.

Bear Stearns was the warning shot for the financial markets in early 2008 that no one heeded. Within a couple of months, the markets dismissed Bear Stearns as a *"non-event"* and rallied to a higher level than prior to the event, and almost back to highs for the year.

Remember, there was *"nothing to worry about"* at the time, even though the Fed was increasing interest rates, as the *"Goldilocks economy"* could handle tighter monetary policy. Sure, housing had been slowing down, mortgage delinquencies were rising, along with credit card defaults, but there wasn't much concern.

Today, we are seeing similar signs.

Interest rates are rising, along with delinquencies, defaults, and a slowing housing market. But no one is concerned as the *"Goldilocks economy"* can clearly offset these mild risks. And no one is paying attention to, what I believe to be, one of the biggest risks to the global financial markets – **Deutsche Bank.**

Deutsche Bank is clearly showing signs of financial trouble. More importantly, it is magnitudes larger, in terms of derivative-based exposure, than Bear Stearns and Lehman Brothers combined. Bear Stearns and Lehman Brothers were not banks and did not hold deposits. As such, they posed significantly less risk to the financial system.

Day after day, week after week, and year after year I have commented on the worldwide debt problem. Every once in awhile the markets pay attention, but only for a moment. Kicking the can down the road is—without a doubt—the best thing the investing public does very well. It works until it doesn't. I am at least pleased I have not attempted to hold my breath. One cannot, however, live by debt alone.