<u>MARKETPLACE ENTANGLEMENTS: REVISITING 2008</u>

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"Watching people roll by
Wonder where they're going". "Ain't Life Grand", a song by Widespread Panic

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CONCLUSION AND OVERVIEW

History need not repeat itself, either in whole or in part, whether in marketplaces, politics, social circles, or other cultural fields. Numerous competing treatises, essays, articles, speeches, and sound bites seek to explore and explain "the past" and "now", often with the aim of predicting "the future". These assorted opinions reflect different perspectives and select and weigh assorted variables (facts, data, and evidence) in a variety of fashions.

Focus on the current scene for and apparent relationships between the United States Treasury 10 year note, the S+P 500, emerging stock marketplaces ("MXEF"; MSCI Emerging Stock Markets Index, from Morgan Stanley), the United States dollar, and commodities in general ("GSCI"; broad Goldman Sachs Commodity Index). Surely much has changed since the dreadful days of the worldwide economic disaster that emerged in 2007 and accelerated during 2008. One critical difference involves the extraordinary sustained monetary accommodation (notably yield repression and money printing) by the US Federal Reserve Board and its central bank allies in response to the 2007-2009 crisis. Yet arguably many significant debt and leverage problems that developed during the wonderful Goldilocks Era never were solved, merely patched up, downplayed with sunny rhetoric, or postponed. Also, arguably, new debt and leverage problems, partly motivated by the ravenous hunt for yield (return), have walked on the financial stage.

The present marketplace panorama rather closely resembles that of 2008 in many respects. However, the S+P 500 has not yet slumped significantly from its recent high on 12/5/14 at 2079. A notable fall in the S+P 500 from that level nevertheless probably will occur, underscoring (further creating) the parallel with the 2007-08 situation. If the S+P 500 surpasses its December 2014 high, it likely will not do so by much anytime soon. In any event, assuming the major trends underway for these other marketplaces essentially remain intact, the S+P 500 likely will fall significantly, although probably not nearly as dramatically as it did during the 2007-09 span.

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For additional fundamental and technical information and analysis related to these interrelated marketplace issues and trends, see essays such as "Whatever It Takes: Recent Eurozone and Japanese Adventures" (12/1/14), "Currency Contexts; Recent Rallies in the Dollar and Renminbi" (11/9/14), "Talking the Talk: Marketplace Parallels" (10/19/14), "Walking the Walk: US Stocks and the Dollar" (10/5/14), "Stepping Higher: UST Two Year Note Yields" (9/21/14), "Bond Yield Perspectives: Easing Comes, Easing Goes" (9/1/14), "Commodity Marketplace Travels" (8/1/14), and "Exit Strategies: The Fed, US Treasuries, and US Stocks" (7/14/14).

SKETCHING SCENES: 2008 AND NOWADAYS

Mr. Roberts, in the movie "Body and Soul" (Robert Rossen, director): "You know the way the betting [on a boxing match] is, Charlie. The numbers are in. Everything is addition or subtraction. The rest is conversation." In the film "Wall Street" (Oliver Stone, director), Gordon Gekko claims: "It's all about bucks, the rest is conversation."

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Picture the so-called "current situation" in and relatively recent past of various intertwined marketplaces. This should conjure up memories of a similar vista from not terribly long ago. Recall around mid-year 2008 (as well as its past and aftermath).

US Treasury 10 Year Government Note

The UST 10 year's yield decline under support around 3.25 percent (3.28pc lows of 1/23/08 and 3/27/08, 3.24pc low on 9/16/08) marked the acceleration of the 2007-09 global economic crisis. The major peak in UST yields was 6/13/07's 5.32pc, but the decisive collapse came from 6/13/08's 4.27pc and 10/5/08's 4.10pc tops.

Recall the US broad real trade-weighted dollar began its rally in April 2008 at 84.2 (monthly average; Fed H.10 data), not long before the June 2008 UST top, accelerating from August (86.7)/September (88.8) to October 2008 (about 93.9).

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What about nowadays? The 10 year UST's recent dive (around 10/8/14) through important support around 2.40pc (2.47pc trough on 3/18/09, interim tops of 2.43pc on 10/28/11 and 2.40pc on 3/20/12, interim bottoms of 2.47pc on 10/23/13 and 2.40pc on 5/29/14) parallels 2008's collapse through 3.25pc. Since 10/15/14's trough at 1.86pc, the UST has not moved above the 2.40pc barrier.

Though key UST yields have retreated steadily since 6/13/07's (see 4/5/10's 4.01pc and 2/9/11's 3.77pc), the important top in the 10 year in the current context ("fitting" the June and October 2008 UST final highs) is 1/2/14's 3.05pc. The 7/3/14 interim high at 2.69pc occurred close in time to the broad GSCI's key summit on 6/23/14.

