<u>HISTORY ON STAGE: MARKETPLACE SCENES</u>

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"People think of history in the long term, but history, in fact, is a very sudden thing." Philip Roth's novel, "American Pastoral"

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<u>OVERVIEW AND CONCLUSION</u>

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. Sometimes the yield advance has extended past the time of the stock pinnacle.

The US Treasury 10 year note's 7/6/16 major bottom at 1.32 percent probably ushered in an extended period of rising rates, which probably will connect with (lead to) a peak in the DJIA and S+P 500. This subsequent upward yield shift is only partly on stage, and so far its entrance has been modest. Despite the massive amount of money printing in recent years by the central banking fraternity, the ultimate extent of the rate increase may not be massive. The yield repression (and quantitative easing) era that began during the dark ages of the global economic disaster has not exited. The heavy hand of central bank yield repression (manipulation) not only was extraordinary, but still looms large.

Yet the Federal Reserve has started to raise the Federal Funds rate modestly and given orations about normalizing policy further by reducing the size of its bloated balance sheet. In recent months, monetary tightening talk relating to some other central banks such as the European Central Bank has increased. Moreover, marketplace "tantrums" involving tumbling equities can result from various intertwined causes, not just central bank wordplay and behavior. Yet worries about a "taper tantrum" involving falling stocks as a result of "tightening" of (reduced laxity in) central bank policy schemes nevertheless also have escalated.

Thus in the current marketplace horizon, not only the reality of somewhat higher government rates, but also (alternatively) the widespread perception of an emerging substantial threat of such (or further) yield climbs (whether induced by central bank policy shifts or otherwise), eventually can help to push stock marketplace benchmarks downhill.

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Lead/lag (convergence/divergence) relationships between marketplace arenas are not written in stone. What role does the broad real trade-weighted US dollar play? History unveils that sometimes a rising TWD accompanies rising stocks, but sometimes it links with falling stocks. Sometimes TWD depreciation connects with climbing stocks, sometimes with slumping equity signposts.

In the current marketplace theater, audiences nevertheless should monitor the broad real trade-weighted US dollar ("TWD"; Federal Reserve, H.10; March 1973=100; monthly average) closely. The TWD provides further insight regarding probabilities of the S+P 500 (and DJIA; and other advanced nation and emerging equity marketplace) trends. Increasing UST yields do not always (necessarily) mandate appreciation of the TWD. The steady depreciation of the broad real-trade weighted United States dollar since around first quarter 2017 currently entangles with the modest ascent in US 10 year Treasury note rates that began in early July 2016.

Given global central bank yield repression (and other easy money policies), arithmetic moves in the UST 10 year government note (and in short term rates) may appear (at least initially) to be rather minor. Also, rising American interest rates (or fears of this) may not be the only source for a stock marketplace tumble. A weakening TWD can assist US stock marketplace weakness, particularly if other factors exist (such as fiscal/budget or other debt troubles, severe cultural divisions, significant political quarrels, and issues regarding the quality of Presidential leadership). The TWD made a major high in December 2016/January 2017 around 102.8. It currently is around 96.8, a 5.8 percent decline. Though this depreciation is not massive, it is significant. Around 96.0 is crucial support; a sustained breach under this level probably will encourage weakness in the S+P 500 and Dow Jones Industrial Average.

RAISING THE CURTAIN

Unlike real (the natural) sciences such as biology, chemistry, physics, mathematics, and mechanical engineering, so-called social "sciences" (such as economics, political science, sociology, psychology) are not and never will be scientific. Economists and other financial observers are not genuine (authentic) scientists, or even approximately, partly, or potentially so. Marketplaces are not scientific fields.

Despite the assertions, pretensions, ambitions, and hopes of the majority of economists, all perspectives on, reasoning regarding, and conclusions about marketplace phenomena reflect and express only cultural (rhetorical) viewpoints. All selection, organization, comparison, and assessment of allegedly relevant marketplace variables (data, facts, statistics, evidence, factors) and arguments and conclusions relating to them are subjective (cultural). Therefore marketplace views on causation, probability, trends, and relationships, including those relating to financial "history", are entirely opinions. See "Words on the Street: Language and the American Dream on Wall Street".

HISTORICAL ROMANCE: US DEBT SECURITIES AND STOCKS

In "Sudden Impact" (1983 film; Clint Eastwood, director), Captain Briggs says: "Think things over, Callahan [police Inspector played by Eastwood] Get with it. It's a whole new ball game these days." Callahan replies: "Funny, I never thought of it as a game."

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Not all US government interest rate yield increases result in a notable slump in the S+P 500 and Dow Jones Industrial Average. The following survey covering the past 100 years nevertheless shows that many sustained significant yield ascents in the US 10 year Treasury note apparently link to eventual peaks in broad US stock marketplace benchmarks such as the S+P 500 and Dow Jones Industrial Average. Sometimes a yield climb, after preceding a stock marketplace top, then retreated; yet in some cases yields marched even higher after the equity peak.

