COMMODITIES AND US STOCKS: CONVERGENCE AND DIVERGENCE

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"If you ever plan to motor west,
travel my way, take the highway that is best.
Get your kicks on Route sixty-six." "Route 66", a song by Bobby Troup

STARTING LINES

Storytelling regarding stocks and commodities varies. After all, perspectives on these marketplaces- including regarding the relevant variables and their interconnections- differ. But in diverse ways, many financial marketplace pilgrims monitor the equity realm and the commodities universe "together". And since the explosive bull move in United States stocks that began in first quarter 2009, the hymn "strong stocks (S+P 500; Dow Jones Industrial Average) equals (means, parallels) strong commodities, weak stocks equals weak commodities" has been very popular. For some observers, this relationship existed well before 2009. The stock aspect of this song often extends to overseas marketplaces "related" to (following) US benchmarks. Its commodities aspect refers to that realm "in general", though many individual sectors such as petroleum to some extent have tracked equity signposts.

What makes a price level, movement, or relationship important is a matter of opinion. In any event, when stocks and commodities apparently move together in the same direction, numerous marketplace guides declare they converge. This traveling partnership is not necessarily exact. The related departure from an allegedly important turning point usually is only around the same time (within a few days or weeks), though sometime the lead (lag) may be quite a bit substantial. When they do not (as in more than a few months), trendy watchers proclaim divergence.

SPEEDING UP

Since mid-2008, commodities "in general" and United States stocks "as a whole" have moved roughly in the same direction at around the same time. In this convergence process (relationship), noteworthy bull (bear) moves in US equities find parallels in those in the commodity arena. Thus significant marketplace rallies (declines) have tended to occur around the same time.

However, this perspective is not the only vantage point by which to assess the often close relationship between US equities and the commodities complex. There also is another, longer run view by which one can examine the relationship between them. Since spring 2011, commodities have ventured down (or sideways to down). However, key American stock benchmarks such as the S+P 500 have attained new highs, first in April 2012, then September 2012, and again in January 2013. Thus despite the convergence at assorted timely turning points since spring/summer 2008, and even though the two territories continue to trade together to some extent, arguably there has been noteworthy divergence in their overall relationships (their trends) since May 2011.

Now recall several of 2007-08's details. US equities peaked in October 2007, almost nine months before the commodity one in early summer 2008. Only after the final stock marketplace summit in May 2008 did equities and commodities trade in close tandem. The current longer run relationship thus perhaps likewise reveals divergence, but with the commodity peak to date appearing well before any major S+P 500 one.

RACING AHEAD

In contrast to 2007-08, what if the major peak in commodities is well before that in stocks (and the lag is likewise so great as to suggest divergence)? Suppose- and this admittedly is a key suppose- eventually commodities and US stocks will trade together over the long run. After all, so-called marketplace relationships can change dramatically, whether from the convergence/divergence (lead/lag) perspective or otherwise. What does continued divergence, the failure of commodities to near or exceed its spring 2011 heights, suggest?

The 2007-08 relationship warns that the current continued failure of commodities to confirm the equity rally eventually will reveal a notable decline in stocks. Since the duration between the spring 2011 commodities top and today's new highs in the S+P 500 is almost 20 months, whereas that between October 2007's stock pinnacle and the broad GSCI's summit in July 2008 was about nine months, the failure of the broad GSCI to achieve new heights should warn equity bulls that a decline may be fairly near in time.

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Of course times change; the current scene in the worldwide economic crisis that appeared in 2007 is not the same as that of five years ago. Obviously central bank and political actions in the US and elsewhere around the globe have appeared, evolved, and persisted in a variety of fashions since 2007-08. In addition, the intertwining (convergence, divergence) of interest rate battlefields and currency (especially US dollar) playgrounds with those of equities and commodities are not immutable.

In particular, the Federal Reserve's sustained manipulation of short-term rates (Federal Funds) near the ground floor has encouraged heated hunts for yields (returns) better than those in US Treasury securities. The Federal Funds rate has been under one quarter of one percent (monthly average) since December 2008, with the Fed promising to keep it at such very low levels for some time. Compare the nearly five percent Funds rate at the time of the October 2007 major high in the S+P 500. Recall also the over 5.8pc at the time of the March 2000 S+P summit. Today's rock-bottom rate falls beneath the 1.25pc at the time of the March 2003 final bottom in the S+P 500. The Fed's massive money printing (quantitative easing) strategy helps to boost nominal prices of assets, goods, and services. Looking around the world, many other central banks have embraced easy money policies similar to the beneficent Fed's.

