DIVERGENCE AND CONVERGENCE: US STOCKS AND AMERICAN POLITICS
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William Butler Yeats said in his poem “The Second Coming”:
“Turning and turning in the widening gyre
The falcon cannot hear the falconer;
Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world,
The blood-dimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all conviction, while the worst
Are full of passionate intensity.”

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OVERVIEW AND CONCLUSION

Numerous United States stock marketplace and economic wizards share a common faith that levels and trends in broad-based equity benchmarks such as the S+P 500 adequately represent the nation’s overall current economic “reality”, signal (forecast) the country’s future economic conditions, or both. Conversely, the present-day or prospective economic situation (or both) allegedly are built into or forecast S+P 500 and related stock signposts elevations and trends. Leading promoters of this creed frequently also are apostles of stock investment (buying), especially over the misty long run. Thus strong (bullish) US stocks supposedly equal, reflect, or confirm (at least to a substantial extent and at some point in time) a robust economy.

Assorted economic (commercial; business) variables around the globe of course influence patterns in American (and other international) stock marketplaces. So do political and other cultural factors. The perspectives on, analytical methods regarding, and arguments and conclusions relating to such cultural phenomena nevertheless are entirely subjective (matters of opinion; not scientific). Thus reasonable gurus can and do vary in their enlightened views regarding issues such as how to organize “the” past, present, and future, as well as in their causation and probability assessments regarding one or more marketplaces. This contrasts with the objective (Natural; true for all) sciences such as biology, chemistry, physics, mathematics, and mechanical engineering.

A given financial marketplace such as the S+P 500 and data (variables, facts, factors, evidence, statistics) related to it converge and diverge (lead/lag) in a variety of fashions. Existing relationships can change, sometimes dramatically. Marketplace history is not marketplace destiny.

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The S+P 500 rapidly crashed about 35.4 percent in only one month from its 2/19/20 pinnacle at 3394 to its dismal 3/23/20 trough at 2192. However, it thereafter skyrocketed nearly 47.5 percent to 6/8/20’s 3233, only about five percent beneath 2/19/20’s height. The S+P 500’s current level around 3185 neighbors the early June 2020 high. Generous money printing (quantitative easing) and yield repression (and other assistance) from the beloved Federal Reserve and its central banking allies substantially contributed to the spike from March 2020’s depth. So did massive deficit spending. Substantial bull moves in various important “technology” stocks within the S+P 500, and the related climb in the technologically-composed Nasdaq Composite Index, greatly assisted the upward march and sustained strength in the S+P 500.

Although the Nasdaq Composite Index and many leading (popular; large-capitalization) technology stocks achieved new highs very recently, several actual or probable divergences (and some convergences) within or linked to the S+P 500 stock playground warn that it will be difficult for the S+P 500 to surpass its lofty February 2020 peak by much, if at all, over the next several months. These factors not only probably will undermine the S+P 500 and induce it to start declining, but also will inspire a related fall in the Nasdaq Composite Index.

DIVERGENCE: AMERICAN STOCKS

The poet Wallace Stevens declared: "Nothing is itself taken alone. Things are because of interrelations or interactions."

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Various forms of divergence (and convergence) relevant to stock marketplaces exist.

These include how a given marketplace recently has moved, or is travelling, relative to its past (or "overall") history. It can include relationships between "the" stock marketplace (such as the S+P 500 benchmark) and other stock indices (both domestic and foreign), marketplace sectors (such as technology, energy, or finance; emerging marketplace stocks) or particular stocks. An apparent existing relationship between United States stocks and other financial territories such as interest rates (picture the US Treasury marketplace or high-yield corporate debt), the US dollar, and key commodities such as petroleum and base metals can change, sometimes dramatically. For the S+P 500, a stock sector, or an individual equity, its level, trend, and valuation can seem to converge or diverge with its earnings (or other variables).

To what extent has or will America's coronavirus history, current trends, and future probabilities intersect with the S+P 500? Recall the vicious economic decline and sharp stock slumps during first quarter 2020 as the coronavirus spread worldwide and in America. Yet the significant increase in recent weeks in the America's coronavirus infection rate contrasts with the persistent strength in the S+P 500, and with the Nasdaq Composite Index's stellar ascent to all-time highs.

Significant divisions (divergence) and heated conflicts nowadays exist in America's political and other cultural theaters. Political phenomena of course intertwine with economic ones, including financial marketplaces such as stocks. To some extent, the rally ("high" prices) in American stock benchmarks such as the S+P 500 diverges from the likely enactment (reality) of corporate and capital gain tax increases. In America's upcoming November 2020 national election, Biden very likely will defeat Trump. The Democrats should retain control of the House of Representatives. The Democrats probably will gain Senate seats, and they have a very good chance of capturing the Senate. This unification of Democratic power on the national level not only will be a dramatic change in government. Tax policies embraced by Biden and the Democrats likely will be bearish factors for the S+P 500.

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"Crawling from the Wreckage: US Stocks" (4/13/20) analyzed major bear trends within the United States stock marketplace (using the Dow Jones Industrial Average and the S+P 500 as signposts) over the 125 years prior to the decline which began in February 2020 and halted in March 2020. Not a single bear trend ended in one month.

Suppose the S+P 500's calamitous bear move commencing in February 2020 indeed finished once-and-for-all in March 2020. That would be a notable divergence from the historical pattern.

Perhaps the determined and sustained accommodative action by the Federal Reserve and its central banking comrades, accompanied by massive worldwide fiscal deficit spending packages, are critical considerations ensuring that "this time is different" regarding the bearish US stock voyage which commenced in February 2020. To protect the nation's economy and ensure sufficient recovery, the Fed will do "whatever it takes". It will keep engaging in massive quantitative easing (money printing) and yield repression (and other schemes).

