WALL STREET TALKING, YIELD HUNTING, AND RUNNING FOR COVER

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"'Curiouser and curiouser!' cried Alice (she was so much surprised, that for the moment she quite forgot how to speak good English)." "Alice's Adventures in Wonderland", by Lewis Carroll (Chapter II, "The Pool of Tears")

CONCLUSION: GOLDILOCKS ERA, REVISITED

Historians should wonder if the Federal Reserve Board and its friends in central banking (and assorted comrades parading in some political corridors and media circles) nowadays are aiming to manufacture an updated version of the joyous last stage (ending in 2007) of the magnificent Goldilocks Era.

Lower United States Treasury yields and the sunny prospect of continued benevolent Federal Reserve policy reappeared around end December 2018/early January 2019. The rapid bull climb in the S+P 500 from then until the beginning of May 2019 to some extent reflected hopes of further (adequate) American and global economic expansion.

However, the frantic price rally in several key marketplace benchmarks commencing around end year 2018 also probably reflected an ardent quest for "yield" ("return") by "investors" and other asset purchasers. In addition to buying the S+P 500, yield hunters searched for sufficient return in territories such as other advanced nation stocks, emerging marketplace stocks, lower-grade United States corporate debt, emerging marketplace sovereign debt securities denominated in US dollars, and the petroleum complex.

Of course cultural history does not necessarily repeat itself, either entirely or even partly. Marketplace phenomena (conditions; variables), including relationships between them and perspectives on them, can and do change, sometimes dramatically. Rhetoric (stories) relating to economic and related playgrounds seek not only to explain viewpoints and situations, but also to guide behavior.

Later stages of economic expansions (so-called cycles) often are distinguished by what many players, including leading and widely-respected economic guardians and policymakers, decide to overlook or minimize.

This ardent quest for yield probably manifested that America is in the waning period of the epic economic expansion that followed the dreadful economic disaster of 2007-09. Even if a recession does not occur in the United States (or in other advanced nations), a noteworthy slowdown in global real GDP growth (including China and other emerging realms) likely is or soon will be underway.

"Economic Growth Fears: Stock and Interest Rate Adventures" (4/2/19) stated in regard to the S+P 500: "The September/October 2018 elevation [2941 (9/21/18)/2940 (10/3/18)] probably will not be broken by much, if at all." The recent price declines in the S+P 500 (5/1/19 high 2954) and other advanced nation stocks, emerging marketplace stocks, emerging marketplace dollar-denominated sovereign debt, and the petroleum complex probably signal that many dutiful profit hunters (and probably some other investors/owners) have started running for cover (begun to liquidate their long positions).

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For further marketplace analysis, see essays such as: “Economic Growth Fears: Stock and Interest Rate Adventures” (4/2/19); “American Economic Growth: Cycles, Yield Spreads, and Stocks” (3/4/19); “Facing a Wall: Emerging US Dollar Weakness” (1/15/19); “American Housing: a Marketplace Weathervane” (12/4/18); “Twists, Turns, and Turmoil: US and Other Government Note Trends” (11/12/18); “Japan: Financial Archery, Shooting Arrows” (10/5/18); “Stock Marketplace Maneuvers: Convergence and Divergence” (9/4/18); “China at a Crossroads: Economic and Political Danger Signs” (8/5/18); “Shakin’ All Over: Marketplace Convergence and Divergence” (6/18/18); “History on Stage: Marketplace Scenes” (8/9/17).

US TAX “REFORM”

America’s latest extravagant federal fiscal odyssey, the tax “reform” legislation enacted in late 2017, cut corporate tax rates. This resulting earnings windfall boosted corporate earnings (and buying enthusiasm for US stocks in general) as well as share buybacks by many corporation (which further assisted rallies in the S+P 500).

Obviously various intertwining variables influence trends and outcomes. Yet ask: now that tax reform is in place, will the upward move in real US GDP growth persist? Will corporate earnings expand? Wizards generally forecast that S+P 500 earnings for the first three quarters of calendar 2019 on balance will be paltry (or even slightly negative.

Also, the marvelous tax scheme generates awesome deficits. According to the Congressional Budget Office’s baseline forecast, deficits will average 4.3 percent of GDP over 2020-2029. This is “well above the 2.9 percent average over the past 50 years.” The CBO predicts federal debt held by the public will rise from 78 percent of GDP in 2019 to 92 percent in 2029: “the largest share since 1947 and more than twice the 50-year average”. See “Updated Budget Predictions: 2019 to 2029” (5/2/19). If legislators amend current laws to maintain some policies currently in place, even larger debt increases will happen.

