<u>THERE WILL BE BLOOD: FINANCIAL BATTLEFIELDS</u>
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The oil driller Daniel Plainview declares in the 2007 movie, "There Will Be Blood" (Paul Thomas Anderson, director): "Ladies and gentlemen…Now, you have a great chance here, but bear in mind, you can lose it all if you're not careful." Perhaps Biblical passages inspired this film's title. For example, see the Old Testament's Book of Joel (2:30) and the New Testament's Book of The Acts of the Apostles (2:19); note also the Book of Exodus (7:17-21).

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OVERVIEW

Does a given marketplace or financial instrument lead (or lag) another one, and why, when, and to what extent? Marketplace viewpoints of leading and following can intertwine with opinions regarding convergence and divergence. Or, is a given marketplace "moving off on its own" and "jumping around every which way ("all over the place")", with no apparent (or strong) ties to potential marketplace partners?

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The essay "Busload of Faith: Financial Marketplaces" (1/15/18) concluded:

"The United States 10 year government note… ended its major bull move in summer 2016, establishing a yield bottom on 7/6/16 at 1.32 percent… its yield…has crept upward from its 9/8/17 interim trough at just over two percent toward its critical barrier around 2.65pc. In the UST's bear move, the UST yield probably will pierce this 2.65pc target in the near term, with 1/2/14's 3.05pc elevation the next height in sight."

"After establishing a major top in December 2016/January 2017 at 103.2, the broad real trade-weighted US dollar ("TWD"; Federal Reserve, H.10; monthly average) slipped 7.8 percent to 95.2 in September 2017, slightly below crucial support around 96.2 to 96.6. Despite a slight bounce for a couple of months following that September depth, the TWD has renewed its bearish assault on 96.2/96.6 and probably will break decisively beneath that floor (and September 2017's minor low) relatively soon."

"The current intertwined relationship and trends of rising US Treasury yields alongside the weakening United States dollar likely is of substantial significance for financial marketplaces in general, not just US government interest rates and key currencies."

"History signals that climbing US interest rate yields often precede (connect with; lead to) pinnacles in the Dow Jones Industrial Average and the S+P 500. In the current economic and political landscape, further feebleness in the broad real trade-weighted US dollar probably will warn of (or confirm) important tops in advanced nation and emerging marketplace stock marketplace benchmarks."

"History on Stage: Marketplace Scenes" (8/9/17) emphasized: "Marketplace history need not repeat itself, either entirely or even partly. Yet many times over the past century, significantly increasing United States interest rates have preceded a noteworthy peak in key stock marketplace benchmarks such as the Dow Jones Industrial Average and S+P 500. The yield climb sometimes has occurred over a rather extended time span, and the arithmetical (basis point) change has not always been large. 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."

See also "Marketplace Vehicles: Going Mobile" (12/13/17) and other essays.

CONCLUSION

The sustained rise in US Treasury yields and the ongoing fall in the broad real trade-weighted US dollar (including the UST and dollar's intertwined breakthroughs of key points in January 2018) helped to lead (propel) the recent bloody slide in the S+P 500 and other stock marketplaces, including emerging ones. The S+P 500's recent high, 1/26/18's 2873, probably was a major top. For commodities "in general" (broad S&P GSCI), their January 2018 high is a very important top.

Memories of the 2007-09 global economic disaster surely influence many observers. Yet the 2018 economic (financial; debt) and political environments differ in key respects from those of 2007-09. Although fearful "flights to quality" may cause declines in UST yields from recent highs, the overall trend for the UST 10 year note yield probably remains upward. Amidst the carnage of the dreadful 2007-09 crisis, the broad real trade-weighted US dollar ("TWD") rallied (from April 2008 to March 2009). The TWD may rally somewhat from January 2018's 94.3 level. However, the TWD's bear trend probably will resume, and the TWD likely will fall beneath 94.3.

INFLATION INDICATORS, MARKETPLACE MASSACRES

"I know what gold does to men's souls," says a grizzled prospector in the movie, "The Treasure of the Sierra Madre" (John Huston, director)

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There are various measures of "inflation". The International Monetary Fund's "World Economic Outlook Update" (1/22/18; Table 1) declares consumer prices in advanced economies march up 1.9 percent in 2018, with 2019's advance only 2.1pc.

At least in the United States, and though consumer prices are only one inflation indicator, two percent inflation estimates look too conservative.