Stock investors and their friends fondly recall the assistance unflinchingly given by the Fed and its cohorts during the dark later days of the 2007-09 global economic disaster and thereafter. These easy money programs helped to spark and sustain the marvelous S+P 500 bull leap which commenced in March 2009 and ended in February 2020. In addition, very low US government interest rates and negative sovereign yields in many other nations inspire armies of financial pilgrims to seek adequate returns (yields) elsewhere, including stocks and high-yield corporate debt. Plus, at least for the "haves", there is a lot of money around which can switch between various "asset classes".

Nevertheless, in the absence of noteworthy sustained real GDP growth in America and abroad or a major rebound in corporate earnings, it is unlikely that the S+P 500 will pierce its February 2020 high by much if at all in the near term.

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Global GDP forecasts for calendar 2020 contrast substantially from those for calendar 2021. The International Monetary Fund predicts world output will slump -4.9 percent year-on-year in calendar 2020, but GDP will grow 5.4pc in 2021 "World Economic Outlook Update", Table 1; 6/24/20). Advanced economies suffer an -8.0 percent drop in 2020 (US falls -8.0pc), with 2021 GDP increasing 4.8pc (US up 4.5pc). Emerging (developing) market growth tumbles -3.0pc in 2020, but jumps 5.9pc higher in 2021.

Many economic clairvoyants foretell that not all parts of calendar 2020 will endure economic contraction. The noteworthy recovery, which they hope will be V-shaped, should start soon, perhaps as early as 3Q20!

"American Consumers: the Shape We're In" (5/4/20) concluded: "America's economic recovery probably will be slow rather than fast (or even fairly quick on a sustained basis). Optimism heralded by the IMF and many other leading institutions, enthusiastic gospels from US 'investment' gurus regarding magnificent corporate earnings in calendar 2021, and similar propaganda likely will be disappointed." The essay emphasized: "a survey of several key US variables closely linked to the situation of the American consumer nevertheless suggest that the injury to the American consumer 'in general' and thus the country's overall economy has been and will continue to be severe. A very substantial portion of the general public is in rough shape." Despite the recent decline in unemployment, much of the general public continue to face difficult circumstances, or fear they will have to do so. The coronavirus pandemic remains vigorous in the US and many other locations.

The US Congressional Budget Office underlined a disastrous real GDP crash of around -11.2 percent during second quarter 2020 relative to the preceding quarter (annual rate of around -37.7 percent; "Interim Economic Projections for 2020 and 2021", Table 1; 5/19/20). The CBO more recently declares ("An Update to the Economic Outlook: 2020 to 2030", Table 1: 7/2/20; Table 1) that America's real GDP "is expected to grow at a 12.4 percent annual rate in the second half of 2020 and to recover to its prepandemic level by the middle of 2022."

The CBO's 2022 time horizon for a full recovery does not sound too encouraging for stock marketplace bulls confronting the coronavirus situation as well as the significant potential for notable increases in US corporate and other taxes should Biden capture the 2020 Presidential election. The Federal Reserve's "Economic Projections" also implicitly show that it will take time for the economy to resuscitate (Table 1, midpoint of central tendency; 6/10/20). The Fed predicts the nation's GDP will fall -6.6pc in 2020, rising only 4.3pc in 2021 and 3.8pc in 2022.

United States and global unemployment probably will not come close to attaining pre-coronavirus levels anytime soon. Actual and feared unemployment should burden consumer spending. The CBO predicts US unemployment will average 10.6pc in 2020 (10.5pc in 4Q20) and 8.4pc in 2021 (see 7/2/20's "Update"). The Fed estimates average 4Q21 unemployment at 6.7pc. The headline unemployment number for June 2020 was 11.1 percent, down from April 2020's 14.7pc (compare 4.4pc in March 2020; Bureau of Labor Statistics, Table A-15; 7/2/20). However, an alternative and broader measure of unemployment (U-6) reached 22.8 percent in April 2020 (March 2020 8.7pc), remaining elevated in June at 18.0pc.

Arithmetic consumer debt levels (see the NY Fed's "Household and Credit Report"; May 2020) are high. This probably will weigh on US consumer spending, and thus on GDP growth and corporate earnings, at least until economic growth appears assured.

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Although marketplaces are cultural domains rather than objective (scientific) realms, cultural perspectives and behavior of course can respond to scientific phenomena such as medical ones. Everyone knows the coronavirus pandemic was a critical reason for the recent sharp GDP decline in America and elsewhere and that it played a key part in the precipitous retreat of the US stock marketplace beginning in mid-February 2020. Despite progress in some nations, on a global basis and in the United States in particular, the coronavirus epidemic probably has worsened over the past several weeks. For example, see the Johns Hopkins University of Medicine Coronavirus Resource Center's maps. Although hopes for the development of a reliable vaccine abound, the likelihood of one in the near future remains conjectural. Most scientific experts do not expect a vaccine to be developed in the next few months. In addition, many epidemiologists fear further (increased) waves of the coronavirus later in the year, which in America would coincide with flu season.

Consequently, metaphorically speaking, there appears to be divergence between the S+P 500's continued strength (current relatively high levels, not much distant from the February 2020 pinnacle) since its late March 2020 bottom and the recent (and at least the prospective near term) medical reality. As the dangerous coronavirus epidemic has increased in America (achieved new infection highs; worsened) in the past couple of months, the continued strength in the S+P 500 looks divorced from an increasingly high probability of a feeble American economic recovery (or resumed weakness). These divergences probably will not persist; convergence will re-emerge. Substantial coronavirus problems likely will hamper a recovery and thus detract from (or reverse) GDP expansion. Thus all else equal, that makes the S+P 500 vulnerable to a decline.

