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Chair Powell on the beaches

"I liken it to Dunkirk," Jerome Powell told National Public Radio's *Morning Edition* the other day, "it" being the unprecedented action that the Federal Reserve took one year ago to counter the economic consequences of the lockdown-cum-pandemic. "[I]t was time to get in the boats and get the people," said Powell, "not to check the inspection records and things like that. Just get in the boats and go, and that's what we did. I think overall it was a very successful program."

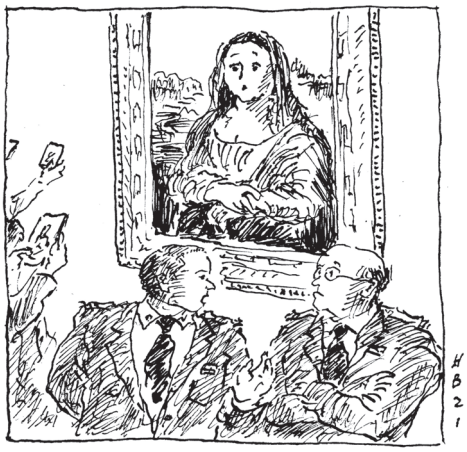
Winston Churchill, the Jay Powell of wartime Britain, ordered the evacuation of Allied troops from the beaches and harbor of the northern French port of Dunkirk late in May 1940. In snatching redemption from what he had admitted was a "colossal military disaster," the prime minister cautioned his countrymen not to confer on "deliverance the attributes of a victory. Wars are not won by evacuations."

Nor financial stability by money-printing. No one thinks less of Powell for his love of country or his fear for its safety, but Fed chairmen fell victim to the Atlas Syndrome many years ago and they can't seem to shake it. Needled about the self-reverential title of his 2015 memoir, *The Courage to Act*, Ben Bernanke threw his wife under the bus—it was her idea, he said. Vainglory has almost become part of the monetary master's job description.

The impromptu English armada did what it had to do and then went home. Not so the Fed's permanent emergency task force, which puts to sea even at small provocations (e.g., the autumn 2019 tempest in the repo market) and never seems to disband.

A better historical touchstone than Dunkirk, if Powell is still looking for one, might be the Bank of England's blazing rescue of the English banking system during the frightful Panic of 1825. Well before the formalization of the doctrine of the lender of last resort, the Old Lady of Threadneedle Street improvised that role on the fly. "[W]e lent it by every possible means," a bank director, Jeremiah Harman, later testified, "and in modes that we had never adopted before . . . in short by every possible means consistent with the safety of the Bank, and we were not upon some occasions not over nice; seeing the dreadful state in which the public were, we rendered every assistance in our power."

"Not over nice" is how Powell, too, might have put it, though he would not have thought to say "consistent with the safety of the Bank," because the Fed runs no risk of insolvency no matter how encumbered it becomes (it was leveraged 196.8:1 as of the March 24 statement date) or how exposed its bulging bond and mortgage portfolios might be to the risk of rising interest rates. It doesn't matter because, in 2011, the Treasury agreed to become the guarantor of the Fed's solvency (see, for instance, *Grant's*, April 7, 2017). In 1825, and up until 1946, the Bank of England was a joint stock bank with real stockholders to answer to.



"Hear about that $69 million NFT?"

Even so, the Bank of England broke norms in the throes of crisis. May the Fed not do the same?

In 1940, with Hitler at his throat, Churchill naturally gave no thought to the possible moral hazard surrounding Operation Dynamo. No future prime minister was going to run a gratuitous risk with a British expeditionary force because of the precedent of the Dunkirk deliverance.

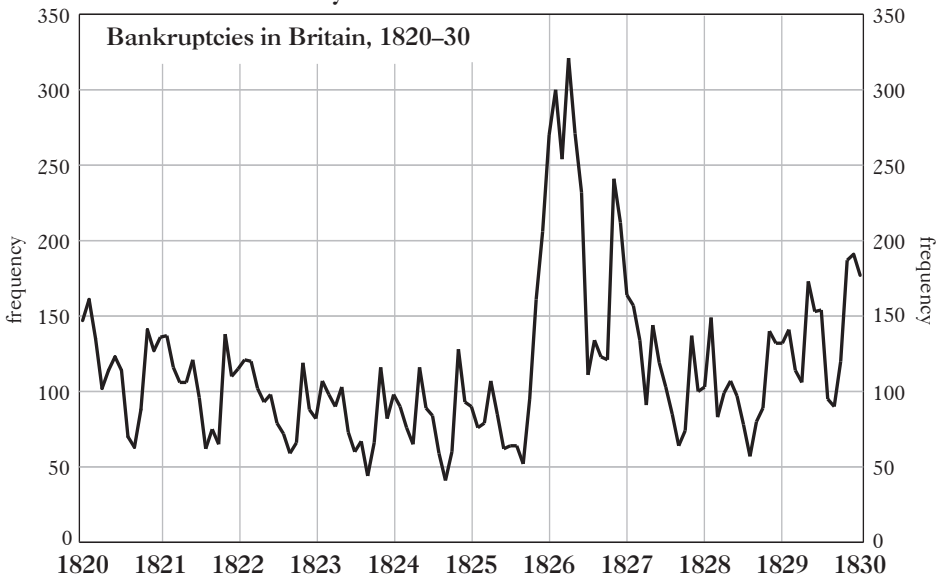
It's a different story with monetary deliverance, especially when rescue operations cease to be extraordinary and start to become habitual. The mighty 2020 Federal Reserve interventions, whatever they did for Main Street, have set up tall expectations for the next financial disturbance.

Last spring, for the first time, the Fed bought corporate bonds. In the narrow, technocratic sense, the novelty succeeded, as the announcement effect, far more than the minimal purchases, pressed down business borrowing costs. So well did the gambit serve its purpose that, as Scott Minerd, chief investment officer of Guggenheim Investments, pointed out, it has probably found a permanent place in the Fed's famous "tool kit." "We have now socialized credit risk," *Time* magazine quoted him as saying last June. "And we have forever changed the nature of how our economy functions."

To promote "smooth market func-

(Continued from page 1)

'We rendered every assistance'



source: Gayer, Rostow & Schwartz (1953)

tioning" is the Fed's standard cover story for these adventures in price administration, but the effects are more far-reaching than that. Monetary laxity, fiscal profusion and zero-cost trading commissions have combined to raise up a SPAC boom, crush credit spreads, levitate meme stocks, infuse the cryptos, smile on the invention of non-fungible tokens, facilitate the issuance of trillions of dollars of low-cost public debt and train a youthful new cohort to speculate under the banner of "you only live once."

In markets, much depends on when you live. In the inflation-scarred 16 years from 1966 to 1982, the Dow Jones Industrial Average made no net headway but it was becalmed in a channel around 1,000. From March 2000 to November 2015, the Nasdaq made no new high, not on account of inflation but because of overvaluation. The Fed professes to believe that it controls events, but sometimes it's the other way around.

. . .

Out this month is a fine new memoir by the economist whose change of mind in 1982 uncorked a great bull market. *The Day the Markets Roared* is Henry Kaufman's story of the events leading up to a 53 basis-point collapse in yield, corresponding to a nearly 4½ point rally in price, of the then-benchmark 30-year Treasury bond, and an almost 5% leap in the Dow on the then-titanic volume of 92.9 million shares. It happened on Tues., Aug. 17, 1982.

