GLOBAL STOCK MARKETPLACES: WINTER OF DISCONTENT

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"I'm goin' down the road feelin' bad
I don't want to be treated this-a-way." Bill Monroe, the Grateful Dead, and other musicians have performed versions of the traditional song, "Goin' Down the Road Feelin' Bad"

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OVERVIEW AND CONCLUSION

American stock indices "in general" inspire an assortment of stories regarding them, including reasons for their past, present, and future levels and trends. Many of these descriptions and analyses regarding broad benchmarks such as the S+P 500 and Dow Jones Industrial Average appear relatively unique to the United States. However, economic regions and financial marketplaces around the world have increasingly intertwined during the course of globalization in recent decades, and especially during the past several years.

Therefore the directional travels (bull and bear adventures) of America's stock marketplace increasingly have tended to parallel those of other significant advanced countries and regions. In recent years, the trends of emerging marketplace stocks "in general" increasingly have interconnected with those of leading advanced nations. Consequently, narratives and explanations regarding a broad "national" stock marketplace indicator such as the S+P 500 often involve those of equity barometers elsewhere (as well as interest rate, currency, and commodity movements).

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History underscores that across the fields of these various stock marketplace signposts, the timing of key price turns and the duration and extent (percentage distance travelled) of very important trend moves are not always exactly the same or extremely close. But they often are.

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After establishing important bottoms together in first quarter 2016 (and during the preceding price decline), the key American stock indices and those of other important advanced nations and the "overall" emerging stock marketplace have traded closely together from the directional and marketplace timing perspective. Though the bull moves since first quarter 2016 in these assorted domains did not all cover the same distance, all were very substantial. Their rallies since around the time of the November 2016 United States Presidential election were impressive. Investors and other stock owners, Wall Street, and the financial media cheered the majestic ascent. Heated advice to "buy the dip" became widespread as the S+P 500 climbed and as price declines tended to become less substantial in percentage terms.

However, the glorious bull move in American and other related stock marketplace halted in first quarter 2018. A mournful "correction", a decline of roughly ten percent, ensued. The disturbing decline in the S+P 500 and other significant global stock marketplace indices probably will continue. However, if the S+P 500 and other equity benchmarks manage to surpass their January 2018 highs, they probably will not do so by much.

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For further economic and political analysis, see "There Will Be Blood: Financial Battlefields" (2/9/18), "Busload of Faith: Financial Marketplaces" (1/15/18), "Marketplace Vehicles: Going Mobile" (12/13/17), "History on Stage: Marketplace Scenes" (8/9/17), and other essays.

US STOCKS: ONLY A "CORRECTION" (SO FAR IN 2018)

"Danger always strikes when everything seems fine." From the movie "Seven Samurai" (Akira Kurosawa, director)

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The following table includes four United States stock marketplace benchmarks. It shows several important points in their journeys over the past few years. The timing of their critical trend changes or accelerations from within a given pattern tend to be quite similar. Compare their percentage ascents. Underscore not only the massive bull rally since first quarter 2016, but also the impressive fervent charge upward following Trump's 11/8/16 election victory up to 1Q18's top.

Because the Dow Jones Industrial Average's first quarter depth did not pierce its August 2015 bottom, the table includes that earlier low and calculates a percentage ascent from it.

[All stock price data in this and the following tables is through 3/2/18.]

	S+P 500	Dow Jones Industrial Avg	Nasdaq Composite	Wilshire 5000
1Q16 Bottom	1812 (1/20/16) 1810 (2/11/16)	15370 (8/24/15) 15451 (1/20/16) (15503) (2/11/16)	4210 (2/11/16)	18550 (1/20/16) 18462 (2/11/16)
Mid-Year 2016 Low	1992 (6/27/16) [S+P 500 high 8/25/16 at 2194]	17063 (6/27/16)	4574 (6/27/16)	20584 (6/27/16)
2016 Election Period Low	2084 (11/4/16)	17884 (11/4/16)	5034 (11/4/16)	21584 (11/4/16)
High to Date Since 1Q16	2873 (1/26/18)	26617 (1/26/18)	7506 (1/26/18)	29761 (1/26/18)
Percent Rally From 1Q16 Low To 1Q18 High	58.7pc	72.3pc [73.2pc since Aug15]	78.3pc	61.2pc
Percent Climb Since US Election Low To 1Q18 High	37.9pc	48.8pc	49.1pc	37.9pc
Low Since 1Q18 High	2533 (2/9/18)	23360 (2/9/18)	6631 (2/9/18)	26294 (2/9/18)

Percent Fall Since 1Q18 High	11.8pc	12.2pc	11.7pc	11.6

[For the S+P 500, a five percent slip from 2873 is 2729, a 10pc fall (correction) 2586. Many guides define a stock marketplace bear trend as a tumble of 20 percent or more from a significant top. A 20pc decline from 2873 gives 2298, a 33pc crash equals 1913.]