FEDERAL RESERVE “PATIENCE”

“Help me if you can, I’m feeling down
And I do appreciate you being ’round
Help me get my feet back on the ground”. The Beatles, “Help!”

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The United States Treasury 10 year note yield made a major bottom on 7/6/16 at 1.32 percent, an important interim low on 9/8/17 at 2.01pc, and a critical high in early October 2018 at 3.26pc. The S+P 500 attained an interim summit around the same time as the yield highs in the UST 10 year note, fabricating a double top on 9/21/18 at 2941 and 10/3/08 at 2940.

Fearful events in interest rate and equity securities playing fields sounded loud warnings of slowing American and global GDP growth around mid-December 2018. For example, the yield for the UST 10 year decisively retreated beneath about 2.80 percent. The S+P 500, after tumbling from 2800’s temporary high (12/3/18), cratered beneath 2650 (a ten percent fall from the autumn 2018 high). Petroleum prices crashed. Maybe even a recession in America and other advanced nations, and an undesirable slowdown in China and other key emerging marketplaces, beckoned.

Stock owners (especially investors) and their investment banking and media allies in the United States and elsewhere howled, worried by the prospect of a twenty percent or more decline (satisfying a classic definition of a bear trend) in the S+P 500. Many politicians around the globe yelled, expressing concerns about economic dangers. President Trump bellowed that the Fed was keeping interest rates too high.

An economic slowdown might endanger valued ("good") hallmarks of post-World War Two international policy such as globalization, "free markets", and (relatively) open trade, right? Look at the ongoing trade war rhetoric and actions since Trump (Make America Great Again! America First!) became President. Central bankers and political guardians also probably worried specifically, even if quietly, about potential for increased populist pressure from both left and right wing corners.

This unsettling scenario sparked the trusty and formerly rather complacent Federal Reserve to halt its Federal Funds rate-raising policy (part of its normalization scheme), to underline that it would maintain a hefty balance sheet stuffed with debt securities, and to preach a much-welcomed sermon that for the near term it will be "patient". The European Central Bank and other devoted central banking luminaries promised continued easy money programs.

The Fed and its allies are troubled by "insufficient" inflation. And they are terrified not merely by the possibility of recession, but also by "too slow" ("too weak") economic growth. Their long-running campaign to ensure sufficient growth probably has increased complacency that central banks will rush in and "save the day" (and act as a backstop in some marketplaces) when necessary.

The central bank easing rhetoric and policy shift helped to rally equities and boosted confidence in growth prospects. The S+P 500 hit a floor on 12/26/18 at 2347 (20 percent fall from the autumn high equals 2353) and thereafter rose sharply. Many other global stock marketplaces established troughs around then, rallying beautifully over the next several months. The UST 10 year yield touched 2.54 percent on 1/4/19. It thereafter climbed to 2.80pc on 1/18/19 (2.77pc 3/4/19). Chairman Powell's recent enticing propaganda reemphasized the Federal Open Market Committee's strong commitment to its beloved two percent inflation objective (Press Conference, 5/1/19).

MARKETPLACES: YIELD (RETURN) HUNTING

The rap music group Wu-Tang Clan sings in "C.R.E.A.M.": "Cash, Rules, Everything, Around, Me C.R.E.A.M. Get the money Dollar, dollar bill, y'all."

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The following table includes recent key marketplace moves the S+P 500 and two other stock marketplace benchmarks.

URTH is the iShares (BlackRock) MSCI World Stock ETF covering "a broad range of developed market companies around the world". As of 3/31/19 (iShares website), the United States comprised 62.1 percent of the index, with Japan holding an 8.1pc share and the United Kingdom 5.8 pc. As a guide to emerging marketplace stocks "in general", let's enlist the MSCI Emerging Stock Markets Index (from Morgan Stanley; "MXEF"). MXEF price trends in recent years often but not always have moved similarly to those of the United States and other key advanced countries.

Corporate debt securities receive quality assessments and labels reflecting their perceived ability to satisfy interest and principal obligations. In this hierarchy, some interest rate instruments are deemed investment grade, others speculative (or "junk"). The universe of investment grade debt includes a range of qualities and ratings, from high to low.

