MARKETPLACE RELATIONSHIPS: LIFE DURING WARTIME

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In Mario Vargas Llosa's novel "The War of the End of the World" (Part III, chapter II), the Baron de Canabrava declares: "'The times are out of joint…Even the most intelligent people are unable to make their way through the jungle we're living in.'"

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CONCLUSION AND OVERVIEW

Russia's invasion of Ukraine halted, but did not end, the major trend for rising yields in the United States Treasury marketplace which commenced in March 2020 and accelerated in early August 2021. Despite this "flight to quality" (safe haven) pause, the long run pattern for increasing UST rates eventually will resume. Substantial inflation in America and the OECD relative to recent interest rate levels as well as globally high government (and other) debt levels will propel UST rates upward. Previous essays pointed not only to rising rates for high-quality government debt outside of the United States, as in Germany. A pattern of higher yields in the United States corporate sector as well as in lower quality emerging marketplace sovereign debt appeared. Thus a long run rising yield environment is an international phenomenon.

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Convergence and divergence (lead/lag) patterns between marketplaces can change or transform, sometimes dramatically. Marketplace history does not necessarily repeat itself, either entirely or even partly. Marketplace history nevertheless provides guidance regarding the probabilities of future relationships.

"History on Stage: Marketplace Scenes" (8/9/17) and subsequent essays updating it (such as 3/9/21's "Truth and Consequences: Rising American Interest Rates", "Financial Marketplaces: Convergence and Divergence Stories" (4/6/21), "American Inflation and Interest Rates: Painting Pictures" (5/4/21), and "Paradise Lost: the Departure of Low Interest Rates" (2/9/22) emphasized: "Marketplace history need not repeat itself, either entirely or even partly. Yet many times over the past century, significantly increasing United States interest rates have preceded a noteworthy peak in key stock marketplace benchmarks such as the Dow Jones Industrial Average and S+P 500. The yield climb sometimes has occurred over a rather extended time span, and the arithmetical (basis point) change has not always been large." The US Treasury marketplace has been an important standard for this analysis. The 10 year UST note is a key benchmark.

What about trends for the S+P 500 and other advanced nation stock battlegrounds? Quite some time prior to Russia's 2/24/22 attack on Ukraine, rising interest rates and tumbling emerging equity marketplaces warned that the S+P 500 probably would fall significantly. "Emerging Marketplaces, Unveiling Dangers" (12/2/21) concluded that "the S+P 500 probably has established a notable top or soon will do so". "Paradise Lost: the Departure of Low Interest Rates" (2/9/22) stated: "The S+P 500's stellar high, 1/4/22's 4819, probably was a major peak; if its future price surpasses that celestial height, it probably will not do so by much." "The S+P 500 price probably will decline further and establish new lows beneath the January 2022 trough. The development of a bear trend (decline of at least 20 percent) also is probable."

Significantly, the S+P 500's 1/4/22 high at 4819 and its initial 12.4 percent correction to 1/24/22's 4223 preceded Russia's late February 2022 invasion by several weeks. Thus that attack did not initiate significant S+P 500 weakness. In addition to the rising yields (increasing inflation;

as well as lofty debt levels and outlook) and feeble emerging stock marketplaces, arguably high valuations from the historic perspective for the S+P 500 also existed prior to the Russia/Ukraine war. The strong United States dollar prior to the attack also pointed to stock marketplace weakness. The US dollar remains robust. The vicious bull spike in petroleum, wheat, and many other commodities since the invasion further undermines the S+P 500 and related stock domains. Looking forward, the S+P 500 probably will continue to retreat.

As "Paradise Lost" stated, the UST 10 year note yield probably will climb to at least the 2.50 to 3.00 percent range, with a substantial likelihood of achieving a considerably higher summit. The Federal Reserve and other heroic central banking generals probably will not deploy substantial actions to rescue the S+P 500 unless it tumbles around twenty percent or more from a prior pinnacle.

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Prices in this essay include those available up to 3/7/22 at 200pm EST.

SCOUTING REPORT: INFLATION AND DEBT TRENDS

"'It's not so much a story of madmen as a story of misunderstandings,' the nearsighted journalist corrected him again. 'I'd like to know one thing, Baron [de Canabrava]. I beg you to tell me the truth.'

'Ever since I left politics, I almost always tell the truth,' the baron murmured. 'What is it you'd like to know?'" Mario Vargas Llosa, "The War of the End of the World" (Part IV, chapter IV)

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Substantial ongoing inflation and gigantic government debt are crucial variables generating the rising United States and global interest rate outlook. Compare interest rate yields in America and elsewhere with consumer price index and similar measures. Sustained high inflation relative to current debt instrument yield heights are a danger flag heralding the likelihood of persistent and noteworthy interest rate yield climbs. All else equal, a negative real return situation (which is friendly to borrowers and debtors, but thereby is hostile to savers and creditors) tends to make UST ownership unappealing for many marketplace participants. Since UST and other debt owners desire a real return relative to inflation, sustained lofty inflation tends to produce lofty UST yields, even if the Federal Reserve and its armada of allies continue to engage in some degree of yield repression.

Spotlight the leap upward of American inflation measures such as the Consumer Price Index. For several months, US CPI-U inflation has surpassed five percent. America's CPI-U (all items) soared 7.5 percent year-on-year in January 2022, following the considerable 7.0 percent year-on-year climb in December 2021. January 2022's inflation figure represents the largest 12 month increase since the period ending in February 1982. November 2021's CPI-U advanced 6.8 percent year-on-year, accelerating from the sharp rise of 6.2 percent in October 2021, and also from the hefty year-on-year trend of between 5.0 and 5.4pc for the months of May through September 2021. Compare the paltry 1.4pc year-on-year rise in December 2020 (Bureau of Labor Statistics, 2/10/22).

Let's dig further into the United States Consumer Price Index (CPI-U, Table 1). Even though the "all items" index CPI-U in January 2022 ballooned a substantial 7.5 percent year-on-year, many observers underline that "energy" inflation grew a massive 27.0 percent over that span.