US inflation "in general" has manifested its approach toward (and arguably the achievement of) the Fed's two percent target. For example, the latest US consumer price index report (Bureau of Labor Statistics, 1/12/18), revealed that the CPI-U (all urban consumers, all items) for December 2017 ascended 2.1pc year-on-year.

The gurus at the Federal Reserve Bank of New York devised an "Underlying Inflation Gauge". "The UIG provides a measure of underlying inflation and is defined as the persistent part of the common component of monthly inflation." The UIG's "full data set" is broader (because it includes additional macroeconomic and financial variables) than the "prices-only" (CPI series based) measure.

The prices-only level was 2.18pc in December 2017. The full data set increased to 2.98 percent (almost three pc) that month; that is the highest August 2006's 3.10pc.The NY Fed concluded: "The UIG measures currently estimate trend CPI inflation to be approximately in the 2.2% to 3.0% range" (1/12/18; next release 2/14/18).

US average hourly earnings for all employees on private sector nonfarm payrolls jumped 2.9 percent year-on-year in January 2018 (Bureau of Labor Statistics, 2/2/18). With America's headline unemployment rate at merely 4.1 percent in January 2018, upward pressure on wages likely will not evaporate soon.

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Assets such as stocks (S+P 500 and other leading indices for advanced (OECD) nations; emerging marketplace equities) and real estate respond to "inflation" and yield levels. They also can incarnate a species of inflation.

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The Federal Reserve's "Economic projections" (12/13/17; see Figure 2's dot graph as well) herald that the "Longer run" central tendency for the Federal Funds rate is 2.80 to 3.00 percent. For 2018, the midpoint of the Fed Funds range is about 2.15pc, with 2019's at 2.75pc and 2020's 2.85pc.

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Survey the St. Louis Fed's five-year, five-year forward inflation expectations rate (a measure of expected inflation (on average) over the five-year period that begins five years from today). First quarter 2016's troughs on 1/21/16 (1.48pc) and 2/11/16 (1.42pc) are noteworthy. Not only did this inflation expectations measure rise from there, but also that depth coincided with the S+P 500's very important bottom during 1Q16 (1/20/16 at 1812; 2/11/16 at 1810).

Mid-year 2016's bottoms in the five-year inflation weathervane at 1.41 percent on 6/17/16, 6/27/16, and 7/5/16 also are very important. Not only do they match those of 1Q16. The 7/5/16 timing coincides with the UST 10 year note's 7/6/16 major bottom at 1.32 percent. The German Bund yield likewise attained its major low on 7/6/16 at -.21pc (negative interest rate). China's central government 10 year note yield similarly established a critical bottom around then, on 8/5/16 at 2.66pc.

The five-year inflation expectations rate rose to 2.23pc on 3/24/17 (compare 7/2/15's 2.20pc), sliding to 1.78pc on 6/15/17. It marched to 2.05pc on 11/1/17 before dipping slightly to 1.89pc on 11/16/17.

At some point, higher interest rates alongside "inflation" and increasing "inflation expectations" can help to undermine stocks.

Recent marketplace behavior evidences this. Since 12/18/17's 2.07 percent, the five-year, five-year forward inflation expectations rate sustained levels over two percent. On 1/25/18, it matched 3/24/17's 2.23pc, ascending beyond 3/24/17's height to 2.35pc on 2/2/18.

What were highs for five-year inflation expectations in the more distant past? Keep in mind 8/8/14's 2.64 percent. The three percent barrier looks more formidable; recall 1/14/13 and 2/12/13's 2.98pc and 4/19/11's 3.02pc tops (and 11/12/08's 3.05pc).

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The rising interest rate trend (particularly but not only in America) spotlights that the "easy money" landscape has become a little tighter over the past few months.

What will be the "ultimate" inflation fallout from the sustained gargantuan global money printing (quantitative easing) fireworks? And suppose the Fed and other central bank strategists will allow "inflation" to "overshoot" their targets (such as the two percent one) for a while. That too might cause government yields to move to supposedly "surprising" heights.

Moreover, inflation is not the only source of rising yields. As credit concerns grow regarding borrowers around the globe (whether sovereigns, corporations, or individuals), less creditworthy borrowers (debtors) may have to "bid (pay) up" to acquire money, thus raising yields.

Though debtors tend to applaud inflation, they dislike rising "real" interest rates on their debt obligations.