What is "sustained" or "significant" apparently varies according to the historical context. After all, longer term interest rates are not the only phenomena interrelated with the stock marketplace. And the array and relative importance of chosen indicators can and do vary according to "circumstances" (situations) and opinions regarding them.

In addition to the US dollar, America's short-term interest rates and inflation trends matter. So do corporate interest rates. Observers should gaze at real estate, key commodities such as petroleum and base and precious metals, and numerous other statistics and indicators. The US of course is not the whole picture. Many financial marketplaces and economic situations elsewhere are relevant. In recent decades, for example, and as globalization and international trade have increased, emerging/developing nations increasingly have become important.

Also, for interest rates, key yield levels and the consequences of moves above vary. Eight percent yield in the UST 10 year note can be a key threshold in one situation, three pc in another. The extents of the arithmetical (basis point) yield climbs displayed in the historical review differ. At times, yield jumps over a prior high can have important consequences for US stocks.

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In the past few decades, the S+P 500 to some extent has replaced the Dow Jones Industrial Average as the favorite benchmark for the "overall" US stock marketplace. Yet the DJIA remains popular. And over the earlier decades of the past century, the Dow Jones indicator was the stock audience's preferred weathervane. The table below therefore enlists the DJIA by itself for various of the early moves of the distant past. Usually, but not always, important marketplace turns (trend changes) in the DJIA and S+P 500 occur close in time.

The UST 10 year note yield statistics are for the given calendar day if indicated (as they are for the past several decades); otherwise they are a monthly average. All references to yield in the table, unless otherwise specified, are for the 10 year UST.

In the early decades of the 20^{th} century, US Treasury note marketplaces, even if data was available (or derivable), were not the best indicator for interest rate trends. The table in a couple of cases therefore includes and specifically identifies other rate yardsticks. One measure is Moody's Baa corporate industrial yield (average maturity 30 years, minimum 20 years; all industries; monthly average). The Baa index represents a medium-grade (minimum investment grade) obligation; Baa securities lack outstanding investment characteristics. The Federal Reserve Bank of New York's discount rate (monthly average; St. Louis Fed data) is another guidepost. The discount rate is the rate charged commercial banks and other depository institutions on loans they receive from their regional Federal Reserve Bank's lending facility (discount window).

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The year of an important stock marketplace peak is at the left, in bold type.

	UST 10 Year Note Yield Low and High (percent)	**DJIA (S+P 500) High**
1919	Baa: 7.12pc (Jan 1919; start of Baa stats); rose to 7.77pc (Dec 1919), climbed further to 8.56pc (Dec 1920+ June 1921)	DJIA 11/3/19 at 119.6

[The NY Fed's discount rate: low 3.75pc (November 1917); rose to 4.75pc (Dec 1919), 6.00pc (Feb 1920; 7.00pc June 1920)]

1929	3.17pc (Dec 1927+March 1928); 3.74pc (Mar 1929)/3.71pc (August 1929)	DJIA 9/3/29 at 386.1

[Baa: low 5.32pc (December 1927+March 1928); 6.12pc (Sept 1929); after a dip, rose to 6.25pc in Nov 1930, eventually reaching 11.0pc in May 1932. The UST's yield bottom occurred in June 1931 at 3.13pc, before the Baa's peak.

The NY Fed's discount rate: low 3.50pc (January 1928); expanded to 6.00pc September 1929. Fell to 1.5pc in June 1931.

In the midst of the Great Depression, the DJIA had a significant bull episode; it rallied substantially from 7/8/32's 40.6 abyss.]

	UST 10 Year Note Yield Low and High (percent)	**DJIA (S+P 500) High**
1937	In 1937-38, the UST 10 year rate did not travel far. From 2.54pc in February 1937, it inched up to 2.83pc in April 1937. The UST remained in a 2.78 to 2.82pc range through November 1937. It edged down to 2.56pc in May 1938.	DJIA 3/10/37 at 195.6

[However, the Baa's yield rise from its early 1937 low was fairly sharp. From January 1937 at 4.49 pc, it leaped to 6.47pc in April 1938.]

1956	UST 2.29pc (April 1954); exceeded 3.00pc with April 1956's 3.18pc. Dip back to 3.00pc (June 1956); climbed to 3.97pc October 1957)	DJIA 4/9/56 at 524.4 (523.3 on 8/2/56; 523.1 on 7/16/57) S+P 500 top 8/1/56 at 49.6
1966	3.78pc (4/4/62) to 5.51pc (8/29/66)	DJIA high 1000.6 on 1/19/66 S+P 500 95.6 on 12/21/65
1973	Stages: (a) 4.45pc (3/16/67); 8.22pc (5/26/70) (b) 5.38pc (3/23/71); 8.15pc (8/26/74)	DJIA 1/11/73 at 1067.2 S+P 500 1/11/73 at 121.7

[The DJIA's major trough in its vicious bear drop was 570.0 (12/9/74). Although the UST 10 year note yield fell to 7.25pc (12/18/74) around then, it thereafter recommenced its flight, reaching 8.59pc (9/16/75). Interest rates can remain on a rising trend even after a notable stock marketplace bottom.]

