MARKET CALLS

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Distressed Mortgage Bonds Attractive: Canyon's Friedman

Securities that are "much more complex and much more distressed" than higher-rated corporate bonds, such as those backed by residential mortgages, offer greater returns with less risk, according to **Canyon Partners LLC**'s **Joshua Friedman**.

The bonds "provide a great deal more downside protection" because government policies aimed at keeping borrowers in their homes with loan modifications means the securities can still produce gains even if the principal is cut or home prices drop, Friedman, based in Los Angeles, said in an interview with Willow Bay on Bloomberg Television's "Bottom Line."

"If you own securities at 30 or 35 cents on the dollar, and even if principle is cut quite substantially, or even if home prices drop quite substantially, you still have a very robust return," Friedman said.

—Charles Mead and Willow Bay

Einhorn Sees 'Fed Put' Under Bonds, Not Stocks

Federal Reserve policy isn't designed to prop up U.S. stock prices as many people believe, according to **David Einhorn**, president of **Greenlight Capital LLC**.

"The real Fed put is under the bond market," the hedge-fund manager wrote in a commentary May 3 on the Huffington Post website. "The Fed has all but guaranteed that it will do what it takes to stop bond prices from falling" by promising to keep its target interest rate near zero through 2014, according to Einhorn, based in New York.

Central bankers don't understand investor psychology, Einhorn wrote. "If you want to get people to sell bonds and buy stocks, the best way to do that is to show them that bond prices can, and do, fall."

—David Wilson

Election Results No Reason to Add to Europe Shorts: Biggs

Barton Biggs, founder of **Traxis Partners LP**, said he isn't adding to bearish equity bets in Europe after elections in France and Greece this weekend signal voters are seeking leaders who support more stimulus.

Biggs said on Bloomberg Television's "In the Loop" with Betty Liu yesterday that he continues to short German and French benchmark equity indexes. The region's shared currency is "50/50 on surviving," Biggs said.

Voters are "signaling to their politicians that they want more stimulus and less austerity," Biggs said. "If they don't get it, they're going to vote in new leaders. That's a big deal and I happen to think stimulus combined with reforms is the way to go."

The U.S. economy is "still cranking along at 2.5 percent real gross domestic product growth," he said. "That's a good healthy level."

—Inyoung Hwang and Betty Liu

New Credit Fund MeehanCombs Likes European Debt

MeehanCombs LP, the newly-formed credit fund, sees long opportunities in various types of European debt by early 2013, according to **Matt Meehan**, co-founder, chief investment officer and portfolio manager of the Greenwich, Connecticut-based firm.

"One has to keep their eyes open across the credit spectrum: senior bank debt, fallen angels, busted converts, munis and asset backed," Meehan said. "That usually allows us to find something positive to do both long and short at all times."

Eli Combs, co-founder and president of the firm, said geographic diversification is essential. "This is not the time to be a one trick pony -- portfolios that are only focused on Europe, as well as portfolios that are long-only in credit, will likely have significant challenges navigating the coming volatility," Combs said.

—Kelly Bit

MARKET CALLS, REVISITED

QuantZ Capital Management LLC predicted "the market's summer of discontent" last June. "The grim reality of a growth scare/ double dip is setting in," the firm wrote in its monthly letter to investors dated June 3. "We have trouble seeing fundamental/ macro support for equities to continue to extend the tremendous gains seen post-2009 lows." QuantZ said it expected volatility to rise and "remain elevated given the macro state of the world" (Bloomberg Brief: Hedge funds, June 7, 2011).

– After climbing close to 1363 in early July, the S&P 500 fell by almost 18 percent in one month, dropping to 1119 on August 8. The "summer of discontent" continued much as QuantZ had predicted, with high levels of volatility and the S&P sinking to a low of 1099 on Oct. 3 (see chart below).

Volatility would remain elevated too, judging by the Chicago Board Options Exchange Volatility Index, which stayed above its 200 day moving average until early December.

Since Dec. 7, the VIX has trended downward and last week was less than half its level from last summer. U.S. equities have rallied as well: From Dec. 19 to April 2, the S&P 500 increased by 17 percent. Fears of a "double dip" have, so far at least, been unfounded.

– Nathaniel E. Baker