Marketplace sentinels should monitor credit spreads such as US Treasury instruments versus low-quality corporate debt. Widening credit spreads often portend financial stress.

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The recent boost in UST interest rates alongside the vicious decline in US and other equity prices warns that the Federal Reserve and other financial sheriffs probably are underestimating recession risks, or at least the potential of the return to more sluggish economic growth.

TAKING NOTE: THE UPWARD MARCH IN TREASURY YIELDS

The Grateful Dead sing in "Uncle John's Band": "'Cause when life looks like easy street, there is danger at your door."

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Since mid-2016, the US Treasury 10 year and two year note yields have climbed upward. The recently achieved high in the UST 10 year note yield in its ascent is about 2.88pc. The high yield for the US Treasury two year note is 2.18 percent (2/2/18).

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What are some critical levels for the signpost UST 10 year note? "Busload of Faith: Financial Marketplaces" (1/15/18) emphasized:

"Around 2.65 percent in the UST is a key level. Not only was 12/15/16's top 2.64pc. 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 2013's "taper tantrum", 2.67pc on 6/24/13. A UST 10 year note move fairly close to or above 2.65 percent, and especially beyond 3.05pc (1/2/14's top), probably would provoke increased volatility (agitation) in interest rate territories, and it also probably will trigger bearish responses by the S+P 500 and other stock benchmarks."

Major resistance for the 10 year UST yield hovers around 3.05 percent (1/2/14 high). Above that stands 2/9/11's 3.77pc plateau and several earlier summits around four percent.

Support for the 10 year yield is around 2.40/2.50pc, with 2.00pc (see 9/8/17's low) significant as well.

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Let's focus on the UST two year note, including some long run history. The widely-watched United States government two year note stands fairly near the Fed Funds rate from the yield curve perspective. Thus its level and trend partly reflect marketplace opinions regarding Federal Reserve policy shifts and actual and anticipated inflation levels and patterns. Many wizards study the relationship of the UST two year note with that of other UST instruments further out on the government yield curve (especially the 10 year note). Moreover, the UST two year note's elevation and trend (as does the UST 10 year note) offers guidance regarding not only interest rate trends in America (and elsewhere), but also price movements in other financial realms (such as stocks, currencies, commodities, and real estate) as well as current and potential economic strength (or weakness; risks).

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The US two year government note skyrocketed to an all-time high on 9/8/81 at 16.96 percent. The thirty year decline in yields to 9/20/11's .14pc (nearly zero) major bottom was a critical diagonal bull calendar move (in price terms).

Recall important yield lows on 7/23/12 and 5/3/13 at merely .19 percent. Yields rose to 1.10pc on 12/29/15. However, they were slashed by more than half to reach their crucial trough on 6/24/16 at .50 percent and .53pc on 7/6/16 (compare the timing of the major bottom in yield for the UST 10 year note).

As has the yield for the UST 10 year note, the UST two year note yield in recent months has climbed since 2016.

What are noteworthy resistance and support points for the two year UST from the yield perspective?

In estimating support and resistance yield levels for the UST two year (and the UST 10 year), keep in mind that financial fortune-hunters in the land of interest rates desire and at times may capture a real return relative to central bank inflation targets (and forward inflation expectations rate measures) and actual inflation levels. Arguably a real return of 50 to 100 basis points relative to a nominal inflation rate is "reasonable" over the long run even if it is not necessarily achieved in practice.

The two year UST note broke through its two percent yield barrier on 1/12/18. The next rampart to assault is 2.50/2.65pc. Half 6/28/06's major peak at 5.28pc is 2.64pc; giving a 50 basis point real return relative to "inflation" of two percent gives 2.00pc for the UST two year.

Of course the duration (yield curve location) of the Fed Funds and the UST two year note (and longer dated UST notes and bonds) are different. For 2018, the projected midpoint of the Fed Funds range is about 2.15pc. Suppose inflation is around that level, and that UST two year note holders manage a 50 basis point real return relative to that. That equals 2.65pc as well.

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The projected midpoint for 2019's Fed Funds rate is 2.75 percent, with 2020's 2.85pc. The misty "Longer run" central tendency for the Federal Funds rate is 2.80 to 3.00 percent. But as a rough (and conservative) guideline, if the US government two year yield equals the Fed Funds target, 2.80/3.00pc represents resistance. During the global financial crisis, though the UST two year note initially fell to 1.24pc on 3/17/18, it rapidly flew to 6/13/08's high at 3.11pc.

