SPRINGING A QUESTION: ARE EMERGING STOCK MARKETPLACES IN BLOOM?

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"The best things in life are free
But you can keep 'em for the birds and bees
Now give me money (that's what I want)…
A lot of money (that's what I want)". "Money (That's What I Want)", by B.Gordy and J.Bradford

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PLANTING IDEAS

Marketplace watchers identify, analyze, and debate the existence, relationship, and implications of trends in stock, interest rate, currency, commodity, and other fields. The various stock marketplaces around the globe of course do not naturally or necessarily follow the same general trend or move more or less in similar directions, although many do so. Yet in recent times there has been increased globalization of economic (financial) marketplaces as well as further intertwining of many variables that influence them. So many equity arenas indeed often roughly and sometimes very closely travel in the same fashion. Thus stocks in the United States (use the S+P 500 as a benchmark) may venture on a bull move around the same time as many key stock marketplaces in other so-called advanced nations in Europe and Asia. In addition, most of the noteworthy fluctuations constituting that international bull advance will occur "around" the same time, within several weeks or a few months. The same is true of bear campaigns.

Developing nations around the world of course present a diverse array. Some rely heavily on commodity exports to propel their economies, others on manufactured goods. Yet since the beginning of the worldwide financial crisis in mid-2007, the assorted stock marketplaces of several substantial emerging (developing) countries have often but not always marched together. However, many of these marketplaces nevertheless have made important changes in the same direction around the same time.

And since the dawn of the global crisis, close inspection unearths another significant tendency for these important emerging marketplaces. Suppose the major trend for equities of a given developing nation remains bullish in contrast to the bearish major trend that has engulfed stocks of another emerging land. Despite the different major trends, notable price shifts within them not only still tend to occur around the same time, but also tend to be in the same direction. Thus for both the nation with the major equity bull trend and the nation with the major bear pattern, an upward price move in price in one will be paralleled by a price rally in the other.

For example, for the period after the major low in the S+P 500 in March 2009, compare China with several other developing countries in that regard. Though China's stock marketplace has been descending since summer 2009, its interim bull tops within that bear trend often approximately coincided with bull tops in nations such as India, Russia, Brazil, and Mexico. Relative to China, stock signposts in these countries for at least a while kept going up. India and Brazil peaked in 2010, and Russia did so in 2011, but Mexico made a new high in early 2013.

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From the onset of the global economic crisis to the present, do these emerging stock marketplaces offer fruitful clues regarding (or confirmation of) price trends in those of advanced nations such as the United States? Yes. In several key individual emerging stock marketplaces, many of their major (or interim) trend changes have occurred rather close in time to significant ones in the S+P

500. Moreover, if one surveys several of these individual emerging stock marketplaces "together", a general linkage to (relationship with) the S+P 500 appears.

Since spring 2011, despite differences between various developing nations, emerging stock marketplaces "in general" have been in a moderate bear trend. See the table below, including the Morgan Stanley "MSCI Emerging Markets Index" benchmark for emerging nations. This definitely contrasts with the sunny S+P 500, which reached a new height in its long-running bull move at 1574 on 4/2/13. The US of course is not a developing marketplace nation, and its stock playground obviously tells its own fascinating stories. America's recent strong corporate earnings, substantial share buybacks, and sustained central bank interest rate yield repression and massive money printing distinguish it from emerging marketplace playgrounds in general. The broad real trade-weighted dollar remains relatively weak; at 84.8 for March 2013 (monthly average), it rests not much above its record depth of 80.5 in July 2011.

HARVESTING A CONCLUSION

Many wizards praise emerging marketplace countries such as China as engines for international prosperity. The worldwide scope of the 2007 financial (economic) crisis and the following years emphasizes the close interconnection of the economies of advanced nations and key emerging (developing) countries around the globe. Historical review from the dawn of the global economic disaster up to the current time reveals price and time parallels between the trends of emerging stock marketplaces and those of the US (and related stock arenas in Europe and other advanced nations). Therefore, the bear trend since spring 2011 in emerging marketplaces is a warning sign to the S+P 500.

Maybe emerging stock marketplaces will resume their bull trend alongside a continuing climb by the S+P 500. However, the downturn within this flock of emerging countries is widespread. Note also the similar fall in commodity prices in general. Such considerations indicate that a return to the bull side by stock marketplaces of emerging marketplaces in general is unlikely. Although relative to their dismal appearance of autumn2008/winter2009, emerging marketplaces may seem to be in full flower ("still looking pretty good"), their bloom has faded substantially and suggests potential for further withering. Not only have stock benchmarks of developing nations in general been a bear trend, but also they established additional interim tops in early 2013. This underlines the significant potential for a notable decline in the S+P 500 in the relatively near future.

DIGGING UP PATTERNS IN THE STOCK GARDEN

In William Shakespeare's "Macbeth", Banquo demands of the three witches:
"If you can look into the seeds of time,
And say which grain will grow and which will not,
Speak, then, to me…" (Act I, Scene III).