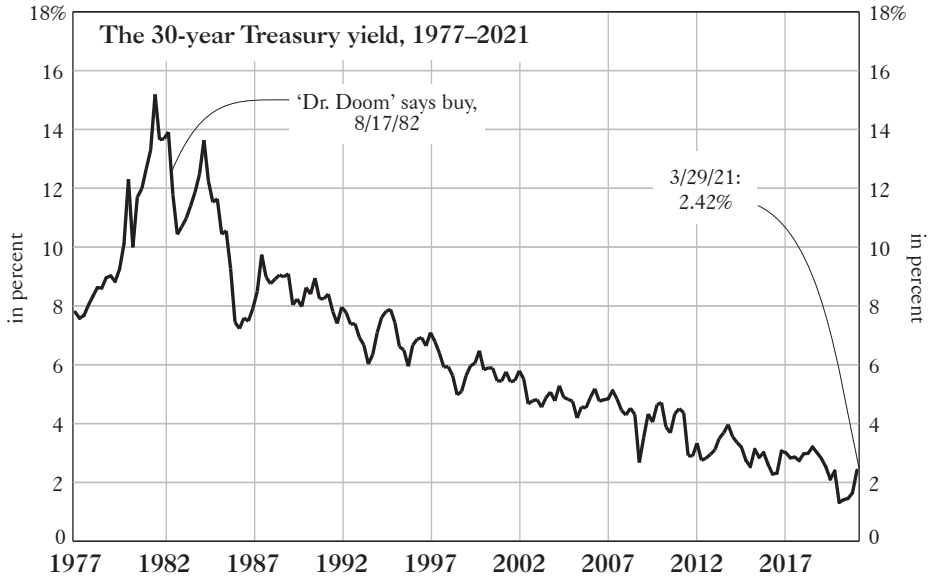
Kaufman, now 93 years old, was a member of the executive committee and head of investment research at Salomon Brothers, the top bond firm on Wall Street, but to his far-flung public he was "Dr. Doom." Maxwell Newton, financial columnist of *The New York Post*, so labeled him and, while he was at it, assigned Albert Wojnilower, Kaufman's counterpart at First Boston Corp., the tag "Dr. Death."

The two dour doctors, each a Ph.D. in economics, were Wall Street's most dogged, learned and influential bond bears. They had refused to change their tune in early October 1979, when Paul A. Volcker, the newly installed Federal Reserve chairman, promised to kill the inflation that would presently lift the CPI to a year-over-year rise of more than 14%, and they stuck to their guns as yields climbed to 10%, 11%, 12% and finally, in the fall of 1981—two years after Volcker had thrown down his gauntlet—to the unimaginable heights of 15%. (They were unimaginable even then.)

Kaufman, with the editorial assistance of David B. Sicilia, tells the story well, not forgetting to credit himself but also not denying that he missed the turn. The market had rallied by more than 200 basis points before, first Wojnilower (on Aug. 16) then Kaufman himself (on the 17th) blessed the move in separate public announcements. Neither man predicted the still unfolding 40-year bull bond market that would finally feature trillions of dollars' worth of fixed-income securities priced to deliver nominal yields of less than nothing. But such was the credibility they had earned over their many years of not saying "buy" that Wall Street jumped for joy.

In a brisk concluding chapter, Kaufman casts a disapproving eye across the broad financial landscape. He laments the deterioration in the

Kaufman turns bullish



source: The Bloomberg

quality of credit (there were 61 triple-A corporate borrowers in the 1980s, but only two today), the cartelization of the big banks ("they are quasi-public financial utilities") and the hovering, insinuating presence of the Federal Reserve (now in league with the Treasury).

He blasts the unspoken assumption that big investment institutions could quickly sell what they own a lot of. "[O]nly a small fraction of outstanding marketable issues is ever traded," he points out, "while the preponderance of the remaining issues lay dormant but are priced by the relatively small percentage that is traded. Ultimately, the notion that significant assets can be liquidated is simply an illusion. In fact, the larger the market participant, the less capable that participant is of liquidating at any kind of predictable price.

"It seems clear to me," Kaufman goes on, "that the combination of deteriorating credit quality, elusive marketability and high financial concentration has increased the role of the central bank as the lender of last resort"—or, as he quotes Wojnilower as recently putting it, "lender of early resort."

The old bear did not find it necessary to sugar-coat his conclusion. "With the federal government and the Fed firmly joined at the hip," he winds up,

> the transformation of capitalism into statism is gaining momentum, perhaps irreversibly. Not only is this a great departure from the vision of America's founders, I suspect it is also not the kind of economic system most Americans living today want to leave for future generations.

Reached by phone on Monday, Kaufman fielded a question about the future of interest rates. He ventured that a 3% long Treasury yield will be in the cards by "early next year." It won't be "a spectacular movement by any means, still a low level of interest rates from a historical perspective," he said, "but it is an upward movement."

And bitcoin? "I will tell you something," the former interest-rate rock star replied. "When I published another book, two years ago, and gave a talk on it, the first question somebody asked me was, 'What do you say about bitcoin?' So I said to him, 'I like tulips.'"

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A very contingent 7%

Evan Lorenz writes:

Last fall, AT&T, Inc. began offering each of its customers the kind of enticing cell-phone subsidies that it once reserved for new signups. What Ma Bell's self-interested generosity means for the wireless industry, for Telephone itself and for the fat, precarious 7% Telephone dividend yield are the subjects before the house. In preview, we reiterate our bearishness toward AT&T (T on the Big Board), re-register our doubts about the sustainability of the current AT&T payout and establish a new position, also a bearish one, on Dish Network Corp. (DISH on the Nasdaq).

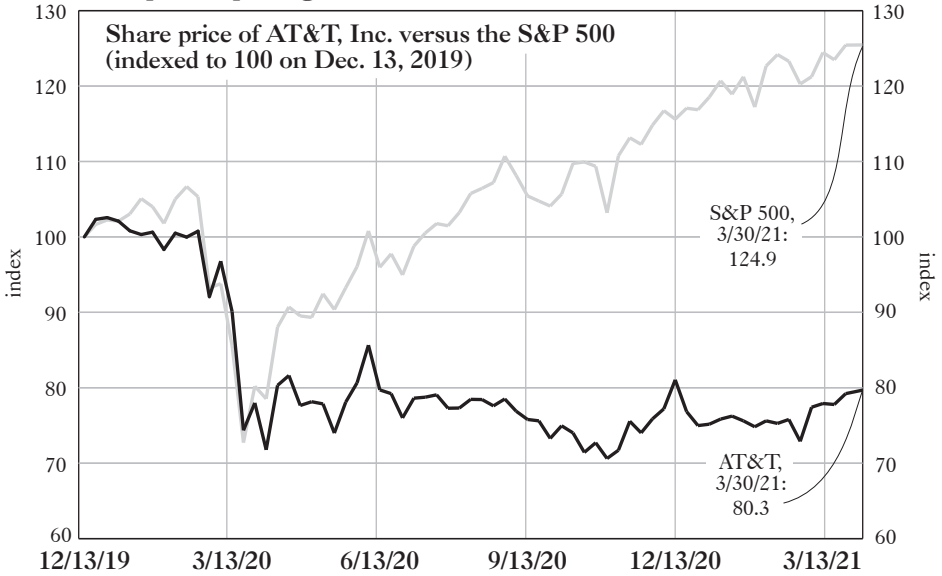
As the mobile industry rolls out faster 5G cell service, the big three incumbents have reached something close to network parity. At their recent respective analyst days, T-Mobile U.S., Inc. and Verizon Communications, Inc. both described their businesses as having the "best network," while AT&T claimed to own the "overall fastest network."

This cellular Lake Wobegon won't last long. T-Mobile completed its acquisition of Sprint Corp. one year ago. As a standalone company, Sprint had an overleveraged balance sheet but was rich in the type of higher-frequency spectrum that makes 5G networks sing. A better-financed T-Mobile is now mobilizing that spectrum.

To compete against T-Mobile in a 5G world, Verizon and AT&T spent $45 billion and $23 billion to buy higher-frequency, c-band spectrum last month, but not all spectrum is created equal. The 2.5 gigahertz (GHz) spectrum that T-Mobile is utilizing has a lower frequency than Verizon's and AT&T's and therefore propagates farther. Second, T-Mobile is already in the process of introducing its 2.5 GHz spectrum while its competitors will only begin receiving their spectrum later this year.

As a result, Verizon and AT&T will need to use more densely packed cell sites than T-Mobile does, which adds to their network costs. Verizon told analysts last month that it will spend an incremental $10 billion over the next three years to commercialize the higher-frequency spectrum it acquired in February.