Thus stocks probably in recent times have more appeal than commodities (especially to "investors", particularly when commodities already are "high"), for stocks generally (historically) are viewed as a more attractive investment medium than commodities. Don't Wall Street, Main Street, and the financial media cheer loudly when stocks (especially American ones) rally? Doesn't Wall Street fervently seek out and promote worthy stock investment vehicles? Plus many stocks of course pay dividends. Also, commodities do not have intrinsic earnings (make or lose money themselves), whereas corporations do, and corporate earnings have been fairly strong over the past several quarters. In regard to the recent enthusiasm for stocks, keep in mind the eager quest for yield in the corporate interest rate pasture (including junk bonds).

Given such considerations, even though divergence exists between major highs (trends) in stocks and commodities, this divergence may persist. Consequently any stock marketplace decline may be postponed for at least a while longer, and perhaps even several more months.

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Besides, there is an alternative scenario. Perhaps commodities will climb upward to touch or even exceed its spring 2011 highs, thereby catching up with the S+P 500's pattern. Thus the long run pattern again will mirror those of the various shorter term ones. However, then players should expect that whenever a major bear trend ensues, commodities in general and US stocks will voyage together, as in the May 2008 (stocks)/July 2008 (commodities) downturn.

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However, suppose the broad GSCI does not get very close to or exceed its 2011 highs. Based on the history of the past several years, one should expect that the ultimate major high in this S+P 500 bull move that began in March 2009 roughly will coincide (probably within several weeks or less) with a minor GSCI top.

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Despite these various alternatives, what's the bottom line? Commodities probably will not exceed their May 2011 high, and if they do, they probably will not do so by much and for long. Even if the S+P 500 manages to venture to five or ten percent above its September 2012 high at 1475, it probably is fairly near in time to a significant top in price and time terms. The downturn in both realms will begin at approximately the same time.

TWISTS AND TURNS

The table below reveals peaks and valleys in the S+P 500 and the broad GSCI from the last laps of the Goldilocks Era through the dreary stages of the international economic crisis to the current recovery period. Intersections between equity benchmarks and commodities contribute to the ongoing worldwide economic crisis story.

In recent years, significant price trends in commodities "in general" (use the S+P Goldman Sachs Commodity Index, the broad GSCI, as a signpost) roughly have paralleled those of the S+P 500. Noteworthy bull voyages in the GSCI have commenced at "around" the same time as those in the S+P 500. The same perspective appears for bear trips.

However, and very significantly, the October 2007 major high in the S+P 500 was not paralleled by a similar peak around that time in the broad GSCI. Other commodity benchmarks such as the Dow Jones UBS Index or the Thomson Reuters/ Jefferies CRB Index likewise do not show a peak anywhere near in time to October 2007.

S+P 500	Broad GSCI	Which Peaked/Bottomed First (Time Between)
10/11/07 major peak 1576	No "related" GSCI top	S+P 500 major high over 8.5 months before GSCI's 7/3/08
5/19/08 final high 1440	7/3/08 at 894	S+P 500 final high 1.5 months before
Collapse from around 8/11/08 1313 and 9/19/08 1265	Slump from 749 on 8/21/08 and 9/22/08 677	About the same time
[compare the 9/19/08 level with 6/4/12's low at 1267 alongside the Fed's 2012 policies]		
3/6/09 major bottom at 667	2/19/09 at 306	GSCI by two and a half weeks

[November 2008 and March 2000, Fed announces quantitative easing (QE1; money printing)]

4/26/10 high 1220 [March 2010 QE1 ends]	5/3/10 top 556	S+P 500 by a week
7/1/10 low 1011, 8/27/10 at 1040 [QE2 unveiled end Aug/Nov]	5/25/10 low 459, then 8/25/10 at 490	GSCI initially by five weeks, then together
5/2/11 summit 1371 [June 2011 QE2 ends]	**4/11 and 5/2/11 plateau around 762**	GSCI initially by about three weeks, then the same
10/4/11 low 1075 [9/21/11 Fed announces Operation Twist]	10/4/11 bottom at 573	Same
4/2/12 top 1422 (drop after 5/1/12 1415)	3/1/12 high 717 (fall from 5/1/12 689)	GSCI first by a month, then fall together
6/4/12 low 1267	6/22/12 low 556	S+P 500 by 2.5 weeks
[Conjectures begin in summer that Fed will start QE3; compare S+P 500's June 2012 low with its 9/19/08 fall-off point]		
9/14/12 interim high 1475 [Fed QE3 money printing unveiled 9/13/12]	9/14/12 high 699	Same
11/16/12 trough 1343	11/5/12 low 623	GSCI by 1.5 weeks
[12/12/12: Fed policy guidance on Federal Funds alongside employment and inflation measures); 12/31/12 low 1398]		