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The table below links the S+P 500 and widely monitored emerging marketplaces. It includes Brazil, Russia, India, and China (the BRICs) plus South Africa and Mexico. To represent emerging marketplaces in general, it includes the MXEF (Bloomberg ticker), the Morgan Stanley "MSCI Emerging Markets Index". The MXEF contains 21 nations, including the four BRIC nations along with South Africa and Mexico). It "is a free float-adjusted market capitalization index". The sequence of key highs column for 2010-2012 arranges notable tops for those years for a given nation's stock marketplace, placing its highest top during that period first in line. Thus the S+P 500's top at 1422 on 4/2/12 stands above the lower ones of 2011 and 2010. The MXEF's high during that period was 4/27/11's 1212, so that is listed first, before the 2012 and 2010 ones.

Observers could add other important turning point dates to this stock marketplace table. Using the S+P 500 as a vantage point, remember the October 2011 bottom, the end June 2012 trough, and the September 2012 interim high.

Emerging (Developing) Nation Stock Marketplaces and the S+P 500

	2007 or 2008 Major Peak	2008 or 2009 Major Low	A Sequence of Key Highs: 2010, 2011, 2012	Recent 2013 High
US	1576 (10/11/07)	667 (3/6/09)	1422 (4/2/12)	1574 (4/2/13)
S+P 500	1440 (final 5/19/08)		1371 (5/2/11)	
			1220 (4/26/10)	
Brazil	73920 (5/29/08)	29435 (10/27/08)	73103 (11/4/10)	63473 (1/3/13)
(Bovespa)			(note 71989 on 4/9/10)	
			70108 (4/6/11)	
			68970 (3/14/12)	
Russia	2353 (5/19/08)	525 (10/27/08)	1863 (4/6/11)	1557 (1/4/13)
(Depository Index; traded London Stock Exch.)			1667 (3/15/12)	
			1577 (4/15/10)	
India	21207 (1/10/08)	7697 (10/27/08)	21109 (11/5/10)	20204 (1/29/13)
(Sensex)			19811 (4/6/11)	
			18524 (2/22/12)	
China	6124 (10/16/07)	1665 (10/28/08)	3187 (11/11/10)	2445 (2/18/13)
(Shanghai Composite)			(note 3182 4/15/10)	
			3067 (4/18/11)	
			2478 (2/27/12)	
			(see 2454 5/4/12)	

[China's high point after 2008's valley was 8/4/09's 3478. Yet within this long-running downtrend, remark how the timing for the Shanghai Composite's tops in 2010, 2011, 2012, and 2013 resemble tops found elsewhere.]

South Africa	33310 (5/22/08)	17771 (1//20/08)	33335 (2/14/11)	41048 (3/14/13)
(Johannesburg All Shares)			29565 (4/15/10)	

[South Africa's stock index made a rather insignificant top on 5/2/12 at 34647. Its decline of just over five percent lasted less than a month.]

MSCI Emerging Market Index

MXEF	1345 (11/1/07)	446 (10/28/08)	**1212 (4/27/11)**	1083 (1/3/13)
	1253 (5/19/08)	471 (3/3/09)	1085 (2/29/12)	
			1051 (4/15/10)	

[Despite the worldwide economic recovery that began in 2009, which was particularly pronounced in developing nations in general, the MXEF index has not moved over or even edged very close to its 2007 peak. Compare the US's S+P 500 and Dow Jones Industrial Average. The

MXEF's 2013 top to date has not surpassed 2012's, and 2012's falls beneath 2011's. A 10 percent fall from April 2011's 1212 summit gives 1091 (note the 1085 high on 2/29/12). A 20 percent tumble is about 970. The MXEF closed at 1007 on 4/8/13. This is a 16.9 percent fall from its April 2011 pinnacle.]

	2007 or 2008 Major Peak	**2008 or 2009 Major Low**	**A Sequence of Key Highs: 2010, 2011, 2012**	**Recent 2013 High**
Mexico (Mexbol IPC)	32851 (10/18/07) 32293 (4/22/08)	16480 (10/27/08) 16757 (3/3/09)	38877 (1/3/11) (see 4/6/11 at 38091) 34224 (4/15/10)	46075 (1/29/13)

[Although Mexico's 5/18/12 top at 40050 is not very prominent (only an 8.2pc decline from that point), it should be kept in mind alongside the 2012 tops in the S+P 500 and elsewhere.]

[To provide further perspective on the relationship between the S+P 500 and emerging stock marketplaces, look at Canadian stocks. To a significant extent since 2007/08, Canadian stocks have moved in tandem with those of America. Yet although Canada is not an emerging marketplace, note the roughly similar price and time trends for Canada in relation to the MXEF. In contrast to the US stock pasture, Canada remains well beneath its 2008 peaks (and under its 2007 ones as well). It also- like the MXEF- remains under its 2011 high.]