However, the energy category possesses only just over a 7.3 percent share of the "all items" index (as of December 2021). Focus on the "all items less food and energy" domain, which represents 79.3 percent of the CPI-U. Significant "inflation" is not coming merely from the petroleum (or energy) sector. Inflation sources are widespread. For January 2022, the all-items less food and energy jumped 6.0 percent versus the prior year, the largest 12 month move since August 1982. This 6.0 percent inflation figure obviously significantly exceeds a US Treasury 10 year note yield of 2.00 percent.

The OECD's January 2022 CPI (all items, Table 1; 3/3/22) for the OECD countries rocketed upward 7.2 percent year-on-year, the highest rate in about 30 years (since February 1991). December 2021's surged 6.6 percent year-on-year; November 2021's leaped 5.9 percent year-on-year. This rising inflation trend for the OECD as a whole has existed for several months. The OECD's year-on-year CPI measure ascended 5.2 percent in October 2021, 4.6 percent in September 2021, 4.5pc in August 2021, and 4.6 percent in July 2021. Compare the 1.2 percent climb of December 2020. Excluding food and energy, OECD inflation increased 5.1pc year-on-year in January 2022.

Given the high and rising US and OECD Consumer Price Index levels in recent months, how likely is it they will fall down to recent UST 10 year note yields around or less than two percent anytime soon? The stratospheric jump in commodity prices in the wake of Russia's Ukraine invasion obviously will not reduce inflation.

Central bank sheriffs finally have admitted that menacingly high inflation (significantly over the Fed's two percent target) is not transitory, temporary, or merely the result of special factors such as supply bottlenecks. Inflation is no longer confined to so-called asset classes such as stocks and homes. The Fed Chairman bravely informed US Senators "That the Fed Will Get Inflation Under Control" (NYTimes, 3/4/22, pB3).

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Given the dramatic flight of American consumer price inflation to seven percent, unearth a couple of past episodes from supposedly ancient times when it soared to around that level. In August 1973, the US CPI-U year-on-year trend advanced to 7.4 percent from July 1973's 5.7pc year-on-year rate; June 1972's trough was 2.7pc year-on-year. From that level around seven percent, inflation flew up to December 1974's 12.3pc year-on-year. The CPI-U retreated to 4.9 percent in December 1976 versus the prior year period. It thereafter steadily walked higher, reaching 7.0pc year-on-year in May 1978. The CPI-U thereafter ascended further, reaching a monstrous height of 14.8 percent in March 1980 (Bureau of Labor Statistics). During this inflationary era, the US Treasury 10 year note peaked at 15.84 percent on 9/30/81.

Looking forward, perhaps US CPI-U inflation will not climb much above seven percent. But suppose CPI-U inflation seems likely to remain around seven percent year-on-year (December 2021's level). Then the UST 10 year note yield probably will not border two percent; it will rise substantially. Even if the CPI-U rate plummets to four percent year-on-year, that obviously exceeds a two percent UST yield. Therefore the UST 10 year rate will climb quite a bit; a 50 basis point real return relative to four percent inflation gives a yield of 4.50 percent.

Or, even in comparison to the Fed's rhetorical broadcasts that longer run PCE inflation belongs around two percent, a 50 basis point real return via the UST 10 year pushes its yield up to 2.50pc, above current yields.

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Maybe America and the world will not have the astonishing "runaway" CPI-U inflation of the era of the 1970s/1980s discussed above. But the US and other nations still can have sustained high inflation, and thus relatively elevated interest rates.

Let's look at US inflation and UST 10 year yield trends in another epoch. Venture back to the magnificent Goldilocks Era, which unfortunately ended in 2007-09's global economic carnage. During the glorious Goldilocks Era, America's CPI-U inflation attained its trough with October 2006's 1.3 percent year-on-year climb. The CPI-U established an initial crest with November 2007's 4.3pc year-on-year ascent (near in time to the S+P 500's 10/11/07 major high at 1576), obviously well under January 2022's CPI-U. The UST 10 year note yield peaked on 6/13/07 at 5.32 percent, which of course is far above its current level. By comparing the current CPI-U pattern and a UST 10 year note elevation under or around 2.00 percent with that of the Goldilocks Era, it looks probable that the UST 10 year yield eventually will climb substantially.

Remember that the CPI-U's pinnacle during the Goldilocks Era occurred at 5.6pc in July 2008, alongside mountainous peaks in the petroleum complex (Brent/North Sea crude oil nearest futures peak 7/11/08 at 14750). Yet although the UST 10 year yield slipped after its June 2007 zenith, it rebounded to make an interim top on 6/13/08 at 4.27pc, substantially above the present-day height.

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Largely due to rapid consumer price inflation, overall United States compensation in real terms has dipped in real terms over the past several months. How long will workers tolerate this situation? Higher wages probably not only will help to sustain the overall entrenched significant inflationary trend in the consumer price index and similar yardsticks, but also to reduce corporate earnings.

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Government debt levels as a percentage of GDP in America and many other key countries were substantial and very elevated from the historical perspective prior to the early 2020 advent of the coronavirus pandemic. Gargantuan government deficit spending (fiscal stimulus) thereafter by many nations (demand for credit) further assists yield ascents.

Highlight the international debt assessment by the International Monetary Fund's "Fiscal Monitor" ("Foreword", page ix; 10/7/21). "Debt--issued by governments, nonfinancial corporations, and households--in 2020 reached $226 trillion and increased by $27 trillion. Both the level and the increase in debt are unprecedented. High and growing levels of public and private debt are associated with risks to financial stability and public finances."

Though the IMF's Fiscal Monitor does not directly address the overall global debt situation for governments, nonfinancial corporations, and households combined for calendar 2021 and 2022, it probably has improved little if at all since 2020 for the world in general.