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Despite the coincidence of various price highs and lows from the timing perspective since 2008 (and even since spring 2011), underline the recent divergence between the broad GSCI's general trend and that of the S+P 500 since spring 2011.

Despite an extensive passage of time, over a year and a half, the broad GSCI remains well under its 2011 pinnacle at 762. In addition, its highs have slipped lower. The GSCI has not surpassed 3/1/12's 717 despite 10 months of time (and it even currently rests under 9/14/12's 699 top). In contrast, the S+P 500 has accelerated to new highs in the bull ride that commenced in March 2009. In January 2013, it has edged over 1500, beyond its May 2011 interim high at 1371 and modestly over its 9/14/12 high at 1475. It thus has bounced over the 5/19/08's final top at 1440.

SHIFTY POLICIES

"Hey! Think the time is right for a palace revolution
But where I live the game to play is compromise solution
Well, then what can a poor boy do
Except to sing for a rock'n' roll band
'Cause in sleepy London town
There's no place for a street fighting man" The Rolling Stones, "Street Fighting Man"

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The table above- and keep in mind the sustained low policy interest rates- manifests the key role of the Federal Reserve's very easy money policies in promoting US stock and commodity rallies. It displays the Fed's determined and longwinded policy geared not just at promoting recovery (and slashing unemployment), but also its objective to propel stocks higher. By sparking and sustaining rallies in stocks, the Fed has helped to repair US household balance sheets (consumer net worth), which had crashed during the global crisis.

On 12/12/12 the Fed honked that it "currently anticipates that this exceptionally low range [zero to .25pc] for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored."

The Fed's highly accommodative performance has not been solo. Its central banking friends in Europe, Japan, China and elsewhere have raced to the rescue of their own economies and that of the international system.

For example, the European Central Band offered two longer-term refinancing operations with a maturity of 36 months (LTRO; 12/8/11; allotment dates 12/21/11 and 2/29/12). In summer 2012, the ECB promulgated its Outright Monetary Transaction (OMT) policy, declaring its willingness to buy in secondary sovereign bond marketplaces (8/2/12; details on 9/6/12). Note that the peak in the Spain versus Germany 10 year government note credit spread was about 638 basis points on 7/24/12. The UST 10 year note bottomed 7/25/12 at 1.38pc (German Bund note lows 1.13pc on 6/1/12 and 7/23/12). Remark upon the rally in European and US equity marketplaces since the lows in German and US government note yields and the peak in that credit spread.

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Let's not forget the part played over the past several years by fearful politicians in assisting higher equity and commodity prices. American and many other wheeling and dealing politicians have contributed enormous deficit spending to jumpstart and sustain economic growth (and to mitigate potentially severe social unrest). Moreover, particularly when viewed alongside the Fed's current money printing festival and comments (guidance) on its policies in relation to unemployment and inflation levels, the recent near term calming (even if temporary) of the American fiscal cliff risk situation and the related deficit ceiling issue has encouraged many equity bulls.

AS THE WORLD TURNS

One can explore convergence and divergence between GDP growth levels and forecasts (as well as other economic and political variables) and stock and commodity marketplace trends. Also, to what extent do other stock marketplace trends mirror those of America?

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Continued recovery will tend to support both US equity and commodity prices. The International Monetary Fund's "World Economic Outlook Update" (1/23/13; Table 1) projects world output will march 3.5pc higher in 2013 and 4.1pc in 2014. Real GDP in advanced economies will rise 1.4pc and 2.2pc respectively. American real GDP expands 2.0pc in 2013 and 3.0pc in 2014. Consumer prices in advanced economies climb 1.6pc in 2013 and a further 1.8pc in 2014.