Not participating



source: The Bloomberg

As the price leader, T-Mobile has taken market share for a decade, and now it's offering its cheapest unlimited data plan for $26 per line for four lines. AT&T, on its comparable plan, charges $35 per line. Down the road, T-Mobile will also lead in network quality, a fact that will become more apparent as consumers upgrade to the latest 5G-enabled phones.

"They've been taking share for the past five years with a network that's been inferior to AT&T's and Verizon's," Jonathan Chaplin, who rates AT&T a hold and Dish a buy for New Street Research, tells me. "It's just been priced at a discount. Now, they're going into a period of time where they're going to have a superior network, and it's still priced at the same discount. And that ought to translate into material share gains over the course of the next five years."

It's in this context that we can evaluate AT&T's decision to give current customers a new iPhone or Samsung Galaxy in exchange for a trade-in at a cost of around $800 per user. "We're making smart investments to attract and retain customers with our best-deals-for-everyone strategy," Jeffery McElfresh, the CEO of AT&T's wireless business unit, said last month. Or, as Bernstein analyst Peter Supino, who rates AT&T and Dish holds, tells me, "If you have to spend more to keep your customers, it means you were over-earning before."

. . .

AT&T, the world's largest telecommunications company as well as the world's champion nonfinancial, nonsovereign debtor, is the former Baby Bell that devoured its parent, the original Bell Telephone Company (latterly known as AT&T Corp.), in 2005. After a mid-teens acquisition spree, today's AT&T sprawls across three basic business segments. The communications division (81% of 2020 revenues and 84% of 2020 Ebitda before corporate expenses) comprises the AT&T wireless business, a pay TV division, consumer broadband and a business wireline division. WarnerMedia (17.7% and 15.2%) includes the Turner broadcast channels (CNN, TNT, TBS, etc.), HBO and the Warner Bros. TV and movie studios. The last segment is Latin America (3.3% and 0.5%), which encompasses a wireless division in Mexico and a satellite TV business.

The organization chart will soon become more complicated. On Feb. 25, AT&T announced the sale of a stake in its video unit, which includes DirecTV, AT&T TV and U-verse, to TPG Capital. Suffice it to say that details, apart from the $1.8 billion headline price that TPG paid, are complex. The transaction values all of AT&T's video businesses at $16.3 billion versus the $66.7 billion that Telephone paid for just DirecTV as recently as 2015.

Details aside, the structure of the

sale underscores how many of AT&T's businesses are competitively ill-positioned or in secular decline—the video unit, which started 2020 with 20.4 million customers and ended the year with 17.2 million, fits the latter description. For the parent, the closing of the transaction will bring some cash but even more debt. "[W]e plan to proportionately consolidate DirecTV when calculating AT&T's credit metrics given its significant 70% economic interest in the company," said Moody's last month.

By the looks of things, AT&T's M.O. is to spend more on its wireless customers to reduce churn in the face a newly invigorated T-Mobile. Besides the generous device subsidies, AT&T is giving away its HBO Max streaming product (normally $14.99 per month) to unlimited-data-plan subscribers. Because customers who purchase more than one service are less likely to switch to a competing wireless provider, the thinking goes, Telephone is also making a big push in its fiber-to-home business to cross-sell broadband.

"I think that the strategy is better than the status quo," Supino opines, "which is milking the business for cash and shrinking faster.... The question is whether it produces economic value growth. And I don't think it will because AT&T is investing from a position of weakness in its three largest businesses."

Even if HBO Max were going great guns, its 4.2% contribution to fourth-quarter revenues wouldn't move the corporate needle by much. Besides, the Telephone front office expects that the Max division won't reach breakeven before 2025.

And while Ma Bell is investing heavily in streaming, it lags Disney+ and Netflix in subscriber growth. At the end of the fourth quarter, HBO counted 41.5 million subscribers, up from 34.6 million a year earlier. Disney+, which debuted on Nov. 12, 2019, claims more than 100 million streaming-only customers. Meanwhile, weak ratings and cord cutting pushed the profitable Turner networks to a 0.6% year-over-year revenue decline in the final three months of the year. As measured by revenue, Turner is 70% larger than HBO Max.

AT&T doesn't have the spectrum bank that T-Mobile has, and it isn't spending as rapidly as Verizon to lay down higher-frequency bandwidth. During the March analyst confab, Craig Moffett, co-founder and one-half the nameplate of the research firm MoffettNathanson, LLC, asked Telephone to describe its value proposition. "[T]o serve customers how they want to be served with enough bandwidth and capacity and speed," came the reply from Jason Kilar, head of the WarnerMedia division. Which prompts this comment from Moffett: "Their prices are higher than T-Mobile's, and their network is likely to be a marked disadvantage to both T-Mobile's and Verizon's. It's almost as though they aren't even trying to make a case that theirs will be the best network for anyone."

As of Dec. 31, 2020, AT&T's balance sheet showed net debt of $147.5 billion, operating lease obligations of $22.2 billion and $18.3 billion in post-retirement obligations. As Moody's Investors Service does the counting, total debt footed to 3.6 times Ebitda and will rise in 2021 as AT&T pays for the spectrum it bought in February. A 3.6 leverage ratio is what you typically find with Ba-rated borrowers, not with investment-grade issuers like Telephone.

AT&T's C-suite prefers to look at net debt excluding operating leases and post-retirement benefits. On this basis, the company ended 2020 with a 2.7 times leverage ratio. On the fourth-quarter earnings call, management set a goal of less than 2.5 times by 2024—though, in October 2019, it had set a more ambitious goal (2.0–2.25 times) with a 2022 deadline.

As a line item in the corporate income statement, the AT&T dividend runs to $15 billion a year, or 55% of estimated 2021 free cash flow. To the legion of Telephone's individual and institutional investors, that $15 billion boils down to $2.08 per share per annum, or, at the current $30-plus stock price, a dividend yield of just under 7%.

As a large and frequent borrower, AT&T needs its Baa2 rating. We judge that it needs the rating even more than it needs the gratitude of income-seeking equity investors. I asked Neil Begley, who rates Telephone for Moody's, about the stability of the current rating. "First of all," Begley replied, "their rating is the second-lowest notch in investment grade. So even if they were downgraded a notch, they'd still be investment grade." Then, too, by various qualitative business metrics, said Begley, Telephone shows better than its leverage score. "We're not in the punishment business," he went on. "Our goal is to have the most stable ratings we can and then be forward-looking and predictive." To which he added, "I would say that during Covid, we are being particularly more patient than normal."

So, barring an explicit corporate decision not to deleverage, or such a lengthy postponement of balance-sheet repair that it tests the patience even of Covid-era Moody's, Telephone seems likely to remain investment grade—by a whisker or two. Certainly, the bond market, which prices the AT&T senior unsecured 2¾s of 2031 at a spread to Treasurys that is 12 basis points tighter than the average Baa-

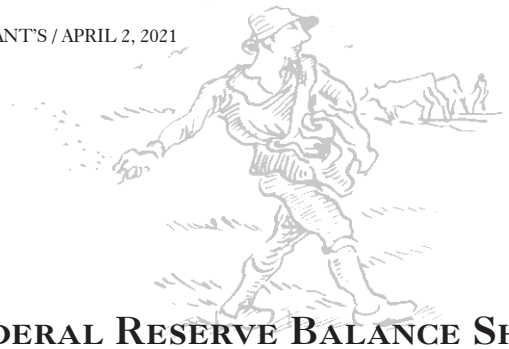
(Continued on page 8)

AT&T, Inc. at a glance

all figures in $ millions except per share data

	2020	2019	2018	2017	2016
revenue	$171,760	$181,193	$170,756	$160,546	$163,786
operating income	6,405	27,955	26,096	19,970	23,543
net income	-5,369	13,900	19,370	29,450	12,976
shares (millions)	7,183	7,348	6,806	6,183	6,189
earnings per share	-0.75	1.89	2.85	4.76	2.10
cash	9,740	12,130	5,204	50,498	5,788
debt	157,245	163,147	176,505	164,346	123,513
operating leases	22,202	21,804	—	—	—
post-retirement benefits	18,276	18,788	19,218	31,775	33,578
total assets	525,761	551,669	531,864	444,097	403,821

source: company reports



Credit Creation •

Federal Reserve Balance Sheet
(in millions of dollars)