The DJIA remained under its January 1973 height for a long time, although 9/22/76's 1026.3 attacked it. The period from end 1976 through late 1981 showed sustained "high" and rising (even soaring) UST yields. This probably not only eventually helped to reduce inflation, but also tended to discourage or limit the scope of American stock marketplace rallies.

1980/81	UST low 6.80pc (12/30/76); 13.65pc (2/26/80 interim top) Yields soared from 9.47pc (6/16/80) to 15.59pc (9/8/81)	DJIA 4/27/81 at 1031.0 S+P 500 11/26/80 at 142.0

[Highlight three DJIA lows: 3/1/78's 736.8, 3/27/80's 730.0, and 8/9/82's major low around 770.0. All rested well beneath the 1973 plateau. The DJIA never settled over 1/11/73's pinnacle until 12/27/82's 1070.6.]

UST 10 Year Note Yield Low and High (percent)	DJIA (S+P 500) High
1987 Various UST yield troughs near 7.00pc: 6.98pc (4/16/86), 6.96pc (8/21/86), 7.01pc (1/9/87). Yield rose to 8.92pc (5/20/87); fell to 8.23pc (6/23/87) Mounted over 8.92pc with 8/28/87's 9.02pc; stock crash/ panic yield top 10.23pc (10/16/87)	DJIA 8/25/87 at 2746.7 S+P 500 8/25/87 at 337.9

[Significantly, the UST's 8/28/87 break over a prior important high, 5/20/17's 8.92pc, apparently helped to spark the monumental stock marketplace fall.]

1994 5.17pc (10/15/93); 8.03 (11/7/94)	DJIA 1/31/94 at 4002.8 (fell to 3520.5 on 4/4/94) DJIA 9/19/94 at 3972.7 (low 3612.1 11/23/94) S+P 500 high 1/31/94 at 482.9

[Only modest DJIA falls despite the notable rate leap.]

1997/1998 5.52pc (1/18/96); 7.06pc (7/5/96) (UST monthly average 6.91pc June 1996 + 6.89pc Apr 1997)	DJIA high 8/7/97 at 8340.1 S+P 500 10/7/97 at 983.1 DJIA high 9412.6 on 7/17/98 S+P 500 7/20/98 at 1190.6

[UST yields fell from their June 1996/April 1997 monthly average highs (eventually breaking under November 1996's 6.20pc interim low), finally establishing a significant bottom in October 1998 (4.53pc monthly average; 10/5/98 low at 4.16pc).

The "Asian" financial crisis began around July 1997. The "Russian" financial crisis commenced in August 1998. These crises were not merely national or regional, but also had global economic implications.

The rising UST yield pattern from January 1996 to the June 1996/April 1997 tops fits the pattern of higher yields encouraging a notable US stock marketplace top (see the DJIA high in August 1997 and the S+P 500's in October 1997.

However, UST rates drifted lower after April 1997, reaching 5.34pc in August 1998. This yield decline continued into October 1998. The April 1997-August (October) 1998 period therefore did not manifest a US yield rise portending (leading to) a noteworthy US equity peak. Obviously the US was not an island unconnected to the rest of the world, so rate and stock marketplace moves and economic conditions elsewhere mattered.

Yet storytellers should focus on the upward trend in the broad real trade-weighted US dollar in relation to the (interrelated) 1997 and 1998 stock marketplace peaks. The TWD rallied substantially, from 84.0 in July 1995 to 104.6 in August 1998. Thus sustained significant TWD appreciation probably helped to encourage (reflected; confirmed the creation of) the 1997 and 1998 US stock marketplace peaks.

And let's push the July 1998 equity plateau further into the limelight, particularly given the downward slide in rates after April 1997. The massive US dollar appreciation in the context of the 1998 stock marketplace top underlines that yield increases in US government securities are not always ("necessarily") a precursor or close partner in time to a US equity peak. This consideration is relevant to the current global situation, where the UST 10 year yield thus far has not risen a great deal in arithmetical (basis point) terms from its July 2016 bottom.

In regard to the 1998 crisis and stock marketplace top, also underline the TWD's jump from 96.0 in November 1997 to 99.4 in December 1997. (The TWD attained its ceiling in its bull adventure with February 2002's 112.8.)]