OTHER ADVANCED NATION STOCKS: A FIRST QUARTER 2018 FALL

The SXXP, German DAX, UK FTSE, Canada's SPTSX, and Japan's Nikkei are eminent participants in the armada of advanced nation stock marketplaces. The SXXP is the STOXX Europe 600 European Stocks Index. The SPTSX is Canada's S+P/Toronto Stock Exchange Composite Index.

Despite their diverse geographic locations, survey the maneuvers and the timing of noteworthy turning points of these stock yardsticks over the past few years in the context of America's stock marketplace travels.

	Europe 600 SXXP	**German DAX**	**UK FTSE**	**Canada SPTSX**	**Japan Nikkei**
2015 High	415.2 (4/15/15)	12391 (4/10/15)	7123 (4/27/15)	15685 (9/3/14)	20953 (6/24/15)

[Recall the S+P 500's important interim peak on 5/20/15 at 2135.]

	Europe 600 SXXP	**German DAX**	**UK FTSE**	**Canada SPTSX**	**Japan Nikkei**
1Q16 Bottom	302.6 (2/11/16)	8699 (2/11/16)	5500 (2/11/16)	11531 (1/20/16)	14866 (2/12/16)
Mid-Year 2016 Low	307.8 (6/27/16)	9214 (6/27/16)	5789 (6/24/16)	13536 (5/9/16)	14864 (6/24/16)
2016 Election Period Low	327.0 (11/9/16)	10175 (11/9/16)	6677 (11/4/16)	14498 (11/4/16)	16112 (11/9/16)
High to Date Since 1Q16	403.7 (1/23/18)	13597 (1/23/18)	7793 (1/12/18)	16421 (1/4/18)	24129 (1/23/18)
PC Rally From 1Q16 Low To 1Q18 High	33.4pc	56.3pc	41.7pc	42.4pc	62.3pc
PC Climb Since US Election Low To 1Q18 High	23.5pc	33.6pc	16.7pc	13.3pc	49.8pc [62.3pc since June 2016]
Low Since 1Q18 High	366.6 (3/2/18)	11878 (3/2/18)	7063 (3/2/18)	14786 (2/9/18)	20950 (2/14/18)
Percent Fall	9.2pc	12.6pc	9.4pc	10.0pc	13.2pc

Since 1Q18 High

[The SXXP low on 2/9/18 was 367.5.]

EMERGING STOCK MARKETPLACES

"A sad tale's best for winter: I have one of sprites and goblins." William Shakespeare, "The Winter's Tale" (Act II, Scene 1)

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As a guide to emerging marketplace stocks in general, use the MSCI Emerging Stock Markets Index (from Morgan Stanley; "MXEF"). MXEF price trends in recent years often have tended to move similarly to those of the US and other developed countries. Since first quarter 2016's dreary depths, and especially after around America's November 2016 Presidential election, emerging stock marketplaces generally rallied joyously alongside the S+P 500 and its domestic comrades such as the Dow Jones Industrial Average. The MXEF's unhappy decline after late January 2018 paralleled those in advanced nations. China's widely-watched Shanghai Composite Index has influenced (reflected; confirmed) stock trends in important developed (OECD) nations.

	Emerging Market Stocks (MXEF)	**China Shanghai Composite Index**
2015 High	1069 (4/27/15) [1104; 9/4/14]	5178 (6/12/15)
1Q16 Bottom	687 (1/21/16) 708 (2/12/16)	2638 (1/27/16) 2639 (2/29/16)
Mid-Year 2016 Low	788 (5/20/16)	2781 (5/26/16) 2808 (6/24/16)
2016 Election Period Low	837 (11/14/16) 840 (12/23/16)	[NA; no notable interim lows around the time of US 11/8/16 election; 11/8/16 close 3148]
High to Date Since 1Q16	1279 (1/29/18)	3587 (1/29/18)
PC Rally From 1Q16 Low To 1Q18 High	86.2pc	36.0pc
PC Climb Since US Election Low	52.8pc	[29.0pc rally since May 2016 low]

To 1Q18 High

Low Since 1Q18 High	1136 (2/9/18)	3063 (2/9/18)
Percent Fall Since 1Q18 High	11.2pc	14.6pc

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Despite monumental equity rallies since first quarter 2016 in realms outside the United States, several crucial global benchmarks did not exceed very important prior tops. For example, the Europe SXXP's rally from its 1Q16 trough did not surpass its spring 2015 peak. Despite its gigantic leap from its major bottom in 1Q16, the MXEF (unlike the S+P 500) did not exceed its magnificent Goldilocks Era record, 11/1/07's 1345. The Shanghai Composite's June 2015 major high occurred close in time to key peaks in other international stock benchmarks. China's stock marketplace guide plummeted 49.1 percent to its first quarter 2016 low. The Shanghai Composite stands well beneath its celestial mid-June 2015 ceiling. In the context of the price decline since 1Q18 in the US and assorted international stock arenas, the inability of the SXXP, MXEF, and Shanghai Composite to attain new highs (surpass the notable prior resistance levels) during 1Q18 represents an additional bearish warning signal for international equities in general (including American ones).