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The International Monetary Fund's recent "Global Financial Stability Update" (6/30/20) states that a "disconnect between financial markets and the evolution of the real economy has emerged, a vulnerability that could pose a threat to the recovery should investor risk appetite fade." Much of the IMF's report on "risk asset prices" refers to stocks.

The term "disconnect" fits the concept of divergence. Reference to "investor risk appetite" in regard to the threat to the economy probably implicitly contains a prayer that congregations of investors (and other clans of buyers/owners, including speculators) keep buying and holding assets such as American stocks.

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A great variety of subjective models and methods (opinions) enable marketplace players and spectators to arrive at personal conclusions regarding "high", "low" and "reasonable" (rational, intelligent, logical, sensible, appropriate) financial marketplace valuations.

The IMF's "Global Financial Stability Update" remarks that "market valuations appear stretched across many equity and corporate bond markets." According to IMF staff models, the difference between market prices and fundamental valuations is near historic highs across most major advanced economy equity and bond markets."

Yet the IMF leaves itself a loophole to explain this phenomenon of stretched valuations, and thus the "disconnect" between the financial marketplaces and the real economies. Buried in a footnote, this widely-watched guardian declares: "The model-based estimates of fundamental valuations may not fully account for the unprecedented financial policy measures that have been taken in recent months, including central bank asset purchases [which can involve money printing] and facilities intended to sustain the flow of credit to the economy, as well as credit guarantees that have been provided by some governments." The IMF's footnote thus implicitly confesses that market valuations may not be as "stretched" and the difference between prices and valuations as wide as it (current staff models) believes. Maybe this time is different? Will the IMF (and others) modify their trusty models?

The IMF's footnote admits that the scope of central bank easing strategies and promises to continue them is a key factor in assessing the reasonableness of marketplace valuations and their relationship to price. Though the IMF footnote's wordplay does not explicitly address the role of colossal recent deficit spending by America and other nations, its models probably do not fully account for this gigantic debt increase either. Will America enact another round of significant fiscal stimulus (rescue) programs? The IMF footnote omits language speaking of central bank promises of sustained interest rate yield repression via manipulation of policy rates such as Federal Funds.

Regarding valuation of the S+P 500, FactSet's "Earnings Insight" (7/10/20) says its forward 12 month P/E ratio is 22.0. This level significantly surpasses the five year average of 16.9 and the 10 year average of 15.2. Refinitiv's "S+P Earnings Scorecard" (7/10/20) gives the S+P 500 a forward 12 month P/E ratio of 22.0.

Perhaps many US stock marketplace players are looking not at the next 12 months of earnings to derive their subjective view regarding appropriate (reasonable, rational) P/E ratios. Maybe they are forgetting the balance of calendar 2020, and looking at (hoping for) higher corporate earnings in calendar 2021, or even calendar 2022.

For the S+P 500, Refinitiv reports industry analyst earnings estimates for calendar 2018 (the year which first benefited from America's generous 2017 corporate tax "reform" legislation) at $161.93 per share (they were $132.00/share in 2017), inching up to $162.93/share in calendar 2019. Analysts expect corporate earnings to crash year-on-year for calendar year 2020, reaching $124.80/share. However, researchers declare they will soar back to the 2018 and 2019 summits in calendar 2021, reaching $163.32 per share. Moreover, they allegedly will reach a new peak in

calendar 2022 at $186.25. Refinitiv indicates that calendar 2020 earnings will tumble -23.4 percent year-on-year. But calendar 2021 will reverse that unfortunate downturn by blasting 31.3pc higher year-on-year! FactSet says analysts project an earnings decline of -21.5 percent in calendar 2020. However, they prophesize earnings will grow 28.7pc year-on-year in calendar 2021.

Perhaps many investors and other buyers are not paying close attention to corporate earnings at all, or are minimizing their importance. In stocks and other financial marketplaces, substantial upward price moves and signs (widespread faith) that prices will move higher (or at least stay strong) can encourage (at least up to some point) noteworthy new buying or an unwillingness of owners to significantly reduce existing positions. Although the S+P 500 remains beneath 2/19/20's 3394 summit, and dipped from 6/8/20's 3233 interim high, some stock traders (including investors) probably continue to buy US stocks because the S+P 500 is far above its 3/23/20 bottom at 2192 and thus appears rather strong. Highlight the Nasdaq Composite's glorious, mesmerizing, and alluring rally since late March 2020! Gaze at the incredible and thrilling performance (price rally) of individual tech stocks like Apple.

And look at the paltry yields from US government securities, right? And there's the Fed's highly accommodative monetary policy. Plus the amazing and beneficent Fed will help stock investors out if US stocks fall "too far", right? And maybe there will be more federal stimulus packages (deficit spending). And maybe the coronavirus will not be a big problem for the economy for the balance of 2020 or thereafter.

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The "free supply" of many US stocks probably has fallen due to the increased willingness of a significant portion of the investment community to engage in relatively passive long run buy-and-hold strategies. Share buybacks also probably have cut free supply to some extent. All else equal, reduced free supply tends to assist stock bull moves. In addition, as the S+P 500 and (especially) the Nasdaq Composite Index rose substantially after late March 2020, surely quite a few wounded short sellers have been forced to cover their positions.

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In any case, because current stock valuations appear high to leading observers from the historical perspective, the S+P 500 probably needs a recovery (preferably a V-shaped one) in the so-called real economy or a large increase in corporate earnings from 2020's depths (hopefully starting no later than first quarter 2021) in order to maintain the S+P 500 price at or above its current elevation.