Suppose America's "inflation" reaches three percent. For the UST two year note yield, add a return after inflation of 50 or 100 basis points. Then arguably resistance for the UST two year note will be at 3.50pc and 4.00pc.

Marketplace warriors should not completely forget historic much higher peaks for the UST two year note such as the twins during the wonderful Goldilocks Era (6/28/06's 5.28 percent, final high 6/13/07 at 5.13pc).

Support for the UST yield is at 2.00 percent/1.80pc. A bottom in the two year UST note occurred with 7/23/12's key trough (alongside the UST 10 year note's important bottom at 1.38pc on 7/25/12) at .19pc (the UST two year's final low also at .19pc, on 5/3/13); ten times this is 1.90pc. Twice the important 2011 tops around .90 percent (2/5/11's .88pc and 4/1/11's .89pc) equals 1.80pc.

Beneath this rests the 1.50/1.40pc depth (10 times 9/20/11's .14pc major trough is 1.40; recall the top at 1.43pc at 6/8/09). Under this is 1.20/1.00pc. Recall the highs on 12/31/09 at 1.21pc and 4/5/10 at 1.18pc. Remember 12/17/08's important low at .60pc; twice that is 1.20pc.

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The supply/demand situation for the UST two year and ten year notes are not always (necessarily) the same. This is the case in so-called "normal" situations, as well as in "hunt for yield/return" or "flight to quality (safe haven)" theaters.

Beware of twists and turns within the government yield curve. As the Goldilocks Era ended and the worldwide economic crisis emerged and accelerated, the 10 year less two year UST spread raced up and down violently.

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Terrified "flights to quality" (purchasing of UST and other safe haven debt instruments) occasionally may occur (thus causing yields to fall), especially if stock marketplaces continue their recent murderous plunge and if worries about sufficient economic growth become widespread. However, in general, UST yields probably will continue to climb.

Keep in mind the rising US inflation trend currently in place. The Fed and its central banking allies at present do not seem inclined to ease further. Also, the quality of US credit (debt) probably is deteriorating. Moreover, the current and probable long run US federal debt and budget situation is considerably worse nowadays (as is the overall global debt situation) than it was as the Goldilocks Era was ending in 2007. US partisan political divisions are severe, as are the nation's economic and other cultural divides. America's current Presidential and Congressional leadership appear of relatively low quality to many observers in the US and overseas.

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Who will finance growing America's growing federal budget deficits? And at what yield level? Foreigners hold a substantial share of US federal (national) debt. In general, they are not pleased when US rates rise (especially quickly). Such overseas owners (including "investors") also will not be happy if the dollar depreciates substantially.

Suppose China (or Japan), big owners of US Treasury debt, in an era of rising US federal budget deficits, do not buy as many US Treasury securities (or even become net sellers of them). What influence will that have on US interest rate and US dollar trends? And there are other noteworthy foreign holders of UST than these two nations.

OTHER INTEREST RATE REALMS

In the film, "Sweet Smell of Success" (Alexander Mackendrick, director), an executive secretary tells a ruthless press agent: "You're so immersed in a theology of making a fast buck."

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In today's interconnected economic world, many key interest rate trends around the globe can maneuver in similar ways. Thus, for example, America's landscape of rising UST yields has found parallels in Germany and China government debt securities (and in other lands). Look at the broad trends since mid-2016.

Note the German 10 year government note major bottom at -.21 percent (negative yield) alongside the UST 10 year's 7/6/16's 1.32pc major bottom. On 2/2/18, its yield (despite the European Central Bank's continued yield repression and money printing tactics) reached a positive 77 basis points.

China's central government 10 year note attained its key yield bottom around the time of those in the UST 10 year and the German Bund: 2.66 percent on 8/15/16 (and 10/21/16). The China 10 year note yield scampered up to about 4.04pc on 11/22/17, with 1/18/18's at 3.98pc. Early February 2018 levels border four percent. China's central government one year note's yield take-off point was 8/16/16's 2.11pc, reaching 3.85pc on 12/28/17.

Not so incidentally, China as a whole (including its corporate sector) has massively increased its overall debt in recent years. How much bad debt hides in China? To what extent will China's national leadership assist debtors?