Canada (S+P Toronto)	15155 (6/6/08) 14647 (7/19/07) 14625 (10/31/07)	7480 (3/6/09)	14329 (3/7/11) 12789 (2/29/12) 12322 (4/27/10)	12905 (3/12/13)

[Canada and Mexico are not merely neighbors to the United States. They are important American trading partners (Canada is 12.9 percent of the broad real trade-weighted dollar, Mexico 11.3pc; compare China's 20.3pc). Suppose the Canadian and Mexican stock marketplaces do not surpass their 2013 highs to date in the near future. That will represent a bearish portent for the US stock territory.]

SPRINGTIME

Perhaps the S+P 500 will keep ascending onward and upward, perhaps towing many other advanced and emerging marketplace stock marketplaces along with it. But maybe not. Marketplace history is not marketplace destiny. However, recall that in each of the past three years, the S+P 500 established springtime tops: 4/26/10 at 1220, 5/2/11 at 1371, and 4/2/12 at 1422. Its 2000 peak at 1553 was March 24.

THE COMMODITIES PATCH

Compare emerging marketplace trends with those of commodities "in general". To what extent will the S+P 500 keep diverging from commodities in general?

The broad Goldman Sachs Commodity Index ("GSCI") established a major high around 762 in spring 2011 (4/11 and 5/2/11 tops), with lower peaks at 717 on 3/1/12 and 699 on 9/14/12. Interim tops since September 2012 fall below those (so the GSCI, despite rallies, is making lower and lower highs). See the GSCI highs of 2/1/13 at 681.5 and 2/13/13 at 681.7. On 4/8/13, the GSCI closed at about 632. Underscore the pattern of lower highs in the broad GSCI from spring 2011 to the present, for that is the same pattern the MXEF index (emerging stock marketplaces in general) displays.

Also note the renewed retreat in the broad GSCI from its 3/28/13 level around 659. Compare the timing of S+P 500's plateau to date during its recent rally, 4/2/13 at 1574.

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The China economic growth story underpins bull moves in much of the commodity landscape, including petroleum. China's stock marketplace probably is not a great representative for overall Chinese economic growth. However, it should not be forgotten. After all, key moves in the Chinese stock landscape in recent years frequently have occurred around the same time as those elsewhere. The Shanghai Composite's recent minor high was 2/18/13 at about 2445; note the timing of the minor low in the renminbi, 2/20/13 at 6.249.

AN INTEREST RATE FIELD

Will a renewed slump in US 10 year rates help to lead the S+P 500 lower once again? Note the timing of some recent interim highs in US Treasury note yields. The UST ten year reached 2.08 percent on 3/8/13; it is under 1.75pc now. The 10 year less two year UST note spread achieved a recent high of 180 basis points on 3/11/13. Further narrowing of this spread would hint that US stock prices probably will start to retreat.

SOWING CONCERNS

The International Monetary Fund recently forecast 2013 real GDP growth in "emerging market and developing economies" of 5.5 percent year-on-year, with 2014's at 5.9pc. This accelerates from 2012's 5.1pc increase. "World Economic Outlook Update" (Table 1, 1/23/13).

Yet given such strong growth, why have emerging marketplaces generally been in a bear trend for around two years? Maybe stock marketplaces are significantly separated from (substantially unrelated to) real GDP patterns (and many other economic phenomena) s in many emerging marketplaces (such as China). Yet there is a contrary perspective. Suppose growth in emerging marketplaces is less (or is less well-grounded/sustainable) than many analysts believe. If so, bear stock marketplace trends in developing nations fit such a relatively gloomy economic scenario for those countries.

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The IMF weathervane predicts 2013 real output in "advanced" economies will climb a paltry 1.4 percent, only slightly above 2012's mediocre 1.3pc advance. United States GDP expanded 2.3pc in 2012; the IMF divines 2.0pc for 2013 and 3.0pc for 2014. The IMF will issue a new "World Economic Outlook" in mid-April 2013 in conjunction with the IMF/World Bank spring meetings.

Fertile rhetoric from Wall Street and its allies encourages the longstanding and widespread faith in America that it is reasonable and good to "invest" in US stocks, especially over some version of the long run. In the US, stock marketplace trends for generations have been a helpful indicator for US GDP growth and so-called underlying economic strength. Is this still the case? Arguably the S+P 500 in recent years has become a somewhat less reliable guide for American economic growth and prospects. Sustained yield repression by the central bank groundskeepers at the Federal Reserve, European Central Bank, and elsewhere surely encourages flights to secure adequate returns, whether via the stock marketplace or in other corners of the "asset" environment. Massive money printing in America (and many other advanced lands) probably inflates equity prices to some extent, especially when policy interest rates are kept near the ground.

In any event, US fiscal problems have not evaporated. Also, the ongoing European debt crisis and that region's credit meadows and stock barnyards are not fenced off from America.

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