Besides, United States stock levels and trends as well as related valuations and earnings assessments should be interpreted alongside other variables. These include US debt, interest rate, and dollar patterns, the coronavirus situation and outlook, and the US 2020 election.

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Marketplace and media fascination with the bullish move in stocks since late March 2020, the coronavirus problem, assorted populist movements (including the Black Lives Matter one) and responses to them, and America's 2020 election season have pushed most interest rate discussions (other than references to current low yields) to the background. In general, discussions are offstage regarding potential stock and interest rate consequences derived from the recent (and probable large future) government budget deficits and resulting massive debt levels in America and elsewhere.

Recent government deficit spending and debt levels as a percentage of GDP for the world in general diverge from those in the post-World War Two period, though the global economic disaster of 2007-09 also resulted in widespread massive budget deficits and debt growth. For the world as a whole, the overall general government fiscal balance in 2019 was a -3.9 percent deficit. The IMF predicts 2020's deficit will be -13.9pc, with 2021's at -8.2pc. Gross debt as a percent of GDP stood at 82.8 percent of GDP in 2019. It jumps to 101.5pc in 2020, climbing to 103.2pc in 2021.

Let's focus on the United States. As a percentage of GDP, before the coronavirus emerged, the US already was running substantial federal budget deficits and increasing its debt, partly due to the enactment of the end-2017 tax "reform legislation. In addition, due to its aging population and other considerations, long-run budget deficits and rising debt levels problems loomed before the tax reform law.

However, America's response to the 2020 economic downturn linked to the coronavirus pandemic has created a divergence from (shift in) the preceding trend for America's budget deficit its gross debt. Whereas the nation's overall deficit and debt had been rising steadily, they exploded. According to the IMF, America's general government fiscal balance as a percent of GDP was a -5.8 percent deficit in 2018 and -6.3pc in 2019 (June 2020 World Economic Outlook, Annex Table 1). The shortfall skyrockets to -23.6 percent in 2020, with 2021's deficit expected at -12.4pc. General government debt includes state and local obligations. At end 2019, the US gross debt as a percent of GDP was 108.7 percent. Often in the past, a sustained debt level over 100 percent has alarmed many economists (though not always marketplace players or politicians). The IMF projects that America's debt as a percent of GDP soars to 141.4 percent in 2020 and 146.1pc in 2021.

How will this debt avalanche in America and elsewhere be financed? Will central banks such as the Federal Reserve keep printing money and absorb a sufficient quantity of the offerings to avoid notable interest rate increases? The Financial Times headlines (6/29/20, p6): "Growing gulf 'Large demand gap' looms for US bonds as Fed scales back asset purchases".

Major foreign holders of US Treasury securities owned about $7.1 trillion of them in February 2020. As of April 2020, the most recent month available (6/15/20), they slipped to about $6.8tr. Will this shift from net buying to net selling persist?

If the US dollar weakens significantly alongside an effort to keep US Treasury yields (such as the 10 year note) at low levels (insufficient to provide a real return relative to inflation), many foreigners may elect to buy less, or become net sellers, of US government debt.

If US government interest rates rise significantly, long run history suggests that probably will tend to lead to weakness in American stock benchmarks.

Given the Fed's yield repression regime, maybe a more significant increase in American rates will occur in the corporate sector, especially its low-grade arena, as companies scramble for funds and many owners of their debt seek to escape from their holdings.

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However, a notable upward climb in US Treasury yields may wait for a while, and not only because of current yield repression and low inflation indicators. Suppose that in the current landscape, faith in the V-shaped recovery diminishes or that economic weakness resumes. That

situation probably will encompass not only a decline in the S+P 500, but also a fall in UST yields due to a "flight to quality" into the safe haven of government securities.

The UST 10 year note's recent and record yield low occurred at .36 percent on 3/9/20. The UST 10 year yield rose to 1.28pc on 3/19/20 as stocks rapidly and substantially declined. However, it b slipped down to a .51pc low on 4/21/20. The subsequent recent UST 10 year high was .95pc on 6/5/20 (compare the 6/8/20 timing of the S+P 500's interim high at 3233). The UST yield since 6/5/20 has fallen (reaching .57pc on 7/10/20), a bearish omen in regard to the economic recovery and US stocks. A retreat in the UST 10 year yield under the April 2020 low and thus toward 3/9/20's bottom, and especially breaking beneath .36pc, probably will be accompanied by a S+P 500 decline.

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President Trump and most Republicans and Democrats nowadays probably want the US dollar to depreciate at least a modest amount from recent high levels. They concur that a US dollar decline will assist economic growth, a praiseworthy goal in current challenging economic times. Also, arguably the long run US debt situation has deteriorated more significantly than that in many of its trading partners.

Review the Fed's "Real Broad Dollar Index" (H.10, goods and services combined; monthly average; "TWD"). The TWD's attained an important summit in December 2016 at 110.0. Though it dipped to 100.2 in February 2018, it appreciated thereafter. In March 2020, around the time of the S+P 500's February 2020 high, the TWD broke above December 2016's elevation, reaching 111.7; in April 2020, the TWD rose to 113.2. The TWD edged down to 112.7 in May 2020, and fell to 109.8 in June 2020, slightly under December 2016's key top. Compare the March 2009 peak at 101.5 during the murderous 2007-09 global economic downturn.

The US dollar/stock relationship of course depends on numerous entangled factors and can shift (change its apparent current pattern) significantly. In any event, the later stage of the dollar rally which began in February 2018 at least in part probably reflected an enthusiastic quest for yield (return) via acquisition of dollar-denominated assets, including stocks and lower-grade debt. In this context, a strong US dollar tended to encourage (reflect; confirm) the S+P 500's rally, and vice versa.