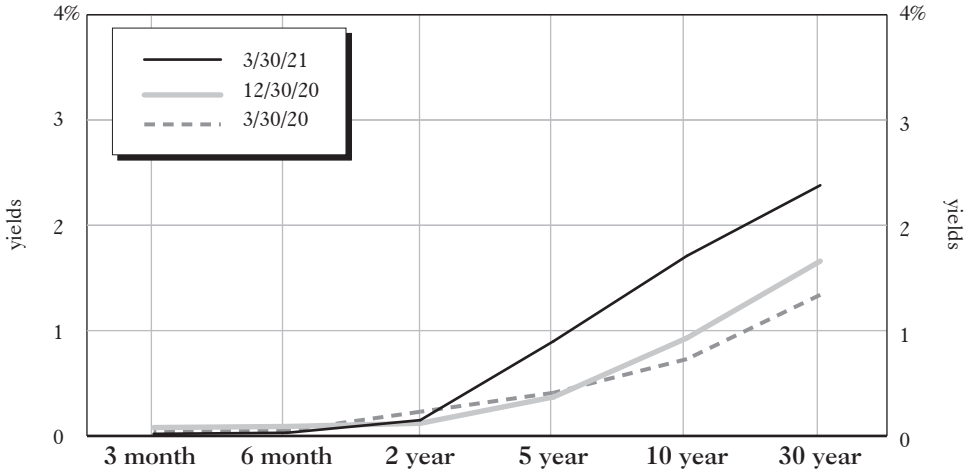
	March 24, 2021	March 17, 2021	March 25, 2020
The Fed buys and sells securities…			
Securities held outright	$7,163,888	$7,117,402	$4,187,418
Held under repurchase agreements	0	429	387,528
and lends…			
Borrowings—net	1,015	1,175	39,929
and expands or contracts its other assets…			
Maiden Lane, float and other assets	520,316	517,342	355,489
The grand total of all its assets is:			
Federal Reserve Bank credit	7,685,219	7,636,348	4,970,364
Foreign central banks also buy, or monetize, governments:			
Foreign central-bank holdings of Treasurys and agencies	$3,566,573	$3,576,051	$3,355,273

European Central Bank Balance Sheet*
(in millions of euros)

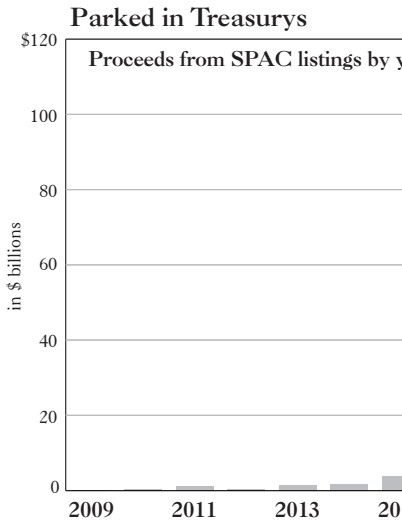
	March 26, 2021	Feb. 26, 2021	March 27, 2020
Gold	€536,537	€536,536	€470,598
Cash and securities	4,567,153	4,485,132	3,484,511
Loans	2,107,633	1,792,847	826,075
Other assets	293,698	295,972	281,503
Total assets:	€7,505,021	€7,110,487	€5,062,687

** Totals may not add due to rounding.*

Movement of the Yield Curve



source: The Bloomberg



source: SPACInsider

SPAC-a

Evan Lorenz writes:

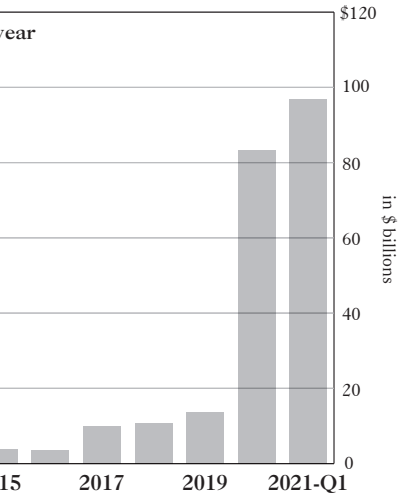
As the Biden administration contemplates its next multi-trillion-dollar spending bill, the U.S. Treasury finds an unusual backer: special purpose acquisition companies. Year to date, public debt has vaulted by $209.8 billion to $21.8 trillion. SPACs, which park their IPO proceeds in government paper, raised $97 billion through March 30, according to SPACInsider.

To put the first quarter's record haul into perspective, in full-year 2020 blank-check companies raised $83.3 billion, which, at the time, was greater than the sum of all prior SPAC public offerings. There are 551 publicly listed SPACs, of which 118 have announced deals. Blank-check companies typically agree to find a target within two years or return IPO proceeds to investors. In other words, within the next 24 months this crop of SPACs will liquidate their Treasury portfolios.

The pace of SPAC offerings is likely to stall. Between Dec. 15, 2020 and March 11, the average SPAC traded at a premium to its $10 net asset value. This incentivized investors to buy into new listings on the expectation of a post-IPO pop. Today, SPACs trade at a discount to NAV, which means prospective IPO investors face mark-to-market losses.

Meanwhile, the companies that have come public via SPAC mergers are struggling to meet the optimistic pro-

• Cause & Effect



-palooza

jections laid out in their pre-merger road shows. Canoo, Inc., which merged with a blank-check company in December, pitched itself as a building block to the electric-vehicle industry: It would produce EV platforms for other OEMs (Hyundai Motor Co. was listed as a customer), make its own vehicles and sell cars on a subscription basis.

Canoo held its inaugural earnings call on Monday. The company will focus on producing vehicles for business customers and will "deemphasize" sales to other OEMs and subscription sales to consumers, management said. There was no word as to whether Hyundai is still a customer. In addition, CFO Paul Balciunas announced his resignation, which followed Alex Marcinkowski, head of corporate strategy, stepping down in January. (Analysts asked if CEO Ulrich Kranz, who was not on the call, still worked for the company. "Yes," came the chagrined reply.)

Needless to say, it is unusual for a company to change its business model three months after coming public. About management's prior claims, Canoo chairman Tony Aquila had this to say: "I think that they were . . . maybe a little more aggressive than I would be in their statements."

The company, which generated no sales in the fourth quarter, still has a market capitalization of $2.2 billion after the stock declined 21% on Tuesday.

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Annualized Rates of Growth
(latest data, weekly or monthly, in percent)

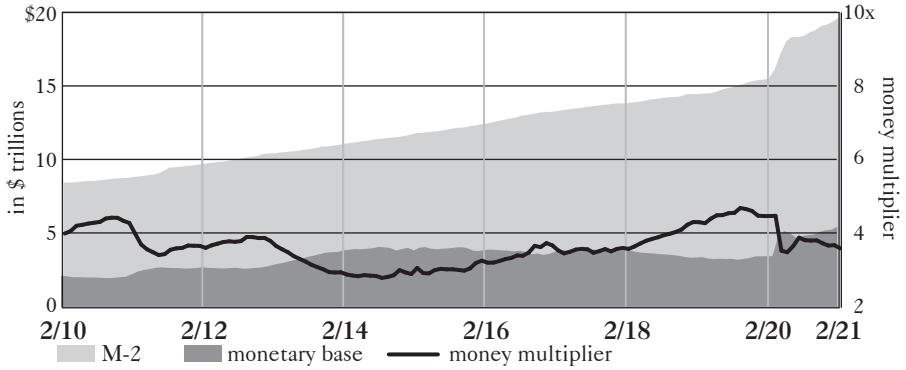
	3 months	6 months	12 months
Federal Reserve Bank credit	20.7%	18.0%	70.6%
Foreign central-bank holdings of gov'ts	9.0	9.1	4.2
European Central Bank assets	15.6	24.0	49.1
Commercial and industrial loans (Feb.)	-6.9	-14.4	10.3
Commercial bank credit (Feb.)	4.8	3.6	8.9
Asset-backed commercial paper	-4.1	-6.6	-8.4
Currency	8.3	8.5	15.5
M-1 (Feb.)	19.2	18.5	357.1
M-2 (Feb.)	15.5	14.5	27.1