US GDP statistics recently have been robust. But European and Japanese growth has been weak (note the falling yields in 10 year German and Japanese government notes), and China has slowed down. Deflation fears have become more widespread. If the American and world economy in general are at least fairly strong (or if there are widespread hopes for a sustained economic recovery), why have American UST 10 year yields moved downhill in recent months?

Note that around the time the Fed ceased its money printing festivals in the past (March 2010 and June 2011), UST yields fell. The Fed quit its current round in October 2014.

[Higher yields for low-grade sovereign or corporate debt (junk bonds, for example) often have appeared during times of financial crisis, even if yields of strong, high-grade debt issuers slipped lower. In the current marketplace, note the decline since summer 2014 in Bloomberg's US dollar high yield corporate bond index ("BUHY"; non-investment grade, B+, publicly issued, fixed-rate, taxable). From its highs on 7/8/14 at 156.3 and 9/1/14's 156.0, the BUHY index edged under 150.0 in recent days.]

Emerging Stock Marketplaces

Unlike the S+P 500, the emerging stock markets index (MXEF) has not rallied to new peaks since spring 2011. Indeed, the MXEF's 4/27/11 important top at 1212, like its loftier November 2007 major high, have not been broken. Nevertheless, since autumn 2011, including the past several years, a number of significant highs and lows (trend changes) in emerging stock marketplaces have occurred around the same time as those in the S+P 500.

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The S+P 500 established a major bull marketplace high 10/11/07 at 1576; the MXEF reached its apex shortly thereafter, on 11/1/07 at 1345. Note the timing of the crucial final top in spring 2008 in the S+P 500, 5/19/08 at 1440; the MXEF's important secondary high also occurred that day at 1253.

Keep in mind that these S+P 500 and MXEF May 2008 tops occurred close in time to the yield slump from 6/13/08's 4.27pc (and 10/5/08's 4.10pc) as well as the rally in the broad real trade-weighted dollar that began in April 2008.

The MXEF fell dramatically after its 7/24/08 minor high at 1057.

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In the current context, underscore the MXEF's decline from its 1104 high on 9/4/14. Although the S+P 500 fell nearly ten percent from its 9/19/14 minor top at 2019 to its 10/15/14 low at 1821 (compare the MXEF's 10/16/14 trough at 966), it thereafter rallied to a new record at 2079 on 12/5/14.

Despite the S+P 500's climb, it has fallen rather sharply since its 12/5/14 height. This S+P 500 dip arguably intertwines with renewed MXEF bearishness. The MXEF achieved a minor top on 11/27/14 (the day of the OPEC oil meeting) at 1018. Not only was this beneath 9/4/14's 1104 elevation, but also the MXEF has fallen under its 10/16/14 depth.

Commodities "in general" (the Broad GSCI)

The Clash sing: "Darlin' you got to let me know Should I stay or should I go?"

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Many marketplace visionaries fervently debate whether a given marketplace tends to lead (or lag) another or whether marketplaces are converging (or diverging) and the reasons for this. Also, sometimes a given lead (lag) or convergence (divergence) relationship can shift. Complex variables and differences of perspective regarding them keep marketplace historians and clairvoyants busy.

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How did the broad GSCI behave during the 2007-09 international economic disaster? Its major peak occurred on 7/3/08 at 894. This was quite a bit after the S+P 500's major high in October 2007, as well as the UST 10 year's June 2007 5.32 percent yield pinnacle. However, that July 2008 broad GSCI peak occurred rather close in time to the S+P 500's and MXEF's final highs in May 2008, the mid-June 2008 top in the UST 10 year yield, and the bull charge in the US broad real-trade weighted dollar (which started in April 2008, accelerating after August and September 2008).

Recall the broad GSCI's dramatic collapse in 2008 when pondering its recent decline. Following an interim high around 749 on 8/21/08, by late August/early September it stood around 707 (8/29/08 low)/682 (9/4/08 high). After making an interim low at 588 on 9/16/08, the GSCI rallied to 677 on 9/22/08. It then crashed. Keep the timing of the S+P 500's collapse levels in view here; the S+P 500 renewed its bloody bear move from around 8/11/08's 1313 (7/24/08 emerging marketplace index minor high at 1057) and 9/19/08's 1265.

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The broad GSCI made a critical interim top 6/23/14 at 673 (Brent/North Sea nearest futures continuation made an important high that day at $115.66). This followed a pattern of increasingly lower tops since the major high around 762 in spring 2011 (4/11/11 and 5/2/11). The GSCI plummeted to about 527 on 10/16/14 (Brent minor low that day at $82.60). Although it edged up to 549 on 10/29/14 (Brent minor high that day at $87.94), it subsequently (and well before the late November OPEC meeting) resumed its bear move. The GSCI's 515 close on 11/26/14, just before the OPEC oil meeting on 11/27/14, was its last close over 500. Brent continued to decline after its 11/26/14 height of $78.86.