For the global general government gross debt as a percentage of GDP category, IMF statistics show little change. According to the Fiscal Monitor scoreboard (Table 1.2; 10/7/21), the world's general government gross debt (which includes not only national debt, but also regional/local obligations) as a percentage of GDP leaped from 83.6 percent in 2019 (recall the much lower levels prior to the 2007-09 global economic disaster) to 98.6 percent in 2020, with 2021's height forecast at 97.8pc (and 2022's at 96.9pc).

INTEREST RATE HISTORYAND RELATIONSHIPS: HIGH AND LOW QUALITY

In Leo Tolstoy's "War and Peace", a very experienced Russian commander, Kutuzov, "knew how apt men are, when they want something, to manipulate all the evidence so that it appears to confirm what they desire, and knew how readily they overlook whatever speaks against it."

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Over the long run horizon, United States Treasury yields probably will continue to rise. So will yields for government debt in Germany and other advanced nations. In general, yields of emerging market sovereign debt securities probably will keep marching upward as well. US dollar-denominated corporate debt yields will ascend.

Increasing yields for this array of debt securities around the globe have led to an important top in and probably to bear trends for the American stock battlefield and related advanced nation stock territories. Rising international interest rates also led to a pinnacle in emerging marketplace stocks in general, and ongoing yield increases will continue to weaken them.

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A major yield increase trend in the United States Treasury marketplace (use the UST 10 year note as a benchmark) started with 3/9/20's .31 percent bottom. Lows at .54 percent on 4/21/20 and .50pc on 8/6/20 confirmed this. The UST 10 year note yield ascended sharply after 8/4/21's 1.13pc low.

	1Q20 Yield Bottom	**Interim Yield Spike**	**Spring 2020 Yield Low**	**Later 2020 Yield Low**	**1Q21 Yield High**	**Aug 21 Yield Low**
UST 10 Year	.31 pc (3/9/20)	1.27pc (3/19/20)	.54pc (4/21/20)	.50pc (8/6/20)	1.77pc (3/30/21)	1.13pc (8/4/21)
Ger Bund	-.91pc (3/9/20)	-.14 (3/19/20)	-.59 (5/5/20)	-.67 (11/4/20)	-.07 (5/19/21)	-.52pc (8/5/21)

An important interim UST 10 year note yield high was 3/30/21's 1.77 percent. The UST 10 year yield thereafter broke above that late March 2021 summit, attaining 2.06 percent on 2/11/22. The S+P 500 peaked during this yield ascent with 1/4/22's 4819, with lower interim tops on 2/2/22 (at 4595) and 2/9/22 (at 4590). On 2/25/22, around the time of the Russian invasion, the UST 10 year note yielded 2.01pc. Thereafter, reflecting its safe haven status, the UST's yield descended to 3/1/22's 1.68pc (on 3/7/22, its yield was around 1.75pc).

The German Bund's yield pattern in recent years broadly has resembled that of the UST 10 year note, although it spent a long time beneath zero (negative yields). After reaching its early August 2021 valley, the Bund yield advanced to -.07 percent on 10/29/21. Despite a retreat to -.40pc, the Bund yield pushed into positive territory, touching .33 pc on 2/16/22. In a flight to quality, this interest rate weathervane changed direction. Its yield fell from 2/23/22's .27pc, with the subsequent low in negative territory, 3/4/22's -.10.

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In first quarter 2020, the coronavirus problem and related economic weakness obviously inspired a hellish economic slump and a bloody crash in the S+P 500 and other stock marketplaces (as well as price drops in many search for yield territories such as corporate bonds. Yet recall that before the coronavirus problem became increasingly severe during first quarter 2020, the UST 10

year note yield climbed from 1.43 percent on 9/3/19 to 1.97pc on 11/17/19 (1.95pc on 12/19/19; 1.90pc 1/9/20). The EEM emerging marketplace index ETF peaked on 1/13/20 at 46.32, with the S+P 500's pinnacle not long thereafter, on 2/19/20 at 3394.

The UST 10 year note yield's recent high slightly above 2.00 percent not only hovered around the late 2019/early 2020 tops achieved just prior to the coronavirus pandemic and the first quarter 2020 S+P 500 peak. It also neighbored 12/18/08's worldwide economic crisis low at 2.04pc.

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Although flights to safety into the UST may reflect (confirm) significant S+P 500 falls, the UST 10 year yield's eventual decisive advance above resistance around two percent probably will weaken the S+P 500 and related marketplaces further.

Nowadays, although increasing fears regarding the strength of the global economy can spark occasional flights to quality and buying of the UST and German Bund, US dollar-denominated corporate debt yields nevertheless probably will continue to ascend. Yields of emerging marketplace sovereign debt securities probably will keep climbing.

In recent years, in a world of highly accommodative monetary policy and interest rate yield repression by central bank monarchs, financial warriors engaged in epic quests for sufficient (adequate) yield (return). Investors and others eagerly purchased not only stocks such as the S+P 500, but also low-grade government and corporate debt securities and other "asset classes" such as commodities.

Previous essays detailed that yields of lower-quality debt instruments have been rising for many months. The shift from a relatively peaceful bull pattern in the S+P 500 and related stock playgrounds to a bearish one (or even a sideways trend), can further damage confidence of owners of lower quality debt securities. These wounded holders of low grade debt may aim to preserve capital at all costs. Thus mildly bearish price trends for low grade government and corporate debt securities can accelerate and transform into terrified liquidation of positions (runs for cover), and thus sharply higher yields.

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Let's review a benchmark for United States corporate interest rates travels over the past two years. Also, investigate emerging marketplace sovereign debt arenas. The Moody's seasoned Baa corporate bond yield is based on bonds with maturities of 20 years and above. The "EMB" ETF, from iShares (BlackRock)/J.P. Morgan, offers exposure to United States dollar-denominated government bonds issued by emerging market countries. The EMB includes over 30 countries. The EMB is quoted in price terms, so falling prices reflect rising yields. Keep price trends for the S+P 500 and other stock marketplaces in mind.