Given this strong dollar/strong stock convergence, if that ongoing convergence persists, a feebler dollar can link to a weaker S+P 500, despite the wishes of politicians. Thus the TWD's descent in June 2020 beneath December 2016's high warns of a decline in the US stock marketplace.

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Watch for widening American credit spread yield relationships as a signal of US economic weakness. Expanding credit spread differentials probably will signal (confirm) stock marketplace declines. Though the Fed substantially can manipulate Treasury marketplaces, doing so in American corporate yield battlefields (even with the advent of recent Fed programs) is relatively more difficult for it.

In the present environment, it would be significant if US Treasury yields fell while those in dollar-denominated high yield corporate debt arenas were increasing. On that front, see HYG, the iShares ETF in that corporate sector. Since HYG is quoted in price terms, lower prices means higher yields, with higher prices lower yields. The UST 10 year note yield high on 3/19/20 at 1.28 percent occurred alongside the price low (yield high) in the HYG, 3/23/20's 67.52. However, since early June 2020, that pattern seems to be altering; the UST 10 year yield has fallen from its

interim top on 6/5/20 at .95 percent, whereas the HYG price has fallen (yield risen) since its 6/5/20 high at 85.03.

As a footnote, remember that the S+P 500's fall converged with that in the HYG; recall its 3/23/20 trough at 2192. Though the HYG's 1/15/20 peak at 88.53 slightly preceded that in the S+P 500 (2/19/20's 3394), it occurred alongside that in emerging marketplace stocks in general. The EEM (iShares MSCI Emerging Stock Markets ETF) peaked on 1/13/20; the 3/23/20 timing of its 30.10 trough coincided with the HYG and S+P 500 lows. HYG's interim price high in its retreat from its January 2020 top occurred 2/14/20 at 88.49, close in time to that in the S+P 500. Since many investors are hunting for "good" (sufficient; reasonable) returns in the S+P 500 (and other US and global equity benchmarks) and American corporate notes, significant trend changes in the S+P 500, EEM, and HYG in the current US (and global) economic situation probably will occur around roughly the same time.

The yield spread between Moody's seasoned Baa corporate bond and the US Treasury 10 year note widened substantially as stocks nosedived and economic fears spiked. From 205 basis points on 2/19/20, it expanded to 431 basis points on 3/23/20. Compare the timing of the S+P 500's high and low. As the Federal Reserve and Congress raced to the rescue in dramatic fashion, the spread narrowed, reaching 277 basis points on 7/8/20. However, this spread remains well above 2/19/20's level.

The Baa yield low was 3.29 percent on 3/6/20, soaring to 5.15pc on 3/20/20. However, it has tumbled back toward its early March 2020 height, reaching 3.35pc on 7/9/20. Increasing yields in the Baa marketplace probably will suggest economic stress and warn of equity price falls.

US corporate defaults and bankruptcy filings have accelerated (Financial Times, 7/1/20, p5).

"TECHNOLOGY" STOCKS AND THE S+P 500

Marketplace observers can define "technology" stocks in diverse and competing ways. Quite a few technology firms sell computer equipment, components, or software. Many tech corporations develop, deliver, or substantially enlist internet and related software services to generate revenues. Some tech corporations undertake cutting-edge projects in important industries such as medical products or automobiles. Some guides designate a firm as "information technology", but many "communication services" enterprises also seem rather "techy" in their products, newness, and creativity. In general, experts generally try to distinguish tech stocks from those of older and more traditional companies and industries.

Many analysts and traders associate well-known firms such Apple, Google, and Microsoft with the technology sector. Relatively new but still large corporations such as Facebook and Netflix belong to this arena. The alluring popular FAANG label includes these two firms and Amazon but omits Microsoft. Amazon, though it obviously markets a colossal variety of consumer goods, also has an innovative (creative) marketplace platform and delivery services. Amazon also possesses internet cloud products and thus competes with information technology firms such as Microsoft to some extent.

Automobiles represent a rather old industry (around for many decades), relying on gasoline or diesel fuel. However, Tesla manufactures electric cars. It thus stands out as a leader in a new technology (and fits into the currently fashionable renewable energy world).

To many investors and others seeking wealth, financial security, and good (or at least adequate) returns, tech stocks are exciting and entertaining ("sexy") fields in which to trade.

The Nasdaq Composite Index is a benchmark for the technology industry in general. Technology stocks in general currently represent a relatively significant share of (weight within) the S+P 500's capitalization, with those such as Amazon, Apple, Google, and Microsoft particularly important.

Great numbers of investors on Wall Street and Main Street monitor Amazon, Apple, Facebook, Google, Microsoft, Netflix, and Tesla. To many, one or more of these stocks are "leaders" for major price moves and changes in the Nasdaq Composite and the S+P 500. All seven of these seductive firms belong to the Nasdaq Composite Index. All of them but Tesla are members of the S+P 500. However, Tesla may join the S+P 500 soon.

Although the S+P 500 does not contain all publicly-traded United States stocks, it nevertheless is widely-viewed as an excellent proxy for the "overall" American stock marketplace ("the" stock market). A review of price moves for the Nasdaq Composite as a whole and these seven stocks in particular indicates that the "technology" sector played a critical role in the "overall" (S+P 500) US stock marketplace rally which began 3/23/20.

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In the following table, stock and index prices are rounded. The date of the key marketplace high or low is in parentheses. "PC" equals the percentage move for the price slump or rally. Prices are through the close of trading 7/10/20.