	UST 10 Year Note Yield Low and High (percent)	**DJIA (S+P 500) High**
2000	4.16pc (10/5/98); 6.83pc (1/21/00)	DJIA high 1/14/00 at 11908 S+P 500 top 3/24/00 at 1553
2007	3.89pc (6/2/05; even earlier major low 3.07pc 6/16/03); rose to 5.25pc (6/28/06). Slipped to 4.43pc (12/4/06); second peak 5.32pc (6/13/07)	DJIA first top 7/19/07 at 14121 peak 14280 on 10/11/07 S+P 500's 1st top: 7/16/07 1556 Major high 10/11/07 at 1576

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The worldwide economic disaster of 2007-09 and its aftermath inspired numerous governments around the globe to boost deficit spending and thereby substantially increase debt burdens. Key central banks around the world also vigorously responded to the 2007-09 crisis and its actual and potential consequences. Over the following years, in various fashions, the Federal Reserve Board, European Central Bank, Bank of England, Bank of Japan, and others scripted, launched, and sustained assorted creative rescue measures to bolster the financial system, ignite and preserve economic recovery, reduce unemployment, and avoid deflation (create "sufficient" inflation). Extraordinary monetary accommodation has lasted for several years.

What relationship did the UST 10 year note and American stocks often display after the demise of the Goldilocks Era? The S+P 500 and Dow Jones Industrial Average obviously embarked upon a long-running major bull trend (with several interim tops on the way). And for many years after the UST 10 year note's 5.32 percent yield peak, the overall pattern regarding the UST's various interim yield highs was a falling one. The 4/5/10 top at 4.01pc exceeded 2/9/11's 3.77pc top, which surpassed 1/2/14's 3.05pc.

Yet as in the preceding decades, UST yield climbs often preceded notable S+P 500 highs.

2010	2.04pc (12/18/08; also 2.47pc 3/18/09); 4.01pc (4/5/10; note 4.00pc 6/11/09)	S+P 500 top 4/26/10 at 1220
2011	2.33pc (10/8/10); 3.77pc (2/9/11)	S+P 500 5/2/11 at 1371
2013	1.38pc (7/25/12; see also 1.61pc 5/1/13); 3.01pc (9/6/13; 3.05pc 1/2/14)	S+P 500 5/22/13 at 1687

In late May and June 2013, America's Fed Chairman suggested the central bank would start slowing the quantity of its interest rate securities purchases (money printing/quantitative easing). See his 5/22/13 and 6/19/13 statements. Note the rate ascent after 5/1/13 in this context. The US 10 year government note yield closed at 1.93 percent on 5/21/13. It spiked to 2.67pc on 6/24/13. Subsequent mournful dives in United States (and other) stock and debt securities prices encouraged the blossoming of the fascinating "taper tantrum" term. The S+P 500 slumped 7.5 percent from 5/22/13's 1687 to 6/24/13's 1560.

Troubled by the stock slump, the Federal Reserve orchestra and others sought to calm worries regarding the timing and scope of an actual tapering regime. The virtuoso Fed did not announce actual tapering until mid-December 2013. Quantitative easing ended in October 2014. Yet as US tapering wound down, the S+P 500 eventually suffered a brief yet sharp fall of 9.8pc from 2019 on 9/9/14 to 1821 on 10/15/14.

2015 1.64pc (1/30/15); 2.50pc (6/11/15) S+P 500 5/20/15 at 2135

[The UST yield touched a low at 1.90pc on 8/24/15, hopping up to 2.38pc on 11/9/15. The S+P 500 crested on 11/3/15 at 2116, just under its important May 2015 high. The S+P 500 cratered after 12/29/15's 2082.]

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The noble Fed has slowly been raising the Federal Funds rate. Yield repression by this luminary has become a bit less intense. The Fed plans to reduce the size of its mammoth balance sheet. Will the ECB, another star of the global central bank show, begin to taper its quantitative easing program, or give further hints about its inclination to do so?

Since around mid-2016 (UST note major bottom 7/6/16 at 1.32pc), and perhaps somewhat earlier key central banks "in general" gradually have shown less fear about deflation. They also worry less about "insufficient" economic growth (or recession) and "too high" unemployment levels. In any case, nowadays central banking concerns on these topics are not as strong as they were in 2008-09 or even 2012 (7/25/12 UST bottom 1.38pc; recall the ECB's "whatever it takes" statements). And for the moment, populist pressures, though still significant, appear somewhat less intense in Europe and America.

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Fearful "flight to quality" buying of UST and high-quality foreign sovereign debt instruments has not been abolished. However, the UST 10 year note's long run yield declining pattern probably has ceased (Goldilocks Era summit of 6/13/07 at 5.32pc to its 7/6/16 low at 1.32pc; 400 basis points). Rising UST rates, or even the threat of them (keep the taper tantrum in mind), can weaken the S+P 500 and other stock benchmarks. Watch the broad real trade-weighted US dollar trend in relation to those in the UST and stocks.

What resistance levels for the UST 10 year note loom nearby? Moves close to or especially above these probably would help to trigger responses in the S+P 500, Dow Jones Industrial Average, and stock benchmarks of various advanced nations and emerging marketplace countries.