The layout below portrays the recent travels of the iShares (BlackRock) J.P. Morgan USD Emerging Markets Bond ETF, "EMB", an index composed of US dollar-denominated emerging market bonds issued by sovereigns. It covers over thirty countries. About 84.5 percent of the index debt belongs in the BBB/BB/B (S&P rating scale) category, with the weighted average maturity about 12.1 years (3/31/19; website). It is quoted in price terms. Thus the higher the EMB's price, the lower the implicit overall yield of the instruments in the portfolio; the lower the EMB's price, the higher the yield.

The discussion also includes yield fluctuations for the US Treasury 10 year note and Moody's Baa index for seasoned corporate bonds (all industries, but not only bonds of "industrial" corporate origin). The Baa index includes bonds with an average maturity of 30 years, with 20 years the minimum maturity. Baa bonds are of minimum investment grade (medium grade within the overall rating structure which includes speculative instruments). They are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

It also reviews the enthralling adventures of ICE Brent/North Sea crude oil (nearest futures continuation).

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	S+P 500	**URTH**	**Emerging Markets Stocks MXEF**	**Emerging Markets Bond EMB**
Autumn 2018 High	2941 (9/21/18) 2940 (10/3/18)	92.84 (9/26/18)	Within its bear drop, the MXEF had a minor rally from 9/12/18's 999 to 9/28/18's 1053. Compare timing that Sept high with those in S+P 500/URTH.	108.11 (9/27/18)

The S+P 500 had previously achieved an initial high on 1/26/18 at 2873. The URTH's related top was 1/26/18's 94.23. Note the similar timing of the MXEF's 1Q18 major high, 1/29/18's 1279. The EMB's established an important high in 1Q18, 2/27/18's 113.19, fairly close in time to the MXEF's major high.

The S+P 500, URTH, MXEF, and EMB slumped from late September/early October 2018. Emphasize the linked slump beginning in both emerging marketplace stock (MXEF) and dollar-denominated debt prices in late September 2018.

Note that the US Treasury 10 year note yield peaked around 3.25 percent (3.25pc on 10/5/19, 3.26pc on 10/9/19), alongside the S+P 500's 10/3/18 top. Moody's Baa yield peaked several weeks after that in the UST 10 year, on 11/29/18 at 5.29pc.

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In contrast to the rising yield pattern of the UST 10 year note from late summer 2018 to its autumn high (8/24/18 interim low 2.80 percent), the EMB rallied from 9/4/18's 104.98 (compare 6/19/18's 105.17) to 9/27/18's 108.11. Thus the emerging marketplace sovereign debt (EMB)'s minor price top (9/27/18's implicitly lower yield for the debt securities package of the EMB) occurred alongside the September/October 2018 price highs in the S+P 500 and related equities.

The S+P 500, in its rally to the September/October 2018 interim plateau (and following its initial high on 1/26/18 at 2873), made critical lows on 2/9/18 at 2533 and 4/2/18 at 2554. In regard to the 4/2/18 trough, compare the 4/2/18 timing of the UST 10 year note yield's trough at 2.71 percent. The Baa's yield ascended not long after that low yield in the UST, from 4/17/18's 4.58pc.

ICE Brent/North Sea crude oil attained its summit (nearest futures continuation) at $86.74 on 10/3/18, the same day as the second high in the S+P 500.

	S+P 500	**URTH**	**Emerging Markets Stocks MXEF**	**Emerging Markets Bond EMB**
Low Since Autumn 2018	2347 (12/26/18)	74.72 (12/26/18)	930 (10/30/18) 945 (12/26/18) 946 (1/4/19)	102.15 (11/27/18); 102.62 (12/26/18)

Securities holders ran for their lives in these bearish moves: until around when the Fed preached its patience gospel! The trusty European Central Bank likewise trumpeted easy money policies anew. Note the similar timing for the price bottoms in emerging marketplace dollar-denominated sovereign debt and the three stock benchmarks.

The UST's initial yield low occurred alongside those in stocks in the EMB, on 1/4/19 at 2.54pc. Yields in the Baa slipped slightly lower as well, touching 5.04pc on 12/19/18 and 1/3/19. This fall in both UST and US corporate yields reflected the convergence between these two marketplaces. But will this price convergence between the US government and corporate debt sectors persist?