However, for the past several years, emerging marketplaces, and especially China, have been praiseworthy engines of growth and especially important for tale-spinning regarding commodities in general. The IMF notes that real GDP growth rates in emerging marketplace and developing economies fell from 6.3pc in 2011 to 5.1pc in 2012. The soothsayer forecasts more rapid expansion to arrive, with 5.5pc in 2013 and 5.9pc in 2014. It predicts Chinese GDP will soar 8.2pc in 2013 and 8.5pc in 2014, after a modest slide from 9.3pc in 2011 to 7.8pc in 2012.

Yet despite the still-robust Chinese (and emerging marketplace) growth in 2012 (and 2011), and the sunny forecast for 2013 and thereafter, the broad GSCI lurks beneath its 2011 and 2012 highs.

Take a glance at the Chinese stock marketplace with an eye on the American one in relation to the both the commodities in general and S+P 500 theaters. Perhaps the Shanghai Composite benchmark does not accurately reflect "the real situation" of the Chinese economy. However, its 10/16/07 peak at 6124 almost exactly coincides with that of the S+P 500. In addition, although its major low at 1665 on 10/28/08 preceded the S+P 500's major bottom on 3/6/09, its 2037 interim low on 3/3/09 occurred around then. Yet while the S+P 500 has flown to new highs, Chinese stocks around 2350 remain well under 50 percent of their high since October 2008. Note the 12/4/12 depth around 1950. In fact, the Shanghai Composite summit was over three years ago, at 3478 on 8/4/09. Thus its longer run trend has diverged substantially from that of the US. Commodities in general have tracked lower since spring 2011, as has the Shanghai Composite; note its 4/18/11 high at 3067.

Overall measures for European stocks as a whole, however, have tended to follow US equity benchmarks in recent years. For example, the SXXP (600 European stocks, Bloomberg data) has rallied sharply from its 6/4/12 low to around 290. Nevertheless, timing ties of key highs and lows in American and European stock marketplaces are not always exact. The SXXP's 2007 summit at 401 on 7/13/07 preceded the S+P 500 pinnacle by about three months. The SXXP's 2011 high on 2/18/11 at 292 preceded the S+P 500's, though its second top on 5/4/11 at 285.2 closely fit the American one. Its 9/23/11 low on 209.3 also occurred before the S+P 500's October trough, though its next low was 10/4/11 at 214.6.

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One should explore other leads and lags, convergences and divergences, in relation to commodity and US stock levels and trends. Think of interest rates and currencies.

For example, many marketplace sermons in recent years have chanted the view that "strong US dollar equals weak US stocks (S+P 500; and weak commodities in general), weak US dollar equals strong US stocks and strong commodities.

Although the broad real trade-weighted dollar ("TWD") peaked in February 2002 at 112.8 (monthly average), it remained strong at 110.4 in October 2002, when the S+P 500 bottomed. As the S+P 500 rallied, the TWD depreciated. However, though the TWD had fallen to 88.4 by the time of the October 2007 peak, it kept falling. Was this "divergence" relative to stocks after October 2007, or did it just take time for the two paths to cross (realign) again? Anyway, the TWD reached a low of 84.2 in April 2008, around the time of the final elevation of the S+P 500 in May 2008. The TWD's important high in March 2009 coincided with the major low in the S+P 500 that month. As the S+P 500 entered the bull lane, the TWD ventured down the bear path.

The TWD established its all-time record low (since 1973) in July 2011 at 80.5, not long after the May 2011 top in the S+P 500. However, stocks have achieved new highs, whereas the TWD has stayed relatively weak (83.4 in December 2012). However, it did advance to 86.2 in June 2012,

and the S+P made an important low that month. Should one say that a relatively weak TWD, so long as it stays around historic lows, remains bullish for equities (confirms an equity rally)?

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Although the broad GSCI includes many commodities in addition to petroleum, crude oil and refined products have been major parts of that index. The International Energy Agency estimates OECD (advanced nation) inventories days coverage relative to forward demand. Though it is a truism that numerous variables influence petroleum prices and trends, current and anticipated inventories of course are a significant consideration. Recall 2008's crude oil spikes in NYMEX and Brent/North Sea crude toward $150 per barrel, still well above their spring 2011 highs (NYMEX 5/2/11 at 11483, Brent 4/10 and 4/28/11 around 12700). Recent days coverage (around 59 days for most of calendar 2012) exceeds that of 2007 and 2008 (for example, the 53 days in 3Q07 and 56 days of 2Q08 around the time of equity marketplace tops). This higher days coverage has helped to weigh down petroleum in recent times relative to 2007-08. And might non-OECD nations such as China have rushed to secure oil supplies in the later days of the Goldilocks Era?