	1Q20 High	1Q20 Low	PC Fall	High to Date	PC Rally to High
Amazon	2186 (2/11/20)	1626 (3/16/20)	25.6	3215 (7/10/20)	97.7
Apple	328 (1/29/20)	213 (3/23/20)	35.1	385 (7/9/20)	80.8
Facebook	224 (1/29/20)	137 (3/18/20)	38.8	248 (7/7/20)	81.0
Google	1532 (2/19/20)	1014 (3/23/20)	33.8	1544 (7/10/20)	52.3
Microsoft	191 (2/11/20)	133 (3/23/20)	30.4	216 (7/9/20)	62.4
Netflix	394 (3/3/20)	290 (3/17/20)	26.2	556 (7/10/20)	91.7
Tesla	969 (2/4/20)	351 (3/18/20)	63.8	1549 (7/10/20)	341.3

	1Q20 High	1Q20 Low	PC Fall	High to Date	PC Rally to High
Nasdaq Composite	9838 (2/19/20)	6631 (3/23/20)	32.6	10622 (7/10/20)	60.2
S+P 500	3394 (2/19/20)	2192 (3/23/20)	35.4	3233 (6/8/20)	47.5

[Amazon's final top in 1Q20 was 2/19/20's 2185, Apple's 2/12/20 at 327, Facebook's 2/20/20 at 219, and Tesla's 2/19/20 at 945. All of these bordered even more closely the peaks in the Nasdaq Composite Index and the S+P 500. Netflix's initial high was at 393 on 2/19/20.

For the tech stock array listed above, after excluding Tesla, the average price rally of the remaining six companies is 77.7 percent.

Tesla's explosive rally since 3/23/20 probably results not only from its growing number of vehicle deliveries and improved profit situation, but also due to anticipatory buying by traders (investors) in advance of its increasingly likely inclusion within the S+P 500 membership. Also, many Tesla short sellers probably lost so much money as the stock rallied that they elected to cover (buy back) their shorts. See Reuters (website, 7/10/20).

The S+P 500's 6/8/20 interim high occurred alongside one in the HYG (dollar-denominated high yield corporate bond ETF), 6/5/20's 85.03.]

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Long run marketplace history indicates that the S+P 500 and Nasdaq Composite Index generally have moved in the same direction around the same time. The distance they voyage in a given bull or bear adventure of course is not always the same, and their major trend changes do not always occur on the same day or extremely close in time. However, in the overall sense, these two key marketplace benchmarks tend to converge.

The S+P 500 and Nasdaq Composite (as well Amazon and the other six stocks summarized above) achieved their first quarter 2020 highs around the same time and their percentage falls (with the exception of Tesla) were very similar. However, there recently has been a divergence between the S+P 500 and Nasdaq Composite from the distance and timing parameters. Since its late March 2020 low, the Nasdaq has achieved a new peak and flown up 60.2 percent. In comparison, the S+P 500 has jumped up quite a bit less, about 47.5pc, and has not attained a new record level. Taken alone, this difference in distance is important but not necessarily a strong warning sign. However, in conjunction with this percentage variation in the bull move since late March 2020, the Nasdaq's continued rally for a month after the S+P 500's 6/8/20 interim high represents a notable divergence relevant to future trends in both stock marketplaces.

Of course the technology sector's story and supply/demand picture and that for particular stocks within it can differ substantially from that for the S+P 500 (and particularly for many of the S+P 500's less technological members). Maybe technology is relatively more valuable in the coronavirus era. Maybe some stocks (such as Amazon, Facebook, and Netflix) are especially appealing given that the coronavirus epoch fears keeps much of the American general public indoors much of the time.

Yet many tech stocks have "high" valuations relative to their earnings. Can these valuations sustain high stock prices? Although technical perspectives differ, some technical measures also suggest that the current Nasdaq Composite Index level is "high". Twice the 3/10/00 "dot com" peak of 5133 is 10266. Twice the 12/24/18 low at 6190 is 12380. Recall the 3/9/09 low at 1266; ten times this is 12660 (five times the S+P 500's 3/6/09 low at 667 equals 3335; compare 2/19/20's 3394 pinnacle).

Will the Nasdaq Composite Index lead the S+P 500 to new highs? Probably not. But even if the S+P 500 manages to surpass its lofty February 2020 peak by much, it probably will not do so by much. Why?

First, the overall US and global economic situation (GDP growth), including the level of consumer expenditures (and employment and household debt) matter a great deal to both the S+P 500 and the Nasdaq Composite. A V-shaped (strong) recovery is unlikely, despite the frantic efforts of central banks, massive deficit spending, and optimistic wordplay from many politicians and much of Wall Street. Moreover, the various marketplace relationships discussed in the preceding section, "Divergence: American Stocks", including those related to the coronavirus, generally apply to both stock arenas and on balance are bearish for stocks in general.

In addition, Biden probably will defeat Trump in the November 2020 Presidential election. The Democrats have a good chance of capturing the Senate, and likely will retain control of the House of Representatives. Such a consolidation of national political power in Democratic hands will differ from the pattern of the past four years. Significantly, the Democrats likely will enact legislation raising corporate and capital gains taxes. The growing threat (likelihood) of these tax law changes probably will become increasingly evident and important to stock marketplace participants during the remainder of the 2020 US election season. Consequently the growing probability of an upcoming and very important political leadership change and its related new tax program will converge with the marketplace relationships (and the coronavirus situation and outlook) analyzed above.

This political horizon thus increases the likelihood of related (similar) weakness in both the S+P 500 and the Nasdaq Composite. These two benchmarks probably will decline together (even if one or more of the seven tech stocks manage to remain comparatively strong).