THE DAMAGED DOLLAR

George Lang says in the movie "The Spanish Prisoner" (David Mamet, director): "We must never forget that we are human, and as humans we dream, and when we dream we dream of money."

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The US dollar's ongoing bear pattern made crucial moves around the time of those in the US Treasury domain and alongside the recent highs in the American and other stock marketplaces.

The broad real trade-weighted US dollar established a major high in December 2016 103.3/January 2017 103.2 (Federal Reserve, H.10: monthly average). The broad real trade-weighted US dollar ("TWD") recently cratered beneath crucial support around 96.2 to 96.6. The broad real TWD high during the global financial disaster was March 2009's 96.6 (having rallied from April 2008's 83.9 low. In September 2017, the TWD made a minor low at 95.2; it edged up in October 2017 to 96.7, with November at 97.0, and December at 96.6.

January 2018's 94.3 nevertheless shot under the crucial 96.2 to 96.6 floor. January 2018's level is a 8.7 percent slump from the December 2016/January 2017 top. Note the timing of this January 2018 TWD feebleness alongside the rise in UST yields and the creation of notable tops in the S+P 500 and other stock territories (and the petroleum complex).

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The nominal TWD, which has daily data, peaked on 12/28/16 at 128.9 (1/3/17 high 128.8). After tumbling downhill for several months, it made a minor low on 9/8/17at 116.7. The nominal TWD rallied up to 121.3 on 10/27/17. However, it resumed its mournful decline, and broke beneath September 2017's low with 1/24/18's 115.9 (compare the time of the S+P 500's high). The low to date is 2/1/18's 115.2 (most recent data as of 2/5/18). The breakdown from December 2016/January 2017's pinnacle thus far has been about 10.6 percent.

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It has been about a year since the TWD peaked, so soldiers should be on the lookout for at least a brief TWD rally. Yet around ten percent is not an enormous TWD fall, and many substantial bear and bull moves have lasted longer than around twelve months. The broad real TWD's climb from the July 2011 major bottom to its December 2016/January 2017 pinnacle was a long bull campaign.

Yet might the broad real trade-weighted US dollar rally, especially if US stocks dive even lower (or the global economy appears endangered)? Recall the 2008-09 pattern during the global economic disaster, in which the TWD appreciated about 15.1 percent (April 2008 to March 2009). However, currency and other marketplace combatants should not count on such a significant TWD rebound as that of April 2008/March 2009.

However, the situation nowadays for the US dollar differs in key respects from the worldwide economic crisis era and its aftermath. For example, the current and prospective (especially over the long run) US debt and budget (fiscal) situation is much worse now. How much scope for action do legislators (or the Fed) have? The US arguably is less of a global economic and political powerhouse than it was in 2007-09. Many domestic and foreign observers question the quality of America's current Presidential and Congressional leadership. America's wide-ranging cultural strife may worry many holders of US dollar-denominated assets. And even though America (or at least the current Administration) is determined to be a victor in trade wars, it may not win enough of them since its actual and potential foes generally are goal-oriented and resourceful. Thus America might end up being a net loser from the trade and current account perspective.

Looking over the horizon, what's the bottom line for the TWD? Though there remains a risk of a bounce up from the January 2018 low, the broad real TWD probably will fall under January 2018's 94.3 level and keep traveling lower.

A ten percent TWD fall from 103.3 is about 93.0, a 15pc one is 87.8, a 20pc crash 82.6. Recall key TWD lows around 84.0 (in addition to April 2008's 83.9, see October 1978's 84.1 and July 1995's 84.0). July 2011's major bottom was 80.3.

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Recall the 6.965 renminbi low in its cross rate against the US dollar on 12/16/16 (beneath 9/2/10's 6.818) after America's November 2018 election and Trump's triumph. The renminbi rallied, punching its way under 6.800 in mid-July 2017. Very significantly (note the timing of the UST 10 year breakout over 2.65pc and the day of the US stock market top), the renminbi fought through 7/25/12's low of 6.396 on a closing basis with 1/24/18's 6.358.

The Chinese renminbi cross rate against the dollar reached 6.267 on 2/2/18 (the high thereafter has been around 6.253). A ten percent renminbi rally from 6.965 is 6.269. Compare its 4/30/14

(6.267) and 5/28/14 (6.264) interim lows against the dollar. A sustained renminbi rally under 6.250 will be significant, as would a decisive EuroFX spike over 1.250 (watch 1/25/18's 1.254).