One target is 2.65 percent. The 12/15/16 top was 2.64 percent, half the 5.32pc major high on 6/13/07 is 2.66pc. Twice 7/6/16's 1.32pc bottom is 2.64pc. Recall a minor top during the 2013 taper tantrum, 2.67pc on 6/24/13. Above this stands 3.05 percent (1/2/14 high); remember too the interim lows around 3.25pc as 2007-09's economic crisis developed (such as 1/23/08 and 3/27/08 at 3.28pc and 9/16/08 at 3.24pc).

"THIS TIME IS DIFFERENT!?"

The all-time Dow Jones Industrial Average low was 28.48 on August 8, 1896.

The record high to date in the Dow Jones Industrial Average is August 8, 2017's 22179; the peak to date for the S+P 500 likewise occurred on 8/8/17, at 2491.

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Will the majestic bull move in America's S+P 500 and Dow Jones Industrial Average continue? Probably not for much longer.

Much of course depends on whether United States corporate earnings stay lofty or expand. Sustained low government and corporate interest rates (encouraged by easy money policies) have encouraged demand for stocks. Diverse marketplace wizards and congregations debate what stock marketplace valuations are appropriate ("rational"). Are US stocks in general "too high" or "overvalued"? Is there a "bubble" or "irrational exuberance"? Share buybacks of American equities in recent years have been substantial. Will this buyback pattern persist? Is there a relative shortage of high-quality (or at least "desirable") stock shares nowadays? Economic, political, and social trends and developments in other advanced (OECD) countries and key emerging/developing nations (such as China) matter. And rises in nominal GDP, all else equal, tend to produce nominal increases in yardsticks such as equities.

See "US Business Cycle Expansions and Contractions" (National Bureau of Economic Research): http://www.nber.org/cycles/cyclesmain.html

The current American business expansion of about 97 months to date (June 2009 through July 2017) stretches considerably above the post-World War Two average of about 58 months. It even surpassed the 73 month November 2001-December 2007 span, the latter part of which included the amazing Goldilocks Era years.

However, the post June 2009 expansion is not the longest on record. One lasted 106 months (February 1961 to December 1969), another 120 months (March 1991-March 2001). So maybe the current economic expansion has more time to run, thus helping the S+P 500 to maintain the glorious bull charge which began in March 2009?

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Despite rather lofty prices in stocks and real estate, the Federal Reserve does not seem overly worried about "inflation". Benchmark US inflation measures such as the consumer price index and personal consumption expenditures have not broken above the Fed's revered two percent inflation goal. Wages are not skyrocketing even though US unemployment has plummeted. Prices for commodities "in general" (look at the broad S&P Goldman Sachs Commodity Index), though well above their first quarter 2016 bottom, lurk far beneath their June 2014 high (as well as the 1Q17 top).

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Optimism apparently abounds in America. For example, look at the Conference Board Consumer Confidence Index (7/25/17). Recall its dismal February 2009 depth at 25.3 (compare the S+P 500's major bottom 3/6/09 at 667). This index has soared. It hit a new high in March 2017 at 124.9, with July 2017's 121.1 height still neighboring it. The index even exceeds the Goldilocks Era pinnacle, July 2007's 111.9 (US stocks initial high July 2007, major peak October 2007)! Before America's November 2016 election, the October 2016 elevation was 100.8.

In January 2000, the Consumer Confidence Index was 144.7 (fell to 61.4 in March 2003; US stocks peaked 1Q00), close to October 1968's 142.3 (fell to 43.2 December 1974).

America’s small businesses generally have a sunny outlook. The National Federation of Independent Business “Small Business Optimism Index” made a high at 105.9 in January 2017; July 2017’s 105.2 level borders it (compare October 2016’s pre-US election 94.9).

What about confidence measures elsewhere? The European Commission’s Economic Sentiment Indicator for the European Union (28 countries; five sectors in the index, one of which is consumer confidence) hit its highest level in July 2017 at 112.1, the highest since August 2007. Contrast March 2009’s 65.6 (the minimum since 1990). The maximum since 1990 was May 2000’s 117.4.

What about consumers in emerging marketplaces? A Financial Times article declares (8/4/17, p18; citing a survey by Pictet Asset Management): “Consumer confidence across emerging markets has risen to its highest level [May 2017’s 109.1 apparently is the latest date] since 1993” [September to December 2013 on the chart appears around 110.0] and above December 2007’s pre-crisis peak of 105.9.

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What fascinating tales can be told about real estate? US real estate prices have rebounded dramatically in recent years. The S+P CoreLogic Case-Shiller national home price index (January 2000=100; 7/25/17) in May 2017 was 190.6, up 42.2 percent from February 2012’s 134.0. May 2017’s elevation is not very distant from July 2006’s towering Goldilocks Era peak at 206.5.

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US stock marketplace volatility generally has been subdued lately. The VIX low since the global financial crisis was 7/26/17’s 8.84. This rests beneath the Goldilocks Era trough at 9.39 on 12/5/06.