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Recall that the broad S&P Goldman Sachs Commodity Index's major bottom attained on 1/20/16 at 268 occurred alongside the key 1Q2016 depth in the S+P 500 stock index. The GSCI's recent high at 466 on 1/25/18 aligned with that in the S+P 500. The GSCI eroded 8.8 percent to its recent low on 2/9/18 at 425.

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Significant volatility shifts for a given marketplace, particularly from historically "low" or "high" levels, sometimes can warn of or roughly coincide with important trend changes in that marketplace. The VIX volatility index for the S+P 500 stock index is an example of this. According to the CBOE's website, its "Volatility Index® (VIX® Index is a leading measure of market expectations of near-term volatility conveyed by S&P 500 Index (SPX) option prices."

Timing linkages between the S+P 500 and VIX volatility levels are not always precise so observers should be cautious in evaluating the relationship and its implications. And marketplace history is not marketplace destiny.

What happened to VIX volatility during the latter part of the Goldilocks Era and the subsequent crisis? Several months before the advent of the global economic crisis, the VIX established a major bottom at 9.39 on 12/15/06. After making a second important low at 9.70 on 2/14/07, and following a final key low on 6/20/17 at 12.75, it thereafter ventured and stayed above 13.0. This gradual rise in the VIX was an important bearish omen for the S+P 500.

The VIX volatility index's recent bottom was 11/24/17's 8.56. It edged up to 8.92 on 1/4/18. On 1/26/18, at the time of the S+P 500's peak, it was only modestly higher, at 11.08. However, as the S+P 500 and other stock indices crashed and many stock investment hearts froze, the VIX viciously spiked to 50.30 on 2/6/18 (2/9/18 was 41.06). The dramatic shift (increase) in VIX volatility linked to (confirmed) the S+P 500's important top on 1/26/18.

Skyrocketing moves by the VIX to a historically lofty level, when followed by a notable slump in that measure, often have been associated with an important S+P 500 bottom.

Compare the recent 2018 VIX high at 50.30 with the volcanic eruption to 8/24/15's VIX pinnacle 53.3 (settlement 40.7); S+P 500 low on 8/24/15 at 1867. Note the modest rally in the S+P 500 from 2/9/18 alongside the significant drop in the VIX (it fluttered around 20 in the past couple of weeks).

Does the recent S+P 500 rally from its 2/9/18 low alongside the decline in the VIX from an elevated level indicate that the S+P 500 has resumed its long run bull trend? Probably not. Even if the VIX index does not manage to venture over its 2/6/18 level around 50, the S+P 500 probably will decline beneath its February 2018 trough. Why?

The S+P 500 and other related stock marketplaces still are confronted with bearish factors. Let's quickly survey several variables in the panorama. United States stock marketplace valuations arguably are high by historical standards. The Federal Reserve and other key central banks are not displaying signs of further easing; instead, the bias is toward tightening (even if only at a rather glacial pace). Global debt levels remain elevated. The gloomy current and prospective US federal government fiscal situations have not improved since mid-February 2018. Populist pressures have not disappeared in America or elsewhere. Economic, political, and other cultural divisions in America are significant. Concerns about the quality of US Presidential leadership remain widespread. Is a global trade war underway?

In addition, the US Treasury 10 year note yield remains above its previous critical barrier of 2.65 percent. Its recent high is 2.95pc (2/21/18), with 1/2/14's 3.05pc yield resistance in view. The broad real trade-weighted US dollar's (Federal Reserve, H.10: March 1973=100; monthly average) bear move from its major top in December 2016/January 2017 around 103.3 moved beneath critical support around 96.2 to 96.6 (and underneath September 2017's minor low at 95.2). It fell to 94.7 in January 2018 (8.3 percent fall), with February 2018's 95.0 still under that 96.2/96.6 height. The nominal broad TWD has daily data; this weathervane peaked with 12/28/16's 128.9 (1/3/17 at 128.8). It descended to 116.7 on 9/8/17. After a brief rally, its decline resumed, touching its recent low around 115.2 on 1/25/18 and 2/1/18, a 10.6 percent drop from its December 2016/January 2017 summit. On 3/2/18, the nominal broad TWD was 118.4.

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