ELECTION 2020 UPDATE

Patrick Henry, one of America's political "Founding Fathers", is remembered for orations such as his 1775 one: "Give me liberty or give me death!" In a March 1799 speech, in regard to the Virginia and Kentucky Resolutions, he proclaimed: "United we stand, divided we fall. Let us not split into factions which must destroy the union upon which our existence hangs."

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"US Election 2020: Politics, Pandemic, and Marketplaces" (6/3/20) analyzed America's widespread and sharp political and other cultural divisions and the upcoming national election in the context of financial marketplaces. The essay concluded: "Former Vice President Joseph Biden probably will defeat President Donald Trump on an electoral vote basis, though this is a fairly close case. Though the national popular vote count difference does not determine the Presidency, Biden will win that as well. On the Senate front, Democrats probably win the Senate, though this currently is a difficult call. The Democrats likely will retain control of the House of Representatives."

Election Day is November 3, 2020. Four months of course is a long time in games such as politics and economics. Much can occur which might significantly affect probabilities and outcomes between now and then. Biden's choice of his vice-presidential running mate probably will influence the 2020 Presidential outcome to some extent. Visionaries agree that overall voter turnout, and that of particular groups within the electorate, also will be important.

However, over the past several weeks, Biden and the Democrats have improved their position. Relative to early June 2020, Biden now has a greater chance of capturing the Presidency, and his electoral vote margin over Trump will be greater. It appears that Biden has gained ground in battleground states. The ultimate electoral split may be substantial, even if it does not reach landslide levels. Democrats also have improved their odds of winning control of the Senate.

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Donald Trump lost the national popular vote count to Hillary Clinton by 2.1 percent. Trump received 46.1 percent of the total vote and Clinton captured 48.2 percent (Federal Election Commission, "Federal Elections 2016"; 12/10/17). As in 2016, Trump probably will lose the popular vote. It currently looks probable that Biden will beat Trump by more than 2.1 percent. Why?

Several weeks ago, according to RealClear Politics ("RCP"; see its website, 6/3/20; overall/summary poll averages sometimes can change within a given reporting day as new polls are added), an average of polls (5/17/20 to 6/3/20) gave Biden a 7.8 percent lead over President Trump, 49.9 percent to 42.1pc. This significant margin substantially exceeded 2.1 percent. RCP's 7/10/20 summary of polls (6/22/20 to 7/7/20) shows Biden's lead widened one percent to 8.8pc (Biden 49.6pc, Trump 40.8pc). Another political analysis group, FiveThirtyEight ("538"; see its website), in its 7/10/20 poll review gave Biden a 9.5 percent margin over Trump (50.6 less 41.1pc), whereas the spread was 5.9pc on 6/3/20.

In addition, Trump's overall net job approval rating has become more negative. According to RCP, in early June 2020 his approval of 43.6 percent stood 10.6 percent beneath his 54.2pc disapproval level. However, his net disapproval has expanded to 14.6pc currently (41.6pc approve, 56.2pc disapprove). On 6/3/20, FiveThirtyEight likewise reported a substantial net negative reading on Trump's overall performance: 42.8 percent approve, 53.8pc disapprove, for a net disapproval of 11.0pc. By 7/10/20, net disapproval of the President had grown to 15.7pc (55.8pc dislike versus 40.1pc approval).

The politics of the coronavirus pandemic is an election issue. RealClearPolitics gives Trump a net disapproval reading of 17.0 percent on his handling of the coronavirus. Contrast that with Trump's slight net approval rating of 2.2 percent regarding the economy (49.1 approve, 46.9 disapprove).

Congressional voting patterns do not always resemble those in regard to the Presidency. However, in the 2020 race, for the generic Congressional vote, Democrats enjoy a clear and growing advantage over Republicans. Just over a month ago, RCP's poll summary indicated the Democrats had a 6.6 percent lead (47.3pc for the Democrats less 40.7pc for the Republicans). It now is about 11.0pc (50.8pc Democrat minus 39.8pc Republican). 538's opinion research also shows that the Democrats' healthy lead of 7.8pc (48.7pc for them versus 40.9pc for the Republicans) on 6/3/20 had expanded to 9.0pc as of 7/10/20 (49.4pc less 40.4pc).

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The analysis of battleground states in "US Election 2020: Politics, Pandemic, and Marketplaces" (6/3/20) indicated that Biden probably will capture sufficient electoral votes from these swing states to win the overall 2020 electoral vote. Assuming recent poll numbers persist through the election period, this outcome is even more likely now.

Biden's current lead of around 9.1 percent (average of the 8.8pc RCP and 9.5pc 538 estimates) in overall general election polling data over Trump exceeds Clinton's 2.1 percent popular vote margin by seven percentage points, a large amount.

Assume a notable shift in the popular vote within the battleground states toward Biden in 2020 relative to the distribution between Clinton and Trump in 2016. Based upon the current estimated overall national vote, his roughly nine percent lead relative to Clinton's ultimate 2.1 percent one, Biden probably will win the electoral vote of most of swing states.

A modest percentage move in the popular vote within them toward Biden can dramatically damage Trump's chances for an electoral victory. Trump's actual vote margin of victory in several key states (which nevertheless propelled him into the Presidency) was very narrow. "US Election 2020: Politics, Pandemic, and Marketplaces" (6/3/20) noted that in the six battleground states that Trump won in 2016, his average margin of victory was just under 1.7 percent. In these six swing states, his largest margin was 3.6 percentage points.

Also, most voters probably view Biden as a less controversial candidate than Hillary Clinton. A significant percentage of voters who were unsupportive or hostile to Clinton in 2016 (and that voted for Trump or a third party candidate, or that did not vote at all) probably are more favorably disposed to Biden in 2020.