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Populist pressures (conflict with the establishment/elites) in Europe, America, and elsewhere have not disappeared. However, although they remain significant, at present they probably are somewhat less severe than they were in 2016 and earlier in 2017 (note the French election outcome, for example).

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Armies of economists, business schools, and others ardently teach and promote the science fiction that marketplaces have an objective “natural price (or price range)”, “rational (reasonable, logical) price”, and “true (fair, equilibrium) value”.

Anyway, some observers believe current US stock values are “high” or “too high” (“overvalued”). But what valuation measure(s) should one embrace to persuade oneself and others regarding this, and what should be the relevant historical time period(s) reviewed? On the corporate “earnings” dimension, should professors focus on past, current, or future earnings? To what extent to summits and valleys in corporate earnings link to highs and lows in key US stock marketplace benchmarks?

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Suppose a noteworthy retracement, or even a bear trend, in the S+P 500 emerges. Will this occur slowly and gradually? Will it happen rapidly, perhaps sparked or enhanced by some shocking development? Concerted Federal Reserve or other central bank talk designed to arrest a stock marketplace drop likely will not occur unless the S+P 500 falls around eight to ten percent from a recent plateau. A S+P 500 dive approaching 20 percent probably will be necessary to spark more significant central bank rhetoric and action.

THE DOLOROUS DOLLAR

"The past is never dead. It's not even past." "Requiem for a Nun" (Act 1, Scene 3), by William Faulkner

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A strong (or appreciating) United States dollar does not automatically produce feeble (bear trends in) US equities. A weak (or depreciating) dollar does not guarantee strong (bull patterns for) American stocks. Likewise, a robust dollar does not always result in (or reflect) strong American stocks; neither does a weak greenback necessarily generate US stock marketplace falls.

Currency chronicles for the broad real trade-weighted US dollar nevertheless reveal that a notable TWD bear move can precede and/or accompany a significant stock decline. Recall the stock decline beginning in January 1973. There was an extensive slump in the broad real TWD from January 1973's 107.6 to its final bottom at 84.1 in October 1978. In conjunction with the August 1987 stock marketplace peak, remember the TWD's major bear move from 128.4 (March 1985) to 89.8 in December 1988 (final lows 85.4 August 1992/84.0 July 1995).

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In the current global environment, as has occurred at times in the past, nations have engaged in currency wars and competitive depreciation.

Around three decades ago (during 1986-87), the US had some notable trade (current account) and currency quarrels with key allies. Some believe the US deliberately encouraged the dollar's fall. President Trump ardently proclaims his desire for "fair trade" and battles to place "America First" and to "Make America Great Again". Will a weaker dollar help to achieve these goals? Will protectionism? The NYTimes sings: "Trump's Trade Moves Threaten to Topple Postwar Order" (7/5/17, ppB1, 3). In any event, the Trump Administration has supported and welcomed the dollar's decline during 2017.

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Underscore the December 2016 and January 2017 highs in the broad real TWD around 102.8 (Fed, H.10; March 1973=100; monthly average) pinnacle, down 5.9 percent to July 2017's 96.8. A ten pc TWD fall equals 92.5, 15pc 87.4, and 20pc 82.2.

The nominal broad TWD has daily data (most recent data point is 8/4/17). So far, it has dropped about 7.7 percent to 8/2/17's 119.2 from its peaks at 129.1 (12/28/16)/129.0 (1/3/17). Note that gold established an interim low near in time to the TWD summits: 12/15/16's $1124.

Around 96.0 probably is a critical level for the broad real trade-weighted dollar, and therefore for other financial marketplaces. Its March 2009 peak during the 2007-09 global economic disaster was 96.7. During the TWD's gigantic decline from the March 1985 summit at 128.4, June 1989's 96.2 was an important interim top. For the major bear move from February 2002's 112.8 plateau to July 2011's 80.3 major trough, a 50 percent retracement is 96.6.

Also, the roughly 96.0 TWD level represented an important turning point in the context of S+P 500 (and US government 10 year note) moves in 2015 and thereafter. Note October 2015's 96.4

and April 2016's 96.1 take-off points. Finally, during the 1998 crisis and stock marketplace top; recall the TWD's jump from 96.0 in November 1997 to 99.4 in December 1997.

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The broad real trade-weighted dollar established a major bottom in July 2011 at 80.3. Despite some twists and turns, the S+P 500 kept rallying alongside this TWD strength from is 10/4/11 interim low at 1075 up to its 5/20/15 interim top at 2135.

However, the TWD's further ascent, from October 2015's 96.4 to January 2016's interim top at 100.9, coincided with a significant tumble in both the S+P 500 and emerging marketplace stocks. The S+P 500's 11/3/15 high was 2116, the bottom was 2/11/16 at 1810 (1/20/16 at 1812). It is significant that around this TWD rally/S+P 500 fall period, the UST yield slipped lower. Note the 6/11/15 top at 2.50pc and 11/9/15's at 2.38pc. The initial low in the UST (which coincided with the bottom in the S+P 500 and the January 2016 TWD high) was 2/11/16.