Reflation/Deflation Watch

	Latest week	Prior week	Year ago
FTSE Xinhua 600 Banks Index	16,674.02	16,635.99	13,488.23
Moody's Industrial Metals Index	2,423.16	2,381.21	1,505.79
Silver	$25.11	$26.32	$14.68
Oil	$60.97	$61.42	$22.60
Soybeans	$14.01	$14.16	$8.80
Rogers Int'l Commodity Index	2,543.92	2,561.01	1,711.50
Gold (London p.m. fix)	$1,731.80	$1,735.20	$1,634.80
CRB raw industrial spot index	568.75	566.75	419.90
ECRI Future Inflation Gauge	(Feb.) 126.3	(Jan.) 122.2	(Feb.) 115.5
Factory capacity utilization rate	(Feb.) 73.8	(Jan.) 75.5	(Feb.) 76.9
CUSIP requests	(Feb.) 2,512	(Jan.) 1,593	(Feb.) 2,142
Fed's reverse repo facility (billions)	11.45	18.91	210.8
Grant's SPAC Index*	163.42	195.92	-

*Index=100 as of 8/17/2020

Effectiveness of the Monetary Policy
M-2 and the monetary base (left scale) vs. the money multiplier (right scale)



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Dish Network Corp. at a glance
all figures in $ millions except per share data

	2020	2019	2018	2017	2016
revenue	$15,493	$12,808	$13,621	$14,391	$15,212
operating income	2,583	1,879	2,148	1,568	2,319
net income	1,763	1,400	1,575	2,099	1,498
shares (millions)	584	538	526	523	484
earnings per share	3.02	2.60	3.00	4.07	3.15
cash	3,733	2,860	2,069	1,981	5,359
debt	15,702	14,140	15,153	16,203	16,479
operating leases	64	85	—	—	—
total assets	38,240	33,231	30,587	29,774	28,092

source: company reports

rated corporate, exhibits no concern. *Grant's* is concerned—as is Moffett.

"They are trying to fight a war on four different fronts, and all of them are costly," he tells me. "Their balance sheet is overstretched. Now they are trying to fight a streaming war [for which] Disney has set the mark at billions of dollars in annual losses in order to gain scale. They are trying to compete in a wireless business where T-Mobile is moving to a position of network advantage and lower cost. They are competing in a commercial wireline business that is perennially shrinking in the mid single digits. And they are talking about trying to expand their broadband business." Small wonder, as Moffett briefed his clients in January, "For the first time, we're getting the question…why don't they just cut the dividend and get it over with?"

Since *Grant's* first had its say on AT&T (see the issue dated Dec. 13, 2019), the stock has generated a loss of 12.7% versus a 27.7% gain for the S&P 500, both including reinvested dividends. The shares are priced at 9.8 times the 2021 estimate. Of the 31 analysts on the case, eight say buy and six say sell. Just 1.6% of the float is sold short (the dividend yield makes short selling an expensive proposition). Insiders have purchased 142,754 shares at a net cost of $4.2 million over the past 12 months, and no insider has sold a share.

. . .

Reducing the number of national providers to three from four is an obvious blow to the competitive structure of the wireless industry. To pass muster with the Federal Communications Commission and the Department of Justice, T-Mobile sold its postpaid Boost Mobile business to Dish for $1.4 billion and Dish agreed to build out its own nationwide cellular network to cover 70% of the U.S. population.

Dish operates two business segments, pay TV and wireless. The TV unit (which accounted for 73% of fourth-quarter revenues) consists of the Dish satellite broadcasting network and Sling, a video streaming service. Like its peer DirecTV, Dish's video business is shrinking: The satellite division counted 8.8 million subscribers at year end versus 9.4 million at the start of 2020. The wireless division (27%) primarily consists of the Boost acquisition and is weighted towards less remunerative prepaid customers.

A decade ago, Dish co-founder and chairman Charlie Ergen correctly foresaw the value in higher-frequency spectrum. In a pair of transactions in 2011, Dish purchased DBSD North America, Inc. and TerreStar Networks, Inc., two failed satellite communications companies, out of bankruptcy for a combined price of $2.4 billion. The prize: bandwidth that the coming 5G era would monetize.

Over the past decade, Dish has added to its spectrum holdings while trying to realize the value of those assets. Ergen was reported to have bid on T-Mobile and Sprint. He was rumored to be in negotiations to sell Dish to AT&T and Verizon. Ergen's jockeying can irritate the incumbent players. In a 2015 spectrum auction, Dish used multiple entities to bid for bandwidth; Verizon and AT&T complained that this rigged the sale.

The problem with spectrum is that it comes with an obligation to build a network, and Dish faced an initial construction deadline of March 2020. The terms of the Boost acquisition have pushed out the national network-buildout completion date to June 2023.

"Charlie had no choice but to get an extension," Moffett tells me. "It was an existential threat if he didn't get an extension for his buildout when he sat down to become a party to the T-Mobile/Sprint deal, which in some ways was a gift handed to him on a silver platter." The FCC is keen to have a fourth national wireless plan and has banned Dish from selling its spectrum until 2026.

Dish has pegged the cost at $10 billion, the same figure that Verizon estimates it will spend just to bring to market its newly acquired higher-frequency spectrum. In addition, Verizon invests $18.5 billion each and every year to maintain its network. "It is going to cost a lot more than $10 billion," Moffett says of the Dish plan. "They don't pretend that the $10 billion covers operating losses and start-up expenses. They mean just to build out the network itself."

Surprises in construction costs are rarely pleasant ones, as Rakuten, Inc., can attest. The cellular upstart set out to build a Japanese 5G network with a completion date of this summer. Last year Rakuten estimated the cost would total $7.7 billion. Still unfinished, the network is expected to carry a final price tag of as much as $9.9 billion. And prospective subscribers are resisting even the blandishment of a free year of service.

As for Dish, its 9 million wireless customers use T-Mobile's CDMA network, which T-Mobile plans to mothball next year. New phones will thus be necessary to assist those customers in navigating the new network, and it will fall to Dish to subsidize the purchases. All of which supports Moffett's point that $10 billion won't even come close to getting the network up and running.

Bulls and bears alike agree that Dish's pay TV is a wasting asset that *might* be worth the $15.7 billion in debt it carries. This is approximately the same sum that AT&T garnered for its pay TV business, even though AT&T ended 2020 with 17.2 million total video subscribers to Dish's 11.3 million.

Perhaps only Ergen knows what type of network Dish intends to build. A competitive retail system would have to cover 95% or more of the U.S. population, not the 70% requirement that the FCC has set. Seven-tenths of Americans are crammed into 86,000 square miles. Given that the next quarter of the population is spread out over 726,000 square miles, the cost of reaching that additional 25 percentage-point increment is shockingly high.

A narrow focus on business customers would be cheaper, but others have thought of that, too. AT&T's business wireline unit delivered $25.4 billion in revenue and $9.8 billion in Ebitda last year. On March 4, T-Mobile announced a new suite of business products exploiting its 5G network.

Instead of playing a guessing game of what Ergen might attempt, Moffett suggests, "you can ask yourself a simple question: Is it a positive or negative net present value project to be a de novo entrant into the wireless market in 2021 when you haven't even broken ground on the network and where the industry as a whole barely earns its cost of capital and is growing at 1% per year?"

To judge by Wall Street coverage, there's no obvious answer. Out of the 21 analysts who cover Dish, 10 shrug their shoulders, three say sell and eight say buy (including Chaplin, who reasons that the risk of failure shrinks before the potential reward of success). The shares change hands at 11.9 times estimated 2021 earnings.