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The House of Representatives probably will remain Democratic (note the recent generic ballot percentages).

Can the Democrats gain control of the Senate? Republican Senatorial control is at significant risk. The current Senate breakdown is 53 Republicans and 45 Democrats, with the two independents caucusing with the Democrats. Senate race results of course are not determined by Presidential ones. Incumbent Senators often possess election advantages. However, it helps Democrats that of the 35 seats open for battle, 23 are held by Republicans. Also, Biden's wide lead and recent gains in the Presidential race polls alongside similar trends in the generic Congressional ballot (plus Trump's substantial net disapproval rating) point to the growing likelihood of a Democratic Senate majority.

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According to the 6/18/20 Cook Political Report, of the 12 Democratic seats, none of those seats are toss-ups (no clear advantage to either party). Ten of the 12 were solid or likely Democratic in its opinion, and one leans Democrat. However, one of them leans Republican. Suppose the Democrats lose one of their seats. To capture (control) the 100 seat Senate, they then will have to win four seats from the Republicans (46 plus four) if Biden wins (Democrats will hold the tie-breaker in a 50-50 Senate split), and five if Trump is re-elected.

The Cook Political Report's 5/15/20 opinion was that four of the 23 Republican seats are toss-ups, with another five leaning Republican. As of 6/18/20, five of the seats were toss-ups, with four leaning Republican, a slight shift toward the Democrats.

Since mid-June 2020, there probably has been a further move in favor of Democratic Senate candidates. An article in the Cook Political Report on 7/8/20 ("New July 2020 Electoral College Ratings"), although it did not directly address the Senate outcomes, declared: "This election is looking more like a Democratic tsunami than simply a Blue wave." And: "in talking with strategists on both sides this last week, it's also clear that Trump is dragging Republican congressional candidates with him as well." Of the five "toss-up" Senate races listed in the 6/15/20 Cook Political Report, the current Real Clear Politics analysis places three Democrats in the lead, one leaning Democratic, and one a toss-up.

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Actual results in the 2020 American national election likely will matter a great deal for levels in and trends for American equities. Why? Unified control of the Presidency, Senate, and House of Representatives by the Democrats increases the probability and thus makes it likely that much of the tax "reform" legislation enacted in December 2017, which cut America's corporate taxes and reduced the tax levels on many high earners, will be at least partly reversed. The 2017 tax reform played an important role in boosting corporate earnings and thus American benchmark stock prices. So all else equal, reversal of tax reform will tend to weaken American stocks. The capital gains tax also may rise (for high income levels) under Biden. See "Details and Analysis of Former Vice President Biden's Tax Proposals" (Tax Foundation; 4/29/20); "An Analysis of Former Vice President Biden's Tax Proposals" (Tax Policy Center; 3/5/20); "Biden pledges to roll back Trump's tax cuts" (foxbusiness.com; 6/30/20).

Also, suppose that over the course of the summer and autumn, confidence becomes widespread throughout "the nation as a whole" that it is highly probable Democrats will sweep to victory in the Presidency, Senate, and House of Democratic command of the Presidency and Congress. This likely will be paralleled by rising fears of changes in tax laws among owners of American equities. This scenario may encourage significant declines in the S+P 500 (and related stock marketplaces) prior to the actual November 2020 results.

If the economy is very weak after the election, these tax rises by the Democrats might be postponed for a while.

If the Democrats control the Presidency, Senate, and House, to what extent will share buybacks be discouraged or regulation (oversight) of business increase? Some legislators may discuss a wealth tax, even though its passage currently looks unlikely.

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If Trump wins the 2020 election, these potential significant tax boosts likely will not occur. Suppose Trump loses, but the Republicans maintain control of the Senate. A Republican Senate probably would block a major set of tax increases, but a modest overall boost might occur down the road if the economy was relatively robust.

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Although Americans generally share broad American Dream ideals, widespread faith in that conceptual framework does not preclude differences regarding the Dream's formulation, interpretation, or its implementation in practice. Thus cultural divisions and related debates are inescapable. History shows that these can change over time and vary in extent and intensity.

To some extent, enactment of such tax legislation by a Democratic (or indeed any other) majority will represent an effort to reduce the economic split (divergence) between the economic "haves" and "have-nots" on the income and wealth dimension. This tax program and other equalizing

campaigns on the nation's economic field intertwine partly with ardent battles to alter perceived wide differences in political and social power. Underscore current rhetoric about "fairness", "opportunity", and "justice". Emphasize also the influence of the Black Lives Matter movement.

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It is arguable that to some extent (especially in recent times) United States stock weathervanes such as the S+P 500 do not fully (or even adequately) represent (parallel) Main Street (or "real world") conditions. High ("good") American equity prices may not manifest that the overall economy is strong. To some extent, sustained interest rate yield repression alongside massive money printing helps to encourage those with cash to look for return (yield) in stocks. Moreover, in an era of significant wealth and income inequality, in today's divided nation, many voters may not be overly impressed or pleased by lofty S+P 500 prices. What's apparently good for Wall Street (sometimes equated to or at least linked with "big money" and the wealthy) and stocks may not look as appealing to much of Main Street. Some citizens may view the S+P 500's strength as representative of an unjust division between the haves and have-nots.

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For further marketplace analysis, see other essays such as "US Election 2020: Politics, Pandemic, and Marketplaces" (6/3/20); "American Consumers: the Shape We're In" (5/4/20); "Crawling from the Wreckage: US Stocks" (4/13/20); "Global Economic Troubles and Marketplace Turns: Being There" (3/2/20); "Critical Conditions and Economic Turning Points" (2/5/20); "Ringing in the New Year: US and Other Government Note Trends" (1/6/20).

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