Notably, US dollar-denominated emerging marketplace government yields "in general" (EMB) raced higher following the 9/27/18 price top. See the EMB's price lows on 11/27/18 (102.15) and 12/26/18 (102.62). These EMB price lows (yield highs) thus interrelated with the bottom in the S+P 500 on 12/26/18 and other key stock marketplaces around that time (as well as the initial UST 10 year note's initial valley, 1/4/19's 2.54 percent). The yield slump in the UST 10 year note after autumn 2018's highs around 3.25 percent thus significantly contrasted with the EMB price pattern (higher yield trend for EMB members as a whole) over the late September through end of calendar 2018 time span. Recall 1Q16, when the EMB price bottom at 102.90 on 1/20/16 likewise was adjacent to the major bottoms in the S+P 500 and other equity weathervanes (and the UST 10 year's important interim low on 2/11/16 at 1.53 percent).

China's Shanghai Composite Index established a trough on 1/4/19 at 2441.

The Brent/North Sea crude oil low was $49.93 on 12/26/18. Some label commodities as an "asset class". The time of the broad S&P Goldman Sachs Commodity Index ("GSCI")'s bottom neighbored that in the S+P 500, 12/26/18 at 366.

	S+P 500	URTH	Emerging Markets Stocks MXEF	Emerging Markets Bond EMB
High Since End 2018/ Early 2019	2954 (5/1/19)	92.25 (5/1/19)	1099 (4/17/19); 1085 (5/3/19)	110.37 (3/20/19); 110.04 (5/1/19)

The S+P 500 skyrocketed 25.9 percent from its December 2018 bottom to 5/1/19's 2954. The URTH leaped up 23.5pc over that time span. The MXEF bounced up 18.2pc from 10/30/18's 930 to 4/17/19's 1099.

The UST 10 year yield renewed its yield tumble, making a low to date with 3/28/19's 2.34 percent. Yields for the German 10 year government note retreated from 10/10/18's .58 percent, reaching -.09 percent (negative) on 3/28/19 (it is close to that depth now). Japan's JGB yield even backed down from a paltry.17pc (10/4/18) to -.10 (also negative) on 3/28/19 (and presently sits in negative territory).

Over the course of early spring, the relatively low 10 year US Treasury yield (and very low government debt yields for key related overseas nations such as Germany and Japan) boosted faith that America's (and the global) economic recovery would persist, and supported growing hopes that slowdowns (or recessions) would not develop. The advance in UST rates up to 4/17/19's 2.62 percent suggests this faith as well. Low (and especially negative) yields probably inspired rushes into securities offering at least modest returns. Some stocks of course pay dividends. And lower grade investment debt offering at least (some possibilities for) modest yield (return), whether corporate or emerging marketplace sovereigns, probably appealed to yield hunters. The exciting bull price moves in these stock and debt securities marketplaces from end 2018/early 2019 also saw the Baa advance in price, with its yield toppling to 4.62 percent on 5/7/19.

The broad nominal trade-weighted dollar's strength since its minor low on 1/31/19 at 125.9 probably encouraged purchasing of dollar-denominated securities (and other dollar-denominated "assets") by at least some yield-hunters during the subsequent calendar 2019 months.

The EMB climbed relatively steadily (yields fell) after its end-year 2018 bottom alongside the bull moves in the S+P 500, URTH, and emerging marketplace stocks). The EMB's falling yield (rising price) trend through 3/20/19's 110.39 thereby linked up with the yield slump which commenced in early autumn 2018 in America's 10 year government note (compare 3/28/19's UST 10 year yield low at 2.34pc).

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Yet the yield relationship between the UST 10 year note and the EMB can shift.

The EMB's 3/20/19 high on 110.37 preceded those in stocks. However, the timing of the EMB's May 2019 elevation aligns closely with those in the S+P 500 and other equity benchmarks. Notable falls in the S+P 500 and emerging marketplace stocks from around current levels probably will encourage further slumps in the EMB price, especially if fears of a global economic slowdown increase. In this scenario, the falling EMB price (rising EMB yield) probably will intertwine with declining (or at least relatively flat) UST 10 year yields.

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However, the US debt situation (such as ongoing large federal government budget deficits) and the determination of central bankers to create sufficient inflation, probably (eventually) will reverse any such further UST declines.

In this mix of tangled factors, US Treasury yields can increase (all else equal) if overseas holders of US Treasury securities (such as China and Japan) buy less of them (or become net sellers).

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The recent low for the UST 10 year note is 3/28/19's 2.34 percent. However, its yield slid lower since 4/17/19's 2.62pc, thus hinting at potential price weakness in stocks and lower-quality debt instruments. The renewed decline in the UST 10 year yield probably to some extent reflects a "flight to quality" (rush to a safe haven), given its occurrence in tandem with the sharp declines in global stock marketplaces and the fall in the EMB.