Perhaps the C-suite offers clarity. Over the past year, insiders have sold 484,900 shares for proceeds of $15.2 million. Not one has purchased a share over the past 12 months. With a short interest equal to 12% of the float (Dish, unlike Telephone, pays no dividend), bears and execs seem to agree.

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Second wind for Cochrane

The 1919 solar eclipse of the sun validated Albert Einstein's theory of general relativity, but—as a journalist asked the great physicist—what if it hadn't? "Then I would feel sorry for the dear Lord," Einstein replied. "The theory is correct anyway."

And so with the general theory of public credit, let us call it, that the economist John H. Cochrane laid out in his superb, indeed, for our money, landmark 2011 essay, "Inflation and Debt" (freely available online). The theory is correct, never mind a decade's worth of non-corroborating events.

Cochrane, a chaired senior fellow at the Hoover Institution at Stanford University, contended that "major explosions of inflation around the world have ultimately resulted from fiscal problems, and it is hard to think of a fiscally sound country that has ever experienced a major inflation. So long as the government's fiscal house is in order, people will naturally assume that the central bank should be able to stop a small uptick in inflation."

Wall Street empiricists will smile. Bounding growth in Treasury borrowing has proven no impediment to the decades-long collapse in interest rates—during the Reagan administration, yields were halved as the public debt tripled.

Be that as it may, Cochrane wrote, unchecked public borrowing could bring inflation, not deflation. It could lead to much higher interest rates, not lower ones. "[W]e face the possibility of a debt crisis," he warned the readers of *National Affairs*, "with the consequent financial chaos and inflation, that the Fed cannot control."

Cochrane was writing around the time that Standard & Poor's stripped the U.S. government of its triple-A debt rating. The suddenly split-rated Treasury was borrowing at around 2¼% at the 10-year point of the curve, and the gross public debt summed to $14.6 trillion. Aha, some of us thought (including some not a million miles from this editorial office), the fiscal fat's in the fire. Yet today, the 10-year note fetches 1.70%, and the gross debt weighs in at $28 trillion.

What, then, makes a certain level of public debt "unsustainable"? It's the crystallized awareness of the holders of that debt that the borrowing government won't or can't accumulate the future surpluses required to redeem it.

Cochrane's theory of inflation is one that has yet to attract the attention of the Nobel Prize search committee. It is logical, contrary and historically grounded, even if, in the past 10 years, it has enhanced no bond trader's P&L. Neither a monetarist nor a Keynesian, the professor—formerly on the faculty of the University of Chicago Booth School of Business—argued that mainstream economics had failed to identify the ultimate cause of monetary debasement. Blame neither money growth nor wage growth nor the absence of productive "slack." Irredeemable debt is the villain.

You don't need a boom to produce inflation, Cochrane observed—only recall the stagflation of the 1970s:

> In 1977, the economy was recovering from a recession, and inflation had fallen from 12% to 5% in just two years. The Fed had expected further moderation, and surveys and long-term interest rates did not point to expectations of higher inflation. The unemployment rate had slowly declined from 9% to 7%, and then as now the conventional wisdom said it could be further lowered through more 'stimulus.' By 1980, however, inflation had climbed back up to 14.5% while unemployment also rose, peaking at 11%.
>
> Over the broad sweep of history, serious inflation is most often the fourth horseman of an economic apocalypse, accompanying stagnation, unemployment and financial chaos. Think of Zimbabwe in 2008, Argentina in 1990 or Germany after the world wars.

Inflation is many things, none of them good. Cochrane provocatively called it a form of sovereign default. "Paying off bonds with currency that is worth half as much as it used to be is like defaulting on half the debt," he wrote. "And sovereign default happens not in boom times but when economies and governments are in trouble."

Then as now, the Federal Reserve was buying none of what Cochrane was selling. Ben Bernanke, the Fed chairman in 2011, espoused views very much like the ones you hear today from Jerome Powell, e.g., there can be no proper inflation when "longer-term inflation expectations" are well anchored. Neither will the CPI percolate when excess capacity characterizes product and labor markets, the central bank panjandrums agree.

Yet, as Cochrane observed, the Great Inflation of the 1970s took the world unawares. "If long-term interest rates offered reliable warnings about inflation," he pointed out, "we would see interest rates rise before increases in inflation. That does not happen. Apparently 'anchors' can get unstuck quickly, and inflation can surprise the bond market as well as the Fed." Then,

too, "serious inflation often comes when events overwhelm ideas."

You wouldn't necessarily have expected it from a University of Chicago man, but Cochrane disputed that money supply growth, taken on its face, tells you much about the future rate of inflation. "The correlation is no better than the one between unemployment and inflation," he wrote. Beyond the supply of money, one must draw a bead on the demand for money, a.k.a. velocity.

"Their formal theories," Cochrane wrote about the disciples of Milton Friedman, "like the Keynesian ones, assume in footnotes that the government is solvent, so there is never pressure for the Fed to monetize intractable deficits. But what if our huge debt and looming deficits mean that the fiscal backing for monetary policy is about to become unglued."

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And the future is where the problem lies, not with the present—so the oft-cited ratio of public debt to GDP is not the critical figure it seems. Entitlement growth is the rub:

> [E]ven if the United States eliminated all of its outstanding debt today, we would still face terrible projections of future deficits. In a sense, this fact puts us in a worse situation than Ireland or Greece. Those countries have accumulated massive debts, but they would be in good shape (Ireland) or at least a stable basket case (Greece) if they could wipe out their current debts. Not us.

How do fiscal fears translate into rising rates of inflation and resurgent bond yields? By the refusal of the marginal holder of debt to roll over maturing securities and instead to deploy those dollars elsewhere—in real estate, NFTs, gold, bitcoin, equities, anything but dollar bills.

"But there are only so many real assets around," Cochrane continued, "and someone has to hold the stock of money and government debt. So the prices of real assets will rise. Then, with 'paper' wealth high and prospective returns on these investments declining, people will start spending more on goods and services. But there are only so many of those around, too, so the overall price level must rise. Thus, when short-term debt must be rolled over, fears of future inflation give us inflation today—and potentially quite a lot of inflation."

Or, in the lingo of present values, "The real value of government debt must equal the present value of investors' expectations about the future surpluses that the government will eventually run to pay off the debt."

It's a beautiful theory, all right. Does the theorist still believe it? Yes, says Cochrane, when we reached him by Zoom the other day in California. "I still think of myself as right, but not yet. And I'm a little chastened by the fact that it went the other way for 10 years."

Every bond bear must deal with the confounding example of Japan, but Cochrane takes an unconventional view here, too. Yes, he allows, Japan does show a ratio of gross debt to GDP in excess of 250%, but net debt (adjusting for offsetting assets) is a different story. "Japanese debt is held by old Japanese people. Our debt is held by the Chinese central bank."

"So," Cochrane adds, "the debt is nowhere as big as it seems. And Japan spent two decades with trade surpluses. Trade surpluses mean that in the country of Japan, somewhere, is a bunch of foreign assets that can be taxed. We have spent two decades running trade deficits.

"Plus, we shouldn't think of a debt-to-GDP ratio as the main measure of danger," he goes on. "It's the debt relative to your plan for paying off that debt. We certainly know, looking historically, that countries have had debt crises at 40% debt to GDP. And countries have gone on for 20 years at 200% debt to GDP."

Put five sensible economists in a room, and they could solve America's fiscal predicament in a trice, Cochrane says. There's nothing inherently insoluble about it. Then, again, the problem is getting bigger, not smaller, and no such five miracle workers have yet raised their hands.

"Here's my scenario for you," says Cochrane. "Ten years from now, we have a new pandemic, one that's really bad. War breaks out somewhere, some sort of financial thing goes wrong. The last [crisis, i.e., the Great Recession] was $1 trillion, this one was $5 trillion, so they'll want $10 trillion for stimulus. Of course, they'll have to bail everybody out all over again. And now we're already at 150% debt to GDP, but, of course, there's partisan gridlock. The president's being impeached again. There're riots in the streets. And oh, by the way, we got to roll over 150% debt to GDP. And we haven't fixed Social Security. We haven't fixed Medicare. We're just spending money hand over fist. Then that's the moment when bond markets say, maybe not."