The various commodity sectors (such as energy, metals, and agriculture) and members within them of course do not always peak or bottom at precisely the same time. The London base metals index (LMEX) challenged its 2007 and 2008 peaks (5/14/07 at 4557 and 3/5/08 at 4400) in February 2011 (2/14 at 4478) and April 2011 (4/8/11 at 4469), but at around 3500 it remains well under these highs. So divergence relative to the S+P 500 since spring 2011 has not been confined to petroleum.

ROAD MAP DETAILS

Key resistance levels for the broad GSCI are around 689/699/717 and 740 to 762. See the table above. A 33pc rally from the 6/22/12 low near 556 is about 741; keep in view the old yet significant tumble from 749 after 8/21/08. The mean plus two standard deviations from the 6/22/12 bottom is 693, with the mean plus three SD about 715.

The mean in the broad GSCI since its 2/19/09 major bottom is about 579, the mean plus one standard deviation 680; the mean plus two SD is 781. The mean since its 5/2/11 high is about 656 (the means since the 10/4/11 and 6/22/12 lows hover around 650). Since the 5/2/11 peak, the mean plus one SD is 687, the mean plus two SD 719; since then, the mean less one SD is about 624, and the mean less two SD 593.

Means and standard deviations relative to a given start date of course can change, sometimes substantially (particularly for relatively brief time horizons).

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What are upside barriers for the S+P 500? The 1576 (10/11/07) and 1553 (3/24/00) heights stand out. The 9/14/12 high (recall the QE3 unveiling) at 1475 plus five percent is 1549. What's above this mountain range? The 1475 level plus 10 percent is 1623, a 50pc rally from the 1075 low of October 2011 is 1613. A five percent trip over the 1565 average of the 2000 and 2007 pinnacles is 1643.

The mean since the 3/6/09 major low is about 1204, the mean plus one SD 1370. Note that the mean plus two SD since that bottom, 1535, is not very distant from the October 2007 and March 2000 tops. The mean plus two SD from the 8/27/10 take-off point is 1495, the mean plus three SD

1589. The mean plus two SD from the 10/4/11 low at 1075 is 1513, the mean plus three SD 1591. The mean plus two SD from the 6/4/12 valley at 1267 is 1500, the mean plus two SD 1547. Thus mean and SD analysis for the S+P 500 generally indicates that its current level over 1500 is "rather elevated", even though this benchmark may venture higher.

If equity prices decline, particularly watch the 9/14/12 interim high at 1475 and the 6/4/12 bottom at 1267. Also eye the 4/2/12 top at 1422 (the mean since the 6/4/12 low is 1406; the 1075 low times 1.33 is 1433, and view the 1440 drop off point of 5/19/08) and the 4/26/10 high at 1220.

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Marketplace history is never marketplace destiny. The S+P 500 advance since its 3/6/09 bottom has been substantial in price as well as time terms (nearly four years). That does not mandate a major notable change from the bull path to the bear avenue, or even a significant retracement. However, such as extended upside price and time highway does suggest that observers should be on the alert for a directional change.

Calendar timing of past very significant marketplace turns (whether in stocks, commodities, interest rates, or currencies) does not dictate when next important trend changes will occur. However, calendar dates for major historic trend changes a given marketplace such as the S+P 500 should be reviewed alongside important price levels, price movements, and the duration of and distance traveled by major trends.

For the S+P 500 in the near term, important anniversaries include the 3/6/09 major low, the 3/12/03 final low (at 789; initial low 10/10/02 at 769) and the 3/24/00 major high, Also given the close connection between commodities in general and the S+P 500 in recent years as to price and time changes, recall the timing of the 2/19/09 major low in the broad GSCI.

In 2000, the Dow Jones Industrial Average's peak around 11190 was 1/14/00, over two months prior to the S+P 500 one. Even in America, key stock marketplace benchmarks do not always necessarily peak or bottom at the same time, though they usually track each other quite closely.

FINISHING LINES

Apparently existing convergence and divergence marketplace relationships are not destined to persist. They can change course or transform. And apparent divergence, like price moves in outright marketplaces themselves, can continue for extended (remarkable, extraordinary, amazing, surprising, incredible, unbelievable) periods of time.