The Baa yield kept falling into early May 2019 (5/7/19's 4.62 percent; data through 5/10/19), suggesting ongoing labors to unearth (benefit from) "good" yields in that domain. However, the UST 10 year yield low on 5/13/19's at 2.39pc rests only slightly above 3/28/19's elevation. If the UST yield continues to stay around its recent height (and especially if it sustains a breakthrough beneath 2.34pc) while global stock marketplaces continue to fall, corporate yields (such as the Baa) probably will begin to rise (yield spreads between the UST 10 year and corporates will widen). In this situation, the declines in the EMB price (a trend toward higher yields in emerging marketplace sovereign debt) likely will persist, and yield spreads between the UST 10 year and emerging marketplace sovereign debt will expand.

The S+P 500 ambled above its initial high on 1/26/18 at 2873 with its autumn 2018 and spring 2019 highs. Yet the S+P 500's May Day 2019 pinnacle at 2954 exceeded its 1/26/18 crest at 2873 by a meager 2.8 percent (S+P 500's autumn 2018 height edged only 2.4 percent above that 1Q18 elevation). Moreover, as a related ominous warning light to bullish fans of equity marketplaces, the URTH through spring 2019 has not broken above 1/26/18's 94.23 barrier, and the MXEF's related 1Q18 summit, 1/29/18's 1279, likewise remains unpierced. Note that the EMB's prior interim high in 1Q18, 2/27/18's 113.19, was fairly close in time to the MXEF's peak.

Keep in mind that current expectations for US corporate earnings for the S+P 500 over the first three calendar quarters of 2019 (year-on-year) are rather mediocre. And at the time of its recent price top, some S+P 500 valuation measures (such as the "CAPE" Price/Earnings Ratio, presented on the website of Professor Robert Shiller of Yale University) suggest that the S+P 500 was still "quite high", at least from the long run historical perspective.

A five percent fall in the S+P 500 from 2954 is 2806 (5/13/19 low 2801); a 10pc dive gives 2659, with a 20pc collapse 2363.

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Brent/North Sea's crude oil reached its recent top at $75.60 on 4/25/19, an awesome 51.4 percent rally from its 12/26/18 bottom at $49.93. This late April 2019 summit is close in time to the S+P 500's majestic 5/1/19 high.

Glance at the dramatic increase in the net noncommercial long position within the petroleum complex (CFTC's Commitments of Traders; benchmark NYMEX crude oil/diesel/RBOB plus ICE Brent/North Sea crude oil; futures and options combined) from around the time of its critical late December 2018 low up to its May 2019 high. This substantial petroleum net noncommercial buying- regardless of whether marketplace experts label it "speculative", "investment", or "trading"- probably reflects an enthusiastic search for yield (return), not just eager purchasing in response to concerns about the fundamental petroleum supply/demand picture (such as OPEC policy or concerns regarding declining crude oil output from places such as Iran and Venezuela).

On 1/8/19, the net noncommercial long position ("NCL") reached a low of about 386,000 contracts (5.7 percent of total open interest). The 1/8/19 level represented a sharp fall from net NCL pinnacles of about 1.37 million contracts on 1/23/18 (18.1pc of total open interest; peak pc of OI was 2/6/18's 18.6pc) and 4/24/18 (over seventeen pc of OI). The 1/8/19 height also slumps significantly from 9/25/18's later net NCL drop-off point of 1.08mm contracts (15.5pc of total open interest).

The recent plateau in the net NCL position, 4/23/19's 854m contracts (12.2 pc total open interest; 4/30/18's percentage was 12.4pc), occurred alongside 4/25/19's price high. As of 5/7/19, the petroleum complex net NCL was 806m contracts. Brent's low since 4/25/19's apex occurred 5/6/19 at $68.79, a 9.0 percent descent.

In conjunction with the net NCL high for the petroleum complex in late January 2018, recall the timing for an important interim top in Brent/North Sea crude oil, 1/25/18's $71.28. Related to this, keep in mind the various stock marketplace peaks in first quarter 2018. Regarding 4/24/18's lofty net NCL high, remember Brent's noteworthy $80.50 top of 5/17/18. What about 9/25/18's net NCL height? Brent's 10/3/18 pinnacle at $86.74 occurred alongside this total. In this context, don't forget the similar timing for the S+P 500's tops, 9/21/18 at 2941 and 10/3/18 at 2940.