To some extent, the fierce renminbi rally versus the greenback to some extent may represent not merely "hedging" practices, but also China's "bringing money back home", perhaps from the sale of US dollar-denominated securities (and other dollar assets). A sharp appreciation in the Japanese Yen versus the US dollar may reflect similar activities by Japan.

STOCK SLAUGHTERS

"'A Ti-tan iv Fi-nance,' said Mr. Dooley, 'is a man that's got more money thin he can carry without bein' disordherly. They'se no intoxicant in th' wurruld, Hinnissy, like money.'" (Finley Peter Dunne's "Mr. Dooley" commenting "On Wall Street"; spelling as in the original)

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The S+P 500's glorious recent high was 2873 on 1/26/18.

The S+P 500's top occurred alongside those in other key equity benchmarks. This consideration, as well as signs from other financial marketplaces such as interest rates, the trade-weighted US dollar, and commodities, warns that a sustained decline in the US and other notable equity benchmarks probably will be substantial, and probably quite a bit more than ten percent.

Europe's STOXX index (600 European stocks; "SXXP") attained its recent high on 1/23/18 at 403.7. It is notable that this elevation did not exceed 4/15/15's 415.2 summit (compare the timing of the SXXP's 2015 top with the important interim high in the S+P 500, 5/20/15's 2135).

Japan's Nikkei high at 24,129 occurred 1/23/18.

The MSCI Emerging Stock Markets Index (from Morgan Stanley; "MXEF") recent high was achieved on 1/29/18 at 1279. Significantly, January 2018's majestic height neighbors the major resistance from the end of the Goldilocks Era, 11/1/07's 1345 and 5/19/08's 1253. So although the S+P 500 blasted above its 2007 peak, the MXEF has not.

China's Shanghai Composite Index apparently attained a notable top on 1/29/18 at 3587.

In addition, compare the timing of the S+P 500's top with the UST 10 year's acceleration above its 2.66 percent closes of 1/19/18 and 1/26/18 as well as with the broad trade-weighted dollar's decline in calendar January 2018. Compare also the timing of the S+P 500's 1/26/18 plateau with highs for commodities "in general" (and particularly in the oil universe).

What price and calendar timing considerations for "the US stock marketplace by itself" warn that January 2018's recent S+P 500 top in the S+P 500 was a very significant one, and arguably a major peak? The stock bull move of course not only has been gigantic in extent from the historical vantage point (start it from around 3/6/09's low at 667) but also of almost epic duration. Even from the first quarter 2016 lows, the bull charge (about 58.7 percent) has been awesome. Since the 1Q16 lows in the S+P 500, and up until late January 2018, there was much feast and very little famine for stock marketplace bulls (particularly heroic "investment" generals and their loyal armies). Was a day of reckoning at hand for stocks in first quarter 2018?

Let's focus further on the time of year variable. History indicates that the first quarter period likely is an important variable for forecasting future trends for the S+P 500. The recent first quarter 2018 summit in the S+P 500 is a two year diagonal bull move from its 1Q16 bottoms (1/20/16's 1812; 2/11/16's 1810. The first quarter 2018 S+P 500 plateau occurred about nine years from the 1Q09's major bottom (3/6/09 at 667). The major high in 2000 in US stocks also occurred during first quarter (3/24/00 at 1553 for the S+P 500; however, the Dow Jones Industrial average peaked earlier, on 1/14/00).

There are numerous competing earnings and valuation measures for stocks. One popular one for the S+P 500 is Robert Shiller's cyclically adjusted 10 year price/earnings ratio ("CAPE", P/E 10; see Shiller's website for online data). The CAPE reached 33.8 in January 2018. Although January 2018's height did not reach December 1999's heavenly 44.20, it vaulted far over the Goldilocks Era summit (May 2007's 27.55) and even edged over the high-water mark on the eve of the Great Depression (September 1929's 32.56). Marketplace gunslingers should remember the bloody bear retreats in the US stock marketplace after the 1929, 1999, and 2007 CAPE summits.

From the S+P 500's 2873's lofty height on 1/26/18, a five percent withering equals 2729, a ten pc drop 2586. The 2/8/18 low was 2581.