Ten years from now?

"Well, you know, who knows?"

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A case of overstimulation

"When lockdowns started, nobody would have guessed that credit card debt would have fallen and credit scores would have risen," Matthew Schulz, chief credit analyst for LendingTree, Inc., tells *Grant's*, "or that so many people would be in the good shape that they are in right now." Or, as *The Wall Street Journal* reported on Tuesday, that personal bankruptcies would have plunged.

Yet the impossible happened—and keeps on happening. Plague-year fi-

nancial anomalies are the topic under discussion. One day, they'll fill a book.

Take, for instance, the hundreds of billions of dollars tapping their feet for the opportunity to buy distressed commercial real estate. But the only distress in sight is that which torments the thwarted salvage investors.

"Troubled properties aren't coming to market because owners have little pressure to sell," Bloomberg noted on Monday. "Commercial real estate prices have held up—or even risen—because so much money is chasing so few deals. 'We're starting to see frustration rolling over into desperation,' said Will Sledge, senior managing director in the capital markets unit of brokerage Jones Lang LaSalle, Inc. Investors are 'willing to push prices up and their yields down in order to simply deploy capital.'"

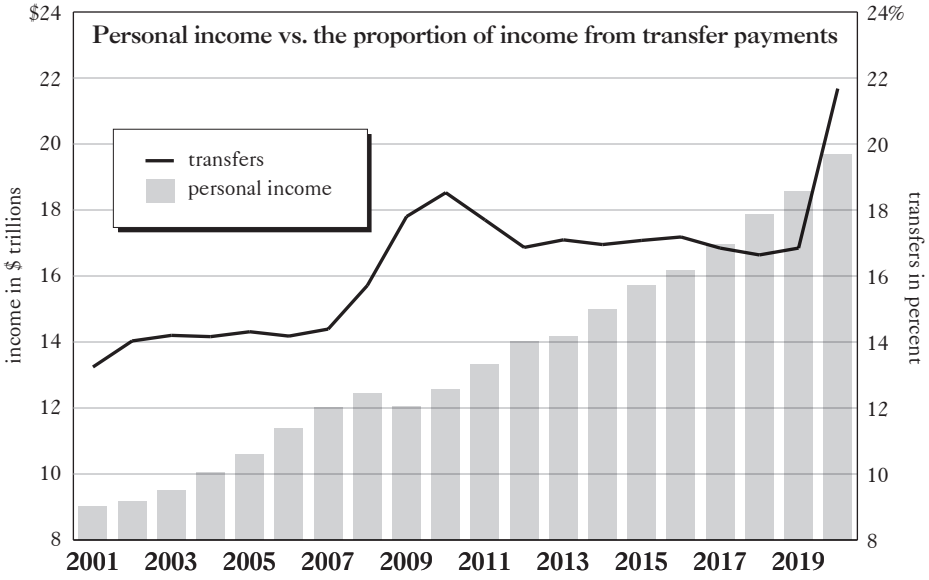
Neither is the stock market exactly overflowing with bargains, for reasons encapsulated on page one of the March 22 *New York Times*. "'Stimmies' Pay for Stock Plays Fueling Market," said the headline, and the story elaborated: "Analysts at Deutsche Bank recently estimated that as much as $170 billion from the latest round of stimulus payments could flow into the stock market.... Traders between the ages of 25 and 34 said they expected to put half of their stimulus checks into stocks."

An extraterrestrial visitor might conjecture that lockdowns make you richer. According to anonymized data from more than 30,000 LendingTree app users, consumers' FICO scores rose four points, to 682, between March 2020 and February 2021. Such ratings did not return to their pre-Great Recession highs until 2013.

"Generally speaking," says Schulz of LendingTree, "credit card debt doesn't go down, ever, except when there's a major economic crisis." Thus, from year-end 2008 through the first quarter of 2014, card balances plunged by 23.9% (after edging higher in 2008 as straitened consumers borrowed to make ends meet). In the full 12 months of 2020, borrowers paid down 11.7% of outstanding balances.

They didn't manage that feat all by themselves. Government checks and lender forbearance were what made it possible. Concerning those stimmies, household income rocketed by a record $1.14 trillion last year, to $19.7 trillion, as transfer payments as a percentage of take-home pay climbed to 21.7% from 16.8%

Uncle Santa Claus



source: U.S. Bureau of Economic Analysis

in 2019. As to forbearance, the Coronavirus Aid, Relief and Economic Security Act gave lenders leeway to grant debt relief and still mark loans as performing.

Of course, national averages obscure as well as instruct. In February, 150.2 million Americans were employed, 8.5 million fewer than at the same point last year. And despite the overall improvement in creditworthiness, LendingTree found that the millennials who use its app suffered a downgrade of 12 FICO points, for an average score of 644.

In one sense, the demotion was an unfair blow, as that particular cohort had reduced its revolving balances by 18% from the start of the recession. In another sense, the downgrade was straight out of the cyclical playbook. In times of trouble, younger workers are likelier than their senior colleagues to lose their jobs. Then, too, when one's credit limits are reduced (as theirs have been), one's score automatically ticks lower.

Perhaps, like the refloated *Ever Given*, the millennials' boat will catch a prosperous tide. Economists reckon that the United States gained 643,000 jobs in March, up from 379,000 additions in February. The New York Federal Reserve's Nowcast model predicts that real GDP will rise by 6.1% in the first quarter.

Of course, the flip side of consumers paying down debt is banks struggling to make their earning assets grow. Since May 6, 2020, total commercial bank loans and leases have declined by 5.4%, to $10.3 trillion. Wanting to lend—perhaps needing to lend—the banks may choose to cut underwriting standards.

"We've started to see a steady increase in competitive activity, and it's playing out in multiple ways," said Andrew Young, the CFO of Capital One Financial Corp., at the KBW Fintech Payments Conference in February. "We see enhanced rewards at the top of the market. Many of our peers have talked about increasing marketing.... I also think that competitive intensity is going to rise given the strength of [consumer] balance sheets."

And easier underwriting might just be met with a resumption in credit demand. "Google search activity for auto loans, credit cards, mortgages, and other consumer borrowing categories took a sharp turn higher last week," reports Peter Forbes, data scientist at Arbor Research and Trading, LLC.

Alas, few signs point to the timely return of investment bargains. The aforequoted Bloomberg story on nondistressed commercial real estate ("Real Estate Investors Grow Desperate to Spend $250 Billion Hoard") captures the spirit of these overstimulated times:

> Yaakov Zar, chief executive officer of Lev, a matchmaker for commercial real estate borrowers and lenders, got a call from a friend offering 100 cents on the dollar for loans in default. "If you're paying par, it's not distressed," Zar said.

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Legal Notice

If you sold any physical gold or financial or derivative instrument where gold is the underlying reference asset, or you bought gold put options in transactions conducted over-the-counter or in whole or in part on COMEX or on any other exchange in the United States between January 1, 2004 and June 30, 2013, you may be affected by pending class action settlements.

This Summary Notice is to alert you to two proposed settlements totaling $102,000,000 reached with Deutsche Bank AG and HSBC Bank plc (together, the "Settling Defendants"). The Settling Defendants deny any liability, fault, or wrongdoing of any kind in connection with the allegations in the Action. By entering into their respective settlements, the Settling Defendants have not admitted to any such liability, fault, or wrongdoing, and nothing in the Settlement Agreements or this Notice shall be construed as such an admission.

The United States District Court for the Southern District of New York (the "Court") authorized this Notice. The Court has appointed the lawyers listed below to represent the Settlement Class in this Action:

Merrill Davidoff **Berger Montague PC** **1818 Market Street,** **Suite 3600** **Philadelphia, PA 19103**	**Daniel Brockett** **Quinn Emanuel Urquhart &** **Sullivan LLP** **51 Madison Avenue, 22nd Floor** **New York, NY 10010**

Who Is a Member of the Settlement Class?