The TWD dipped only to 96.1 in April 2016. In contrast to the second half 2015-1Q16 period, the dollar's climb to December 2016/January 2017's summit at 102.8 did not involve any noteworthy decline in the S+P 500. As dollar advances from around 96.0 (October 2015's 96.4) toward its January 2016 top at 100.9 helped to move the S+P 500 downhill, so the TWD's decline beneath 100.9 (following the Dec16/Jan17 TWD elevation at 102.8) arguably has helped to propel the S+P 500 uphill.

However, keep in mind that the Dec16/Jan17 TWD top, unlike the January 2016 one, was accompanied (assisted) by hopes for US tax reform and infrastructure spending (the so-called "Trump trade").

Whereas UST 10 year rates slipped alongside the TWD rally and the S+P 500 slump in late 2015/early 2016, the UST probably thereafter began a major bull move with 7/6/16's 1.32 percent low. Note that the UST yield since the 7/6/16 bottom has advanced above a critical trend line pointing down from 6/13/07's major peak at 5.32pc through the 1/2/14 (3.05pc), 6/11/15 (2.50pc), and 11/9/15 (2.38pc) interim tops. The 12/15/16 UST high was 2.64pc, with 3/14/17's 2.63pc. The subsequent low yield was 6/14/17's 2.10pc.

Although UST rates have not risen dramatically since July 2016, the UST trend on balance appears to be up, particularly given the Fed's (admittedly cautious) inclination to reduce its yield repression.

Thus rising UST 10 year rates probably are "fitting in with" the TWD decline that began in Dec16/Jan17. And the current UST yield increase, in contrast to several of the notable (though modest) rate ascents during the worldwide economic recovery that began in 2009, probably portends eventual economic weakness (or at least slower global GDP growth).

The TWD retreat toward 96.0 may have encouraged stock bullishness recently, but that does not demonstrate that further TWD falls will be bullish for the S+P 500.

Since history shows that rising UST rates often have preceded major highs in the US stock marketplace, this current UST trend probably has significant implications for equities. Therefore nowadays a sustained move in the broad real TWD beneath the critical 96.0 level (July 2017's height is 96.8), when viewed in the context of rising rates, probably will help to spark weakness in the S+P 500 and related stock playgrounds. Also, significant tax reform and infrastructure spending probably are unlikely anytime soon. So that underpinning for the S+P 500 rally is fading.

BUDGET AND DEBT SCENERY, CENTRAL BANK SCENARIOS, AND CULTURAL DIVIDES

In "Suddenly, Last Summer" (a 1959 movie based on the Tennessee Williams play; Joseph Mankiewicz, director); a character says: "Truth is the one thing I've never resisted."

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What happens with budget, debt, political, and other variables of course influences TWD, interest rate, and stock levels and trends as well as relationships between marketplaces.

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High and rising debt burdens, all else equal, tend to encourage higher interest rates. Growing concern about debt challenges and higher government yields may erode confidence in stocks. Also, consider efforts by central banks to normalize their policies. Their measures may increase policy rates and thereby reduce yield repression, slash money printing/quantitative easing, or cut their massive balance sheets.

Debt issues currently do not capture center stage, but they probably increasingly will become prominent as time marches forward. Let's focus on the US federal fiscal scene, though debt problems exist elsewhere (as in China's corporate sector). The figures below do not incorporate the President's campaign fiscal plan (which perhaps he still contemplates), which analysts believe will spike debt upward by a total of several trillion dollars over the next several years.

See the Congressional Budget Office's "An Update to the Budget and Economic Outlook: 2017 to 2027 (6/29/17). Table 1's baseline budget shows US federal debt held by the public increasing from $14.7 trillion in fiscal 2017 (76.7pc of GDP) to $19.1tr in 2022 (82.9pc of GDP) and $25.5tr in 2027 (91.2pc of GDP).
https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52801-june2017outlook.pdf

Gross federal debt for 2017 is $19.5 trillion (See Table 5; 2022's anticipated $24.9tr, 2027's $30.7tr). These are the levels linked to the statutory debt limit of about $19.8 trillion. The CBO forecasts that if the debt limit remains unchanged, extraordinary measures to allow continued borrowing "will be exhausted and the Treasury will run out of cash in early to mid-October". Fierce US political factionalism regarding the debt limit and spending priorities may help to cause a fearful climb in government yields.

Also scan the International Monetary Fund's "Fiscal Monitor" (April 2017, particularly Table A7's "Advanced Economies: General Government Gross Debt, 2008-22"). General government debt includes state and local obligations in addition to national debt. The advanced nation general government average of 107.1 percent in 2017 declines little by 2022's 105.6pc. The US debt of 108.3pc of GDP keeps rising, reaching 117.4pc in 2022.

As significant American budget deficits persist and eventually widen, who will finance them? In this regard, keep in mind the Fed's plan to reduce its balance sheet.