	Early 2020 Price High/ Yield Low (date)	**Subsequent Price High/ Yield Low (date)**
Baa	3.29 percent (3/6/20)	3.11pc (12/31/20)
EMB	117.20 (2/21/20); 117.08 (3/4/20)	116.09 (1/4/21)

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Recall the UST 10 year's 8/4/21 interim yield low at 1.13 percent. Note the rising yields in the Baa and EMB since summer 2021.

	1Q20 Price Low	Price High	Interim Price Low	Price High	Price Low	Summer 2021 (and Later) Price Highs/Yield Lows
Baa	5.15pc (3/20/20)	3.12 (8/6/20)	3.52 (10/5/20)	3.11 (12/31/20)	3.88 (3/18/21)	3.15 (8/2/21) 3.15 (9/14/21) 3.13 (11/9/21) 3.16 (12/3/21)

The Baa's yield high since summer 2021 occurred the day of Russia's invasion of Ukraine, 2/24/22's 4.20 percent, a breakthrough of 3/18/21's 3.88pc barrier. Despite the flight to quality into (lower yields for) the UST 10 year after the Russian attack, the Baa's yield has remained close to 2/24/22's high (3/4/22 close 4.05pc).

	1Q20 Price Low	Price High	Interim Price Low	Price High	Price Low	Summer 2021 (and Later) Price Highs/Yield Lows
EMB	85.00 (3/18/20)	114.65 (8/11/20)	109.20 (9/24/20)	116.09 (1/4/21)	106.70 (3/8/21)	113.64 (8/31/21) 111.08 (11/9/21) 109.70 (12/13/21) 108.73 (1/3/22) 105.83 (2/2/22) 103.51 (2/16/22)

The rising yield trend in both US corporate and US dollar-denominated government bonds issued by emerging market nations since summer 2021, when interpreted in the context of the UST 10 year note's similar pattern (and US and international inflation jumps), reflects the substantial probability of a major and sustained climb in overall global interest rates. They link to weakness in the S+P 500 and other key stock marketplaces. Note the EMB's mournful crash from 2/16/22's minor interim top to the price low thus far in its bear move, 3/7/22's 93.91.

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Watch interest rate credit spread trends, such as those between high-quality and low quality sovereigns, or between high grade sovereign debt and lower quality corporate debt. Widening credit spreads probably are a danger signal warning of (confirming) weakness in the S+P 500, other advanced nation stocks, and emerging stock marketplaces. For the Baa less US Treasury 10 year spread, 11/10/21's 166 basis point differential is the recent bottom. The differential thereafter widened, with 2/28/22's 234 basis points the high (224bp on 3/3/22).

EMERGING MARKETPLACES: RISING INTEREST RATES, FALLING STOCKS

In "Life During Wartime", the Talking Heads sing: "This ain't no party, this ain't no disco, this ain't no fooling around."

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Consider the price movements of emerging marketplace stocks in relationship to those of emerging marketplace interest rates.

"EEM" is the iShares MSCI Emerging Stock Markets ETF. It covers over 800 large and mid-size companies. Despite Mainland China's global economic power, most gunslingers classify it as an emerging market nation from the economic perspective. It possesses a 32.3 percent portion of the EEM (see BlackRock's iShares website, 12/31/21).

	1Q 2020 High (date)	1Q 2020 Low (date)	Interim High	Take-Off Low (date)	Subsequent Highs (to date)
EEM	46.32 (1/13/20)	30.10 (3/23/20)	45.56 (8/28/20)	42.29 (9/25/20)	58.29 (2/16/21)
	44.84 (2/12/20)			44.41 (10/30/20)	56.18 (6/1/21)
	40.83 (3/3/20)				55.62 (6/28/21)
					53.58 (9/7/21)
					52.62 (10/20/21)
					52.14 (11/15/21)
					50.89 (1/12/22)
					50.11 (2/12/22)

Prices for both emerging marketplace stocks and emerging marketplace debt securities "in general" peaked in first quarter 2021. Significantly, and like emerging marketplace stocks in general, prices for emerging marketplace interest rate ETFs thereafter have not exceeded their first quarter 2021 pinnacles. The price tops (yield bottoms) in key emerging marketplace interest rate instruments (around early January 2021) preceded (led to) mid-February 2021's summit in "overall" emerging marketplace equities. Thus the subsequently rising yields in important emerging marketplace government (and corporate) debt instruments, as well as rising rates in the United States, helped to create the key peak in February 2021 and the ensuing downtrend for emerging marketplace stocks in general.

Emerging marketplace debt securities established interim price troughs in March 2021, and their prices thereafter rallied (yields fell) for several months. However, yields for those benchmark interest rate securities thereafter climbed (since late summer 2021; for example, see the EMB's 8/31/21 interim price high and its aftermath of lower interim tops), and that has coincided with slumping prices for emerging marketplace stocks. Moreover, the EEM's history demonstrates that stocks for these developing nations have built a framework of lower and lower interim highs since February 2021.

The higher yield pattern since around August 2021 in both advanced and emerging marketplace debt fields produced further falls in emerging marketplace stocks. Compare the timing of the late summer 2021 and November/December 2021 price drop-off points in emerging marketplace debt battlefields with interim highs in the emerging stock marketplaces, including the EEM's 50.89 on 1/12/22. Rising yields in emerging marketplaces apparently helped lead to emerging stock marketplace (EEM) highs. Note also the UST 10 year note's long run campaign of rising yields since March 2020, and especially the advent of the stage beginning with early August 2021's 1.13pc trough. Evaluate these debt and EEM price and time relationships with the timing of the S+P 500's triumphant 1/4/22 peak at 4819 (about one week before the EEM's 1/12/22 interim high).