The proposed Settlement Class includes:

> All persons or entities who during the period from January 1, 2004 through June 30, 2013, either (A) sold any physical gold or financial or derivative instrument in which gold is the underlying reference asset, including, but not limited to, those who sold (i) gold bullion, gold bullion coins, gold bars, gold ingots or any form of physical gold, (ii) gold futures contracts in transactions conducted in whole or in part on COMEX or any other exchange operated in the United States, (iii) shares in gold exchange-traded funds ("ETFs"), (iv) gold call options in transactions conducted over-the-counter or in whole or in part on COMEX or any other exchange operated in the United States; (v) gold spot, gold forwards or gold swaps over-the-counter; or (B) bought gold put options in transactions conducted over-the-counter or in whole or in part on COMEX or on any other exchange operated in the United States.

The capitalized terms used in this Summary Notice if not defined herein are defined in the detailed Notice of Proposed Class Action Settlements and Class Members' Rights ("Notice") and the Settlement Agreements, which are available at **www.GoldFixSettlement.com**.

If you are not sure if you are included in the Settlement Class, you can get more information, including the detailed Notice, at **www.GoldFixSettlement.com** or by calling toll-free **1-844-271-4787** (if calling from outside the United States or Canada, call **1-267-238-9078**).

What Is This Lawsuit About and What Do the Settlements Provide?

This lawsuit alleges that the Defendants engaged in anticompetitive acts that affected the market for gold. To settle the claims in this lawsuit and without admitting any liability, fault, or wrongdoing, Deutsche Bank has agreed to pay $60 million in cash, and HSBC has agreed to pay $42 million in cash—for a total of $102 million (the "Settlement Fund") in cash—for the benefit of the Settlement Class and to provide discovery that is likely to assist with the continued prosecution of the Action. If the Settlements are approved, the Settlement Fund, plus interest earned from the date it was established, less any Taxes, any Notice and Administration Costs, any Court-awarded attorneys' fees, payment of litigation costs and expenses, and service awards for Plaintiffs, and any other costs or fees approved by the Court (the "Net Settlement Fund") will be divided among all Settlement Class Members who file valid Proofs of Claim and Release.

Will I Get a Payment?

If you are a member of the Settlement Class and do not opt out, you will be eligible to file a Proof of Claim and Release ("Claim Form"). The amount of your payment will be determined by a Plan of Allocation. Details about the Plan of Allocation are available at **www.GoldFixSettlement.com** or by calling toll-free **1-844-271-4787** (if calling from outside the United States or Canada, call **1-267-238-9078**). A date for distribution of the Settlement Fund has not been set. Claim Forms must be submitted by **August 23, 2021**.

What Are My Rights?

If you are a member of the Settlement Class and do not opt out, you will release certain legal rights against the Settling Defendants, as explained in the detailed Notice and Settlement Agreements, which are available at **www.GoldFixSettlement.com**. If you do not want to take part in the Settlements, you must opt out by **August 6, 2021**. You may object to the Settlements, Plan of Allocation, and/or application for an award of attorneys' fees, payment of litigation costs and expenses, and/or service awards for Plaintiffs. If you want to object, you must do so by **August 6, 2021**. Information on how to opt out or object is contained in the detailed Notice, which is available at **www.GoldFixSettlement.com**.

When Is the Fairness Hearing?

The Court will hold a hearing at the United States District Court for the Southern District of New York, Thurgood Marshall United States Courthouse, 40 Foley Square, Courtroom 443, New York, NY 10007, on **October 7, 2021**, at **10:00 a.m.** to consider whether to finally approve these Settlements, the Plan of Allocation, and Co-Lead Counsel's application for an award of attorneys' fees, payment of litigation costs and expenses, and any service awards for the Class Plaintiffs. Given the current COVID-19 situation, the Court reserves the right to conduct the final fairness hearing remotely. The Court currently expects to allow participants to attend using the following dial-in information: 1-888-363-4749, using the access code 3121171, and the security code 2548. You or your lawyer may ask to appear and speak at the hearing at your own expense, but you do not have to. Any changes to the time and place of the Fairness Hearing, or other deadlines, or the process for attending remotely, will be posted to **www.GoldFixSettlement.com** as soon as practicable.

For more information, call toll-free 1-844-271-4787 (if calling from outside the United States or Canada, call 1-267-238-9078) or visit www.GoldFixSettlement.com.

****** Please do not call the Court or the Clerk of the Court for information about the Settlements. ******

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SPAC-a-palooza

Evan Lorenz writes:

As the Biden administration contemplates its next multi-trillion-dollar spending bill, the U.S. Treasury finds an unusual backer: special purpose acquisition companies. Year to date, public debt has vaulted by $209.8 billion to $21.8 trillion. SPACs, which park their IPO proceeds in government paper, raised $97 billion through March 30, according to SPACInsider.

To put the first quarter's record haul into perspective, in full-year 2020 blank-check companies raised $83.3 billion, which, at the time, was greater than the sum of all prior SPAC public offerings. There are 551 publicly listed SPACs, of which 118 have announced deals. Blank-check companies typically agree to find a target within two years or return IPO proceeds to investors. In other words, within the next 24 months this crop of SPACs will liquidate their Treasury portfolios.

The pace of SPAC offerings is likely to stall. Between Dec. 15, 2020 and March 11, the average SPAC traded at a premium to its $10 net asset value. This incentivized investors to buy into new listings on the expectation of a post-IPO pop. Today, SPACs trade at a discount to NAV, which means prospective IPO investors face mark-to-market losses.

Meanwhile, the companies that have come public via SPAC mergers are struggling to meet the optimistic projections laid out in their pre-merger road shows. Canoo, Inc., which merged with a blank-check company in December, pitched itself as a building block to the electric-vehicle industry: It would produce EV platforms for other OEMs (Hyundai Motor Co. was listed as a customer), make its own vehicles and sell cars on a subscription basis.

Canoo held its inaugural earnings call on Monday. The company will focus on producing vehicles for business customers and will "deemphasize" sales to other OEMs and subscription sales to consumers, management said. There was no word as to whether Hyundai is still a customer. In addition, CFO Paul Balciunas announced his resignation, which followed Alex Marcinkowski, head of corporate strategy, stepping down in January. (Analysts asked if CEO Ulrich Kranz, who was not on the call, still worked for the company. "Yes," came the chagrined reply.)

Needless to say, it is unusual for a company to change its business model three months after coming public. About management's prior claims, Canoo chairman Tony Aquila had this to say: "I think that they were . . . maybe a little more aggressive than I would be in their statements."

The company, which generated no sales in the fourth quarter, still has a market capitalization of $2.2 billion after the stock declined 21% on Tuesday.

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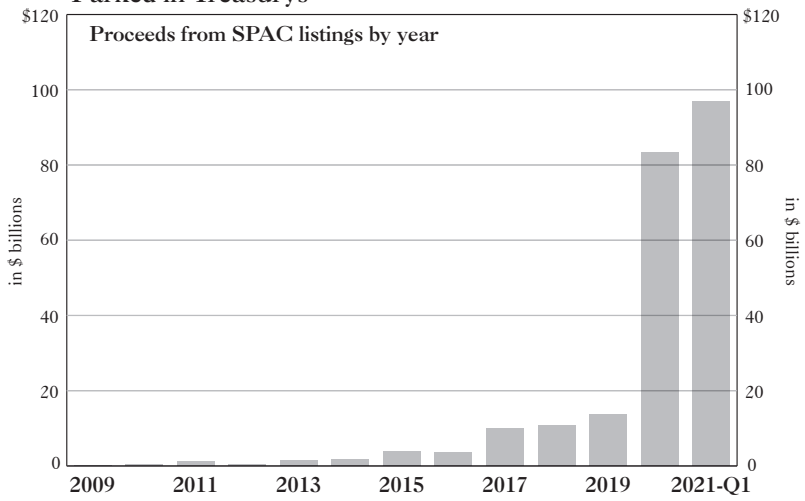
Parked in Treasurys



source: SPACInsider