The bull and bear trends in the GSCI in the past several years roughly have accompanied those in the MXEF. Thus the MXEF highs of 9/4/14 at 1104 and 11/27/14 at 1018 are noteworthy. Keep in mind the falling yields in the UST 10 year and strength in the broad real trade-weighted dollar in recent months.

Suppose the S+P 500 falls significantly from its recent highs (or drops from a new high not long thereafter).Then many will say the GSCI's fall from 6/23/14's height helped to lead not only emerging marketplace stocks lower, but also the S+P 500. In contrast, May 2008's final high in the S+P 500 (and of course October 2007's major peak) preceded July 2008's major high in the GSCI.

United States Dollar

Although cross rates between the US dollar and other currencies are important, the level and trend of the broad real trade-weighted dollar ("TWD") is a better benchmark for overall dollar strength and weakness.

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In April 2008, the TWD established a major low around 84.2 (the Fed's broad real TWD is available only as a monthly average), close to the previous major troughs of 84.1 in October 1978 and 84.0 in July 1995. The TWD's bull move from April 2008 to its March 2009 peak roughly coincided with the overall moves in the UST, S+P 500, MXEF, and GSCI. Particularly note the TWD's leap from August 2008's 86.7 and September's 88.8 to October 2008's 93.9 in the context of those marketplaces and the acceleration of the worldwide financial disaster. The TWD's peak at 96.9 in March 2009 links with the S+P 500's major bottom at 667 on 3/6/09.

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The broad real TWD created a major low around 80.5 in July 2011. After moving to around 83.5 in September 2011, it meandered sideways for nearly three years, with June 2012's 86.3 the high during that span.

From about 84.8 in July 2014, it began to edge steadily up (recall the related timing of the UST's 7/3/14 interim high at 2.69pc and the GSCI's 6/23/14 high). However, in September 2014, the TWD reached 86.6, thus breaching its June 2012 interim top; for this September 2014 TWD level, keep in mind the MXEF's top in early September 2014.

The TWD reached 87.6 in October 2014 and 89.0 in November 2014. Its November 2014 level thus edged over September 2008's TWD bull move take-off point, thus further warning marketplace observers of parallels between current times and the 2007-09 global financial crisis. The stronger dollar, as in 2008, coincides with the bear move in the broad GSCI. Note the MXEF high on 11/27/14 at 1018.

S+P 500

In “A Short History of Financial Euphoria”, John Kenneth Galbraith comments: “The euphoric episode is protected and sustained by the will of those who are involved, in order to justify the circumstances that are making them rich. And it is equally protected by the will to ignore, exorcise, or condemn those who express doubts.” (Chapter 1, “The Speculative Episode”).

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The S+P 500 indeed has enjoyed a stratospheric rally since its major bottom at 667 over five years ago on 3/6/09. Three times that low gives 2001. Twice the 7/1/10 low at 1011 is 2022; a fifty percent leap from the important 11/16/12 take-off point at 1343 gives 2015.

Maybe strong corporate earnings, share buybacks, and at least moderate US GDP growth will rally US stocks to significantly higher levels than that attained in early December 2014. Besides, interest rate yields remain repressed; note the low Federal Funds rate. In fervent hunts for yield (return), many wonder where they should put their money. Maybe such considerations, or expanded money printing by the European Central Bank (if it occurs via purchasing Eurozone secondary market sovereign debt), will propel European and US equities to new highs notably above those recently achieved. However, such S+P 500 advances probably will not occur.

Perhaps it is heretical to declare the end of the long bull march in the S+P 500 that commenced in March 2009. Yet the timing and direction of the intertwined moves in recent months in the UST 10 year, emerging marketplace stocks, commodities in general, and the US dollar, when interpreted alongside their history during the 2007-09 worldwide economic crisis (and especially the period beginning around mid-year 2008), strongly suggest that the S+P 500 has established a major peak or will soon do so.

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Would the Federal Reserve guardians (perhaps alongside the European Central Bank, the Bank of Japan, and others) try to rescue US (and related) stocks if they declined significantly? A ten percent decline in the S+P 500 probably would induce the Fed to jawbone and hint, but not to take significant action. But especially if deflation worries and concerns about economic feebleness also were increasing, a substantial fall in the S+P 500 (around twenty percent from a top) might inspire the Fed to start another round of money printing. Yet unlike previous rounds of US money printing, such renewed US quantitative easing probably will not move the S+P 500 to new peaks.

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