The EEM's low in its bear move to date since 2/16/21's 58.29 crown is 3/7/22's 43.15, a violent 26.0 percent fall. In addition, 3/7/22's level at 43.15 stands beneath its 1/3/20 pre-coronavirus pandemic top at 46.32, an alarming sign for the various regiments of stock marketplace investors and other bulls, particularly given the long run convergence tendency between the S+P 500 and emerging marketplace stocks.

Price convergence between emerging marketplace stock and debt securities probably will continue. Prices in these arenas probably will continue to decline unless the Russia/Ukraine crisis eases significantly. Moreover, because the EMB recently cratered underneath its March 2021 depth, that eviscerating defeat probably is bearish for both emerging marketplace stocks and the S+P 500. In any case, if UST yields resume their upward move and climb substantially, that will put pressure on prices of emerging marketplace debt instruments and equities as well. Looking ahead, emerging marketplace stocks probably will remain under siege and continue to decline alongside the S+P 500.

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All else equal, rising interest rates (particularly in the US dollar-denominated domain), especially when linked with US dollar appreciation, increase burdens on emerging marketplace sovereign and corporate borrowers. The rally in the United States dollar since around January 2021 (see the Fed's H.10 real Broad Dollar Index) has helped to undermine prices for emerging marketplace dollar-denominated sovereign and corporate debt instruments, and thereby to weaken emerging marketplace stocks. The US dollar remained strong in January and February 2022.

S+P 500 MANEUVERS

"Weapons change, but strategy remains strategy, on the New York Stock Exchange as on the battlefield." Edwin Lefevre, "Reminiscences of a Stock Operator"

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Will the S+P 500's glorious bull move following March 2020's dismal bottom up to January 2022's high continue, with the S+P 500 achieving new record peaks? Probably not. Although the S+P 500 and other advanced nation stocks as well as emerging marketplace equities probably will rally for a while if the Russia/Ukraine war ends, stocks probably will resume their decline.

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Let's review the S+P 500's travels over the past two years.

	1Q 2020 High (date)	1Q 2020 Low (date)	Interim High	Take-Off Low (date)	Subsequent High (to date)
S+P 500	3394 (2/19/20)	2192 (3/23/20)	3588 (9/2/20)	3209 (9/24/20)	4819 (1/4/22)
	3137 (3/3/20)			3234 (10/30/20)	

The S+P 500's awesome advance after end-October 2020 had a later acceleration point as well, 7/19/21's 4233 and 10/4/21's 4279 trough.

The 1/4/22 high skyrocketed 119.8 percent from 3/23/20's depth, and it exploded 42.0 percent above 2/19/20's peak.

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Economic (financial, commercial, business) and political leaders and their troops in investment and other camps should not blame the S+P 500's peak and following slump primarily on Russia's invasion of the Ukraine, or on fears this event would happen. The time of the S+P 500's astonishing January 2022 peak preceded the Russian assault by several weeks. So did its 12.3 percent correction to the initial low on 1/24/22. Rising American and international interest rates encouraged equity weakness. Central bankers finally were admitting that rising and substantial inflation was not a temporary trend. Emerging stock marketplaces had been weakening for quite some time, and thus also were helping to lead the S+P 500 downhill. The very strong US dollar also assisted the S+P 500's slump. Investment and other marketplace strategists debate whether S+P 500 levels are "reasonable" or "overvalued", and whether a "new era" justifying "high" valuations exists. However, from the long run historical perspective of various yardsticks, arguably the S+P 500's valuation around early 2022 (and for several months before then) was lofty.

However, growing fears regarding the potential for a Russian invasion probably played a role in the S+P 500's drop since around early February. Note the S+P 500's subsequent drop off points on 2/2/22 at 4595 and 2/9/22 at 4590 in the context of the early February 2022 interim tops in the EMB and EEM, as well as the leap in commodity prices "in general" from their assorted interim lows from around late December 2021 through mid-February 2022 (for example, in the petroleum complex).

The S+P 500's low to date occurred at the time of the Russian assault, at 4115 on 2/24/22, a withering 14.6 percent decline from the peak. Although the S+P 500 thus far has held above this height, ongoing Russian/Ukraine conflict and increasing global economic weakness (or fears regarding this) probably would help to push the S+P 500 downhill and beneath the 2/24/22 low.

A five percent dip from 1/4/22's 4819 equals 4578. Many marketplace captains define a "correction" in stocks as a decline of ten percent or more from a notable high. Experts label a collapse of at least twenty percent from a peak as a bear move. A ten percent decline from 4819 gives 4337. A twenty percent plunge from 4819 equals 3855. A S+P 500 bear move of at least 20 percent probably will devastate emerging stock marketplace prices and propel corporate and emerging marketplace sovereign debt yields higher.

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The Federal Reserve chiefs probably do not worry much about a correction of around ten percent in the S+P 500, though it may muster up peaceful rhetoric to steady prices. However, history

warns that a US stock marketplace decline of about twenty percent, and especially a sustained move beneath the twenty percent stock bear marketplace threshold (and if an economic downturn looms), may induce strategic Federal Reserve easing actions (including resuming money printing) to support stocks (and assist the economy). However, the Fed is not an omnipotent ruler, so its easing actions may have limited effect (at least for quite some time), especially if substantial inflation and notably higher interest rates appear likely to persist.

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America's S+P 500 and stocks in other advanced nations soared to new highs after February 2021 while emerging marketplace equities marched downhill (price divergence). However, the chronicle of those two broad marketplace realms at least since the Goldilocks Era of the mid-2000s reveals that their price and time trends tend to coincide. Over the long run, these stock landscapes are bullish (or bearish) "together". In the current constellation of rising American and international yields, in both government and corporate areas, that warned of eventual price convergence between the S+P 500 and emerging marketplace stocks. The S+P 500's record high in early January 2022 occurred near in time to interim price tops in developing nation equities.

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For quite some time following February 2021, an increasingly feeble emerging marketplace stock (EEM) price picture (note the pattern of lower and lower interim tops) substantially contrasted with and thus diverged from the S+P 500's magnificent ongoing bull move. Supply-demand considerations of emerging stock marketplaces of course vary to some extent from those of America and other advanced nations.