Foreigners own a substantial share of outstanding US Treasury debt. See the report on Major Foreign Holders of U.S. Treasury Securities (A. in the table):

https://www.treasury.gov/resource-center/data-chart-center/tic/Pages/ticsec2.aspx#ussecs

Looking forward, to what extent will foreigners rush to be net buyers of UST securities? In some circumstances, they might become net sellers. How eager will foreigners be to keep holding on to UST securities if US interest rates ascend significantly? What if the US dollar weakens substantially? Suppose US interest rates rise alongside a decline in the TWD.

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The 2007-09 global economic crisis may seem like "old news", "ancient history", or "different times" to some pundits. Nevertheless, many should recall the significant credit, debt, and leverage issues in real estate marketplaces (and elsewhere) around that time. "Wall Street watchdogs sound alarm over risky bank lending" (Financial Times, 8/4/17, p1). These guardians include the Federal Reserve Board, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation ("Shared National Credits Program", 3Q16/1Q17 Examinations). The Shared National Credit portfolio of about $4.3 trillion has a high level of credit risk. The report indicates "concern that losses could rise considerably should economic conditions deteriorate".

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Stock marketplace bulls (investors and other players) and their corporate, political, and media allies have applauded enthusiastically the very easy global monetary policies of the past several years. Yet an ominous shift in sentiment has started to emerge in recent months. Fears have increased, though not yet dramatically, that more restrictive (less accommodative) central bank policies (or the threat of these) could encourage a notable trend toward higher interest rates. The reality of or widespread anticipation regarding relatively tighter central bank policies not only may propel key government yields higher, but also thus help to push the S+P 500 and other advanced (and emerging) stock marketplaces lower. Will there be a mournful "taper tantrum"?

The Fed's ongoing tightening (normalizing) scheme involves slowly boosting the Federal Funds rate. Will the Federal Reserve raise policy rates again in September and thereafter? The Federal Funds target range is 1.00 to 1.25 percent, but the longer run target probably is about three percent. See the Fed's 6/14/17 Economic Projections (Figure 2). This central bank guardian eventually plans to shrink the size of its gargantuan balance sheet by decreasing the reinvestment of proceeds of maturing debt securities. (Note the Fed Minutes of June 13-14, 2017). The Fed meets 9/19-20/17. In addition, marketplace guides conjecture the European Central Bank and others at some point will reduce the extent of their highly accommodative monetary programs.

See the International Monetary Fund's World Economic Outlook (7/23/17 Update). The IMF predicts worldwide GDP growth will rise from 3.2 percent in 2016 to 3.5pc in 2017 and 3.6pc in 2018. However, "While risks around the global growth forecast appear broadly balanced in the near term, they remain skewed to the downside over the medium term." Downside risks include "rich market valuations and very low volatility in an environment of high policy uncertainty raise the likelihood of a market correction". And: "Monetary policy normalization in some advanced economies, notably the United States, could trigger a faster-than-anticipated tightening in global financial conditions."

Unearth the fine print of the Treasury Borrowing Advisory Committee of the Securities Industry and Financial Markets Association's letter to the US Treasury secretary (8/2/17; see also Financial Times, 8/3/17, p18). The Committee spoke of "potential spillovers and risks from the normalization of the Fed's balance sheet. The private sector piggy-backed on the Fed's large-scale asset purchases, a move that promoted a surge in corporate borrowing and tighter risk spreads. In this environment, a tail risk stress scenario is that a small increase in yields could possibly yield to large changes in risk premiums. In an adverse scenario, there's the possibility of a meaningful, but not systematically risky, decline in both credit and equities."

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The American cultural theater displays significant economic, political, and other (age, sex, racial/ethnic, religion; regional, urban/suburban/rural) divisions. On the political front, not only are there differences between Republicans and Democrats, left and right wingers, populists and the establishment (elites). Notable Republican factionalism exists. The President and many of his policies are unpopular, his leadership erratic. Efforts to repeal or replace Obamacare failed. So despite hopes for significant corporate and individual tax reform following Trump's triumph, such legislation probably will not become law anytime soon. Neither, apparently, will there be a dramatic infrastructure spending scheme. These intertwined considerations damage the ability of the S+P 500 to continue its rally.

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For further marketplace analysis, see essays such as "Marketplace Tantrums (and Other Signs, Sounds, and Fury)" (7/11/17); "US Dollar Theatrics: Depreciating Acts" (6/7/17); "Ticket to Ride: US Corporate Profits and S+P 500 Trends" (5/17/17); "Marketplace Volatility: Calm Before the Storm" (5/8/17); "The Oil Battlefield: Evolution, Relationships, and Prices" (4/10/17); "Eurozone Under Siege: Currency Trends and Politics" (3/10/17); "Easing Comes, Easing Goes: US Government Interest Rates" (3/13/17); "Rhetoric and Global Currency Trends" (2/13/17); "Gold and Goldilocks: 2017 Marketplaces" (1/10/17).

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