Especially during the later years of the US stock marketplace bull climb up to its January 2018 elevation, many sermons promoted a "buy the dip" approach to stocks. After key percentage drops (such as around ten percent) from important highs (as well as at other important support benchmarks), battle cries of "buy the dips" may emerge. Thus for the S+P 500 (and other equity marketplaces) retracement rallies (within the overall/general down trend for prices) may occur. In the unlikely event the S+P 500 manages to surpass its January 2018 height (and obviously calendar first quarter 2018 is not over yet), it probably will not do so by much.

A 15 percent fall in the S+P 500 equals 2442. A dreadful 20 percent decline gives 2298, and a 33pc crash 1913.

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The Federal Reserve and other central banks might offer soothing rhetoric if wounds to financial (interest rate and stock) players were widespread and substantial. Yet as the Federal Reserve is normalizing its balance sheet, that potential rescuer currently is much less likely than it was during the QE money printing era (including the taper tantrum events) to charge into battle and start purchasing UST. The current bloated Fed balance sheet argues that the Fed "has fired off a great many of its bullets already". The US monetary policy scene is different from the 2007-09 disaster and its aftermath. And most economic growth forecasts remain fairly optimistic. Why would the Fed scramble to renew a highly accommodative monetary stance when inflation apparently is moving toward its beloved two percent goal? In addition, the Fed probably believes that the current and prospective US federal fiscal stance is very stimulative.

Therefore a ten percent fall in the S+P 500 probably does not trouble the Fed and its central banking comrades much nowadays. However, the Fed probably would rapidly roll out propaganda to support ("talk up") stocks and generally boost consumer and business confidence if the S+P 500 nosedive looked likely to approach twenty percent (many experts define a bear marketplace in stocks as one of twenty percent or more).

Yet apart from rhetoric, would the Federal Reserve revisit its arsenal of weapons and resume quantitative easing (buy and hold UST), or at least slow down or stop the current program of reducing the size of its huge balance sheet, because of a brutal and shocking stock decline? A modest bloodbath (roughly ten percent drop from the top) in equities alone would not ignite Fed action (and related policy responses by its comrades) on the money printing front (or inspire the Fed to slow or halt its balance sheet reduction scheme). Arguably it will take a fall of about twenty percent (and perhaps more) in the S+P 500 (alongside similar equity declines around the globe) in conjunction with growing and substantial fears of a sharp reduction in US and international economic growth (GDP) rates. Nevertheless, despite the widespread faith of many marketplace generals and their troops in the wisdom and power of central banks (especially the Fed) as well as the evidence of much of the past several years, dramatic Fed rescue action does not inevitably guarantee sustained significant US stock marketplace rallies.

COMMODITIES "IN GENERAL"

"It is not unusual for a quiet country gentleman to be more taken with such a venture than a speculator who has had more experience in its uncertainty. It was astonishing how many New England clergymen, in the time of the petroleum excitement, took chances on oil." "The Gilded Age", by Mark Twain and Charles Dudley Warner

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See the timing of recent key highs in a benchmark commodity index, the broad S&P GSCI ("GSCI") and the petroleum complex in relation to those in the S+P 500 and other stock benchmarks. Note also the commodities highs alongside the long-running upward trends (and recent breakout moves) in UST two and ten year yields (and the five-year, five-year forward inflation expectation rate gauge) as well as the slump in the broad real (and nominal) US trade-weighted dollar.

The GSCI and petroleum do not always make major highs or lows near in time to those in the S+P 500 (the GSCI's 2008 peak was 7/3/08 at 894; S+P 500 pinnacle 10/11/07 at 1576) but they often have done so. (And a critical second high in the S+P 500, 5/19/08's 1440, occurred fairly close in time to the July 2008 GSCI summit.)

In any case, the GSCI made a notable high on 1/25/18 at 466. Brent/North Sea crude oil's (nearest futures continuation) high was 1/25/18 at 7128; the NYMEX crude oil (nearest futures) top also was 1/25/18, at 6666. The petroleum complex (NYMEX crude oil, heating oil/diesel, and RBOB/gasoline plus ICE's Brent/North Sea crude oil; futures and options combined) had a massive net noncommercial long position in January 2018.

A five percent decline in the GSCI from 466 equals 443, a ten pc dip is about 419, with a 20pc erosion 373. For Brent/North Sea crude oil, a five percent slip from 7128 is 6771, a ten pc stumble 6415; a lacerating twenty pc fall gives 5702.

As a footnote, recall that the peak in the thrilling Bitcoin marketplace was attained about a month before the highs in commodities, on 12/18/17 at over $19,500.

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