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Growing and sustained high corporate earnings obviously have assisted the S+P 500's bull charge, though one can ask how much these earnings have been assisted by the Fed's accommodative policies and deficit spending. Share buyback programs have assisted the equity rally too.

Yet suppose the broad real trade-weighted dollar depreciates substantially and dives significantly underneath the July 2011 record low. Will the S+P 500 keep rising? Or, suppose inflation increases and becomes entrenched. What if the US government begins to find it very difficult to finance yawning budget deficits (except via Federal Reserve money printing games), thus helping interest rates to advance (despite the Fed's repressive policy)? Even if America elects to solve the fiscal cliff issue (which probably means still-ballooning deficits), enormous budget gaps

ominously beckon in the more distant future. How happy are overseas holders of US Treasury securities with interest rates close to zero, and how pleased with they be if the dollar plummets and inflation hops higher while the Fed persists in keeping UST yields very low? Despite widespread faith in the Fed, does the Fed really have an exit strategy of substance?

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Consumers, although they are not corporations, still represent about 70 percent of America's GDP. Despite the repair of US household net worth (see the Fed's 12/6/12 Z.1 report, Tables B.100 and B.100.e), note the Conference Board's US consumer confidence measures.

June 2007's 111.0 pinnacle in consumer confidence at 111.0 occurred not long before the October 2007 US equity peak; the 25.3 bottom on February 2009 was shortly before the March 2009 S+P 500 major low (and at the time of the broad GSCI's crucial bottom). Despite the economic recovery since 2009, has there been some divergence between this yardstick and the S+P 500? Whereas the S+P 500 has made new peaks, the Conference Board measure has found it difficult to come anywhere close to its 2007 height. It ascended to 72.0 in February 2011, but slumped to 40.9 October 2011. Though it ascended to 71.6 in February 2012 and 73.1 in October 2012, it melted to 65.1 in December (12/27/12; next release 1/29/13). Compare recent consumer confidence levels with the 144.7 high in January 2000, and also remember that US equity marketplaces peaked in first quarter 2000.

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Some stock marketplace gurus shout that strong "investment" factors- whether worldwide economic recovery, fine earnings, excellent long run prospects, low interest rates, and so on- justify current S+P 500 levels, and arguably eventually even higher ones. Indeed US equities may keep rising. After all, nominal GDP probably will increase over the long run, right? And stock prices are quoted in nominal terms.

However, as in 2007-08, a fair amount of leverage arguably has encouraged the bull move in US equities since the March 2009 lows. That probably includes the recent run-up since June 2012. Look at NYSE securities marketplace credit (margin debt). The friendly Fed and its allies probably deserve a hefty share, though not all, of the credit for the borrowing leaps since the equity abyss of first quarter 2009. Compare the pattern of several past moves in NYSE margin alongside important S+P 500 highs and lows.

In November 2012 (the most recent month of data), securities marketplace credit was about $327 billion. That was well over the July 2012 level of $278bb (recall the June 2012 S+P low) and the even higher $299bb sum of April 2012 (remember the April 2012 S+P high). The NYSE margin debt level established an interim low before April 2012's interim high in September 2011 at $262bb (don't forget the October 2011 S+P 500 low). The margin debt roof of $321bb in April 2011, which the November 2012 total breached) was built around the time of the S+P 500's early May 2011 ceiling.

The NYSE securities marketplace credit achieved a low around $173bb in February 2009, close in time to the major bottom in US stocks and commodities in general. When was the preceding peak in margin debt? In July 2007, at $381bb, only a few months before the S+P 500's October 2007 major high. However, margin debt slumped from October and November 2007 levels around $345bb and rapidly after June 2008's final elevation at $314bb (recall the final high in May 2008 in the S+P 500).

The November 2012 level margin debt level is below that existing in July 2007 peak, so some may argue there is currently more room to borrow. However, the past association of margin debt boosts and declines with US stock marketplace rallies and bear moves suggests that such debt probably has increased since November 2012. In any event, one should pay attention to the convergence of debt levels with stock marketplace patterns.

What about the prior high in US equities in first quarter 2000? The S+P 500 peaked in March 2000. So did margin debt, at nearly $279bb. When did the debt bottom out? Around the time of the key lows in October 2002 and March 2003 in stocks. Margin debt was around $130bb in September/October 2002, advancing steadily from March 2003's $136bb.

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