Yet despite the price trend divergence between the S+P 500 and the EEM from around mid-February 2021 through end December 2021, emerging marketplace stock price and time patterns since the last years of the Goldilocks Era and 2007-09's ensuing global economic crisis generally have converged (traded together) with those of the S+P 500. For example, the EEM's Goldilocks Era major high occurred 10/31/07 at 55.83. Compare the neighboring timing of the Goldilocks Era's S+P 500 summit, 10/11/07's 1576. Also, emerging/developing nations (especially China) are very important to the interconnected international economy.

Moreover, remember the price and time convergence of the EEM's interim top at 50.89 on 1/12/22 and the S+P 500's 1/4/22 summit at 4819. Don't overlook the timing of the S+P 500's subsequent drop off points on 2/2/22 at 4595 and 2/9/22 at 4590 alongside early February 2022 interim tops in the EEM (and EMB).

Thus the S+P 500 and EEM price and time trends probably converged recently. Looking forward, these marketplaces probably will continue to trade together.

THE US DOLLAR: THEATER OF OPERATIONS

The renowned military philosopher and analyst Carl von Clausewitz states "War is thus an act of force to compel our enemy to do our will" ("On War", Book One, ch1, par2; author's emphasis). It is an "instrument of policy" (par27). Significantly, in addition to this definition, he explains war by reference to commerce (and politics). "Rather than comparing it [war] to art *we could more accurately compare it to commerce, which is also a conflict of human interests and activities; and it is still closer to politics, which in turn may be considered a kind of commerce on a larger scale*" (Book Two, ch3; my italics).

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Cultural definitions, arguments, conclusions, and perspectives are subjective. In any case, not only can definitions of “war” vary, but also there can be various forms of war, whether military, political, economic, romantic, and so on. In America and elsewhere nowadays, diverse cultural wars involving an array of variables abound. Wall Street’s exciting and diverse marketplace battles between bulls and bears are just one variety of conflict. Familiar and fascinating language of war, battle, and violence (including colorful metaphors) helps audiences to understand Wall Street, and that wordplay assists Wall Street dwellers in their fight to persuade people to venture into and remain participants within Wall Street marketplaces.

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History shows that significant trends for the United States dollar in relationship to those in American stock and interest rate marketplaces (and other important global equity and debt realms) are complex phenomena and often change, sometimes dramatically. However, let’s study a US dollar move in the context of the S+P 500’s first quarter 2020 high and subsequent decline. These US dollar travels intertwine not only with the S+P 500, but also to related price pinnacles and falls in other key stock arenas and “search for yield/return” debt marketplaces (such as corporate bonds and the EMB).

The Federal Reserve (H.10) releases a real as well as a nominal “Broad Dollar Index” (including both goods and services). The US real “Broad Dollar Index” is a monthly average (January 2006=100; 3/1/22 latest release). The Fed’s nominal Broad Dollar Index release provides daily data (2/28/22 latest release, 2/25/22 most recent data point).

The real Broad Dollar Index (“BDI”) started a major bull appreciation from July 2011’s bottom at 83.9. The rally, though its path had various twists and turns, persisted for almost ten years. The real BDI peaked in April 2020 at 113.4.

The United States dollar sometime in early 2020 probably became “too strong” for many emerging marketplace sovereign (and emerging marketplace corporate) issuers of dollar-denominated debt needing to repay their dollar obligations. This probably assisted yield increases in (price falls for) not only for such emerging marketplace sovereign (and corporate) debt instruments, but also yield climbs in “related” relatively low quality sovereign and other corporate debt around the globe.

Note the significant run up in the real BDI in the final stage of its bull trend from February 2020’s 107.9 to March 2020’s 111.8 and April 2020’s 113.4. But the real BDI, as it is a monthly average, does not tell the whole story of the last chapter in that US dollar appreciation and its interrelation with trends in international securities domains. The nominal BDI on 2/19/20, the day of the S+P 500’s peak, was 116.8, close to its 3/3/20 height (it started calendar 2020 with 1/2/20’s 115.0). Recall the nominal BDI’s sharp appreciation (rally) in March 2020. From 3/3/20’s 116.5 (the same day as the critical 3137 drop off point for the S+P 500), it blasted up to 126.1 on 3/23/20, an 8.2 percent leap in only 20 days. This US dollar spike probably led to (contributed to; confirmed) the S+P 500 and many other marketplace price crashes. The S+P 500 bottomed on 3/23/20 (the same day as the nominal Broad Dollar Index high) at 2192. Keep in mind the timing of the price trends in other stock marketplaces as well as in emerging marketplace sovereign debt and US dollar-denominated corporate securities.

What do the following and current horizons on the US dollar reveal? The real BDI fell to 103.2 in January 2021 (compare March 2009’s global economic disaster pinnacle at 101.6). The high since then is December 2021’s 110.3, a noteworthy appreciation of 6.9 percent. In addition, from a long

run historical perspective, December 2021's real Broad Dollar Index level is rather strong, as are January 2022's 109.8 and February 2022's 110.0. This represents a fearsome risk for emerging marketplace sovereign and corporate debtors, especially for those with substantial US dollar-denominated debt, and more especially within an overall trend of rising interest rates for dollar (and other) debt securities.

.	**1Q20 High (date)**	**Key Low Level (date)**	**Percent Fall from 1Q20 High**	**Next High (date)**	**PC Rally from 2021 Low**
Nominal Broad Dollar Index	126.1 (3/23/20)	110.9 (1/6/21) 110.5 (6/1/21)	12.4pc	116.6 (11/29/21) 116.4 (12/15/21)	5.5pc

The price appreciation in the real and nominal Broad Dollar Indices since around January (or June) 2021 up to end November/December 2021 is not as substantial or rapid as the 8.2 percent rally (using the nominal BDI) during March 2020. However, when interpreted alongside rising yield trends in the UST 10 year note as well as in emerging marketplace sovereign debt and US dollar-denominated corporate securities, this BDI strength (bull move) probably assisted weakness in emerging marketplace stocks, and it also warned of significant price falls in the S+P 500 and various advanced nation stock marketplaces linked to it. On 2/24/22, the nominal BDI was 116.0, quite close to its end November 2021 high. The continued BDI strength probably is a bearish omen for both emerging marketplace stocks and the S+P 500.

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Recall that during the global economic crisis of 2007-09, America's real BDI rallied from a low at 86.8 in April 2008 (87.2 May 2008) to 101.6 in March 2009. The strengthening US dollar coincided with the S+P 500's drop from its important 5/19/08 interim top at 1440 (S+P 500 peak occurred 10/11/07 at 1586) and its major bottom at 667 on 3/6/09.

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In preceding decades, many nations at times engaged in currency wars and other forms of financial conflict. The United States and its allies have not fired missiles or sent troops into Russia in response to Russia's invasion of Ukraine. According to the NYTimes (3/4/22. ppB1, 4), America and its comrades "have weaponized the most powerful nonmilitary tool they have available: the global financial system." For example, their arsenal of sanctions have frozen billions of dollars of Russian assets held by their own financial institutions and removed Russian banks from SWIFT, the messaging system that enables international payments.

The Russian Ruble's cross rate against the US dollar attained a critical low around two years ago, on 3/18/20 at 82.90. That critical Ruble trough was challenged thereafter by a low on 11/2/20 (at 80.95) and by 80.41's valley on 1/26/22, but the mighty dollar did not destroy that resistance until it rallied just after the Russian attack on Ukraine. The Ruble made an interim high against the dollar on 2/10/22 at 74.26. After an initial low near 90.00 on 2/24/22, and a minor high at 80.97 on 2/25/22, the Ruble was massacred, falling about 107.7 percent from 2/10/22's elevation to 154.25 on 3/7/22.

The Euro FX established an interim high in its cross rate against the US dollar, 2/10/22's 1.149. Following the Russian invasion of Ukraine, the Euro FX nosedived from 2/24/22's 1.131 height to 3/7/22's 1.081, not far from its 3/23/20 bottom at 1.064 (during the initial stage of the coronavirus pandemic, the S+P 500 established a major low on 3/23/20 at 2192). A decisive fall

by the Euro FX beneath its 3/23/20 depth probably will be bearish for the S+P 500 and related stock empires.

COMMODITIES: INVESTMENT AND INFLATION

In his novel "The Pit" (chapter I), Frank Norris depicts the Chicago futures trading floor. "Ah, this drama of the 'Provision Pits,' where the rush of millions of bushels of grain, and the clatter of millions of dollars, and the tramping and the wild shouting of thousands of men filled all the air with the noise of battle! Yes, here was drama in deadly earnest- drama and tragedy and death, and the jar of mortal fighting." Norris describes the marketplace "battlefield" and "weapons of contending armies" (chapter III), the trading strategist's delight "in the shock of battle" (chapter VI). Did marketplace events call for a Napoleon (chapter VII)?

The Financial Times headlines (3/2/22, p15): "The Russian invasion of Ukraine has pushed up the prices of many commodities, from gas to wheat. It has also highlighted the growing threat that raw materials will be used as a foreign policy weapon."

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Although commodities do not pay dividends or interest, many marketplace strategists nevertheless label commodities "in general" as an asset class, suitable instruments for "investment". Like stocks as well as low grade debt securities around the globe, and likewise assisted by yield repression (with UST yields low relative to inflation) and gigantic money printing, the commodities parish in recent years became a place in which investors and others seeking good (acceptable, sufficient) returns (yields) via rising prices courageously foraged and bought.

The various commodities of course have their own supply/demand profiles. That of the petroleum complex often is particularly important for conversations regarding the "overall" commodities situation and trend.

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The following table covering first quarter 2020 to the present enlists the S&P broad GSCI index as a guide to commodities in general, although it is heavily petroleum-weighted. ICE Brent/North Sea and NYMEX crude oil are the nearest futures continuation contracts. The huge rallies in the GSCI and petroleum have helped to fuel consumer price inflation in the US (see the CPI-U), the OECD, and elsewhere. In regard to the accelerations in the US and OECD's consumer price measures since end 2020, note the timing of the November 2020 take-off lows for the GSCI and Brent/North Sea and NYMEX crude oil.

.	**1Q 2020 High (date)**	**1Q 2020 Low (date)**	**Nov 2020 Take-Off Low (date)**	**Recent Take-Off Points**	**High (to date)**
Broad S&P GSCI	453.2 (1/8/20)	218.0 (4/21/20)	333.1 (11/2/20)	509.1 (12/2/21) 522.3 (12/20/21) 595.2 (1/24/22) 627.7 (2/9/22)	836.0 (3/7/22)

				632.1 (2/18/22) 648.0 (2/25/22)	

.	1Q 2020 High (date)	1Q 2020 Low (date)	Nov 2020 Take-Off Low (date)	Recent Take-Off Points	High (to date)
ICE Brent/ North Sea Crude Oil	7175 (1/8/20) 6000 (2/20/20) 5390 (3/3/20)	1598 (4/22/20)	3574 (11/2/20)	6572 (12/2/21) 6928 (12/20/21) 8504 (1/24/22) 9012 (2/18/22) 9600 (2/25/22)	13913 (3/7/22)
NYMEX Crude Oil	6565 (1/8/20) 5450 (2/20/20) 4866 (3/3/20)	-4032 (4/20/20)	3364 (11/2/20)	6243 (12/2/21) 6604 (12/20/21) 8190 (1/24/22) 89.03 (2/18/22) 9006 (2/25/22)	13050 (3/7/22)
NYMEX Intramarket Crude Oil Spread (June 2022 contract price less June 2023 contract price)				242 (12/3/21) 777 (1/24/22) 894 (2/18/22) 999 (2/24/22) 1248 (3/1/22)	2571 (est.) (3/7/22)

As NYMEX crude oil plummeted in its horrific bear market trend of first quarter 2020, a shocking mammoth contango emerged in the NYMEX intramarket crude oil spread for December 2020 less December 2021 spread, with the December 2020 contract price slumping to about six dollars per barrel beneath the December contract 2021 price on 4/21/20 (around the date of the huge negative price for nearest futures continuation contract). Within the subsequent bull price trend for the petroleum complex, compare the scary leaps to towering heights in NYMEX intramarket crude oil backwardation (near month price higher than distant month price). See the

June 2022 less June 2023 calendar spread price ascent since around early December 2021 (backwardation of 242 on 12/2/21; the 3/4/22 close was 1907).

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The massive recent bull stage in this Wild West petroleum complex of course over the long run increases inflationary pressures and thus the potential for higher yields in various interest rate marketplaces, including even the US Treasury domain. Also, keep in mind that consumer price inflation in America and the OECD already was substantial prior to this recent stage in the bull charge of the petroleum complex. For the real GDP perspective, even more lofty inflation (and rising yields aimed at containing it) can increase the likelihood of recessionary consequences. In any event, the recent colossal rally in oil probably is bearish for the S+P 500 and emerging marketplace stocks.

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Over at least the past dozen years, price and time trends for commodities in general roughly have moved alongside those of the S+P 500 (and emerging stock marketplaces). Commodities in general enjoyed bull moves alongside the S+P 500 after their major bottoms in first half 2020. During these time spans, the petroleum complex has tended to travel in a similar fashion to the S+P 500. Long run history and the trend since first half 2020 through year end 2021 indicate that the S+P 500 and commodities in general over the long run probably will continue to trade "together" and converge over the long run. A notable slump in commodity prices can confirm a fall in the S+P 500 and other stock territories.

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Nevertheless, significant price divergence (notable leads and lags) can exist between the trends of commodities in general and the S+P 500. For example, the 2007-09 global economic disaster's major high in stocks preceded those in the GSCI and petroleum complex by many months. At the dawn of the 2007-09 crisis, the S+P 500 peaked on 10/11/07 at 1576. Yet patterns for the broad GSCI and petroleum complex diverged from that of the S+P 500 for quite a while. The broad GSCI peaked on 7/3/08 at 894. ICE Brent/North Sea crude oil attained its pinnacle on 7/11/08 at 14750. (However, note that these July 2008 major highs in the GSCI and petroleum occurred not long after the S+P 500's final top, 5/19/08's 1440.)

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For many months preceding the Russia/Ukraine war, a bullish petroleum supply/demand situation underpinned a bull ascent by the petroleum complex. The crude oil output scheme of OPEC and its allies resulted in substantial petroleum inventory drawdowns during the economic recovery following the coronavirus shock. Spare production capacity within OPEC and elsewhere probably is fairly low, although a solution to the Iranian nuclear crisis may ease that problem. The fairly substantial net noncommercial long position in the petroleum complex (see the CFTC's Commitments of Traders) probably has cut free supply to some extent. Some people probably have purchased commodities in general and oil in particular (especially via futures, forwards, and options) as an inflation hedge to help protect the overall value of their portfolio (against price declines in its stock and interest rate assets).

Significant concerns about the Ukraine/Russia crisis probably encouraged more of a just-in-case oil inventory management approach and thus reduced readily available inventory ("free supply"). The Russian invasion and related marketplace efforts by many firms and nations to avoid purchasing Russian petroleum probably at times has induced a have-to-have ("buy at any price") behavior by some oil marketplace participants (including members of the speculative short community).

The current gigantic backwardation in NYMEX intramarket crude oil spreads (nearby month prices significantly higher than more distant contracts) reflects and confirms the bullish pattern in flat (outright; spot; actual months, including forwards) crude oil prices. Thus, for example, the increased backwardation in (bull move for) the June 2022 less June 2023 NYMEX intramarket crude oil spread (as well as more nearby spreads such as first month less second month) has traveled alongside the bull move in the NYMEX nearest futures continuation crude oil contract. That growing and currently enormous backwardation probably also reflects an increasingly anxious just-in-case (or have-to-have) inventory approach by the petroleum industry. Though intramarket spreads respond to assorted variables, if the bullish trend in flat price crude oil marketplaces changed to a sideways or bearish one, backwardation in the crude oil intramarket spreads probably would move sidewise or decline.

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Since early January 2022, the S+P 500 on balance has moved downhill, whereas obviously prices in the petroleum complex (and for many other commodities, such as wheat) have soared in response to the threat and then the reality of Russia's invasion of Ukraine. Although this massive price divergence between the S+P 500 has lasted only about two months, the meteoric rise in petroleum heralds that marketplace soldiers should not overlook 2007-08's stock and commodities marketplace divergence experience.

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Previous essays discussed key stock, interest rate, currency, and commodity marketplaces and their relationships, as well as the political scene. See "Paradise Lost: the Departure of Low Interest Rates" (2/9/22); "Emerging Marketplaces, Unveiling Danger" (12/2/21); "Hunting for Yield: Stocks, Interest Rates, Commodities, and Bitcoin" (11/7/21); "Rising Global Interest Rates and the Stock Marketplace Battlefield" (10/5/21); "America Divided and Dollar Depreciation" (9/7/21); "Great Expectations: Convergence and Divergence in Stock Playgrounds" (8/14/21); "Financial Fireworks: Accelerating American Inflation" (7/3/21); "Marketplace Rolling and Tumbling: US Dollar Depreciation" (6/1/21); "American Inflation and Interest Rates: Painting Pictures" (5/4/21); "Financial Marketplaces: Convergence and Divergence Stories" (4/6/21); "Truth and Consequences: Rising American Interest Rates" (3/9/21).

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