Continued oil price declines relative to April 2019's plateau (and slumps for commodities "in general") probably warn of (or confirm) price deterioration in emerging marketplace stocks as well as advanced nation ones. However, very significant timing turns in the petroleum complex do not always occur at the same time as those in major global stock marketplaces. Recall 2007-08.

FOCUS: THE US DOLLAR, UST 10 YEAR NOTE, AND RECENT YIELD SEARCHES

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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The drop in United States government yields (assisted by the Fed's patience doctrine) encouraged the rally in various asset arenas beginning around end 2018, as well as in the first few months of calendar 2019. Note the initial low yield in the UST 10 year note on 1/4/19 at 2.54 percent, close in time to the S+P 500's bottom on 12/26/18 at 2347 and its upward spike from 1/3/19's 2444. After the UST note yield climbed to 1/18/19's 2.80pc, its slump renewed, reaching a trough on 3/28/19 at 2.34pc. The S+P 500 rallied from 3/25/19's 2785; the URTH ascended from its 87.42 low that day.

What has been the role of the broad real trade-weighted US dollar (Federal Reserve, H.10; goods only; monthly average, March 1973=100) in the recent exciting global search for “good” yields (returns)?

The broad real trade-weighted US dollar (“TWD”) rallied from its January 2018 bottom at 94.6. The TWD’s September 2018 level at 101.2 occurred alongside the S+P 500’s September/October 2018 peak, and it also equaled January 2016’s important interim top at 101.2. The TWD’s further ascent after September 2018 (a “too strong dollar”) probably helped to depress prices in both and advanced and emerging nation stock marketplaces.

Significantly, the broad real TWD kept moving up (note the continuing fall in the S+P 500) and achieved its subsequent high in December 2018 at 103.2. This height almost matched the critical summit of 103.4 (December 2016)/103.2 (January 2017).

Thus broad real trade-weighted dollar’s (“TWD”) bull move from its January 2018 depth up to its December 2018 high, in conjunction with the sustained increase in UST 10 year note yields from spring 2018 (2.71 percent low 4/2/18) to autumn 2018 (10/5 and 10/9/18 UST 10 year note yield highs connect with the S+P 500’s tops around then), helped to undermine stocks and other asset prices. History warns that securities of emerging marketplaces are especially vulnerable to a simultaneous increase in US government interest rates and the TWD.

Central bankers, finance ministers, many US corporations and politicians, and ensembles of other financial players (especially the stock investment community) presumably do not want a “too strong” dollar. Many people believe that a somewhat feeble (or at least a weakening) US dollar often can promote stronger stock prices. In any event, central bankers want a continued global recovery and for the S+P 500 to not sustain dives of twenty percent or more from a peak (a classical definition of a bear stock market).

The broad real TWD’s December 2018 halt in its bull charge and its decline thereafter was slight (about 1.4 percent; January 2019 and February 2019 monthly averages both around 101.8). This “by itself” probably would not spark a dramatic rise in asset prices. However, since this cessation and slight dip occurred alongside the overall fall in UST yields and the Fed’s patience policy speeches, the modest dollar fall probably helped to spark and propel the advanced nation and emerging stock marketplace rallies and pioneering searches for returns in other landscapes. There probably has been a scramble to acquire dollar-denominated assets (such as the EMB’s components; long petroleum futures positions) in recent months. The broad nominal US dollar index (goods only), which has daily data, peaked on 12/14/18 at 129.1, ebbing to about 125.9 on 1/31/19 (2.5pc fall).

Many marketplace pundits even have been hopeful that the beneficent Fed might even cut rates. This attitude probably reduced yield (return)-seekers worries about hazards in many stock and debt playing fields. Moreover, the extremely low (even negative 10 year) government interest rates in Germany and Japan, as well as the ongoing easy money policies by the European Central Bank and the Bank of Japan) further motivated marketplace pilgrims to race for fertile ground to discover and capture great (or at least acceptable) buying opportunities.

However, the broad real TWD ominously has edged higher, reaching about 102.3 in April 2019. The broad nominal TWD inched up to 5/9/19’s 128.58 (data through 5/10/19), very close to 12/14/18’s 129.1. This return of a very strong dollar warns of notable declines in the asset marketplaces that rallied beginning in late December 2018/2019. Although the broad real TWD probably will not break above its 103.4 (December 2016)/103.2 (January 2017 pinnacle by much (if at all), even staying “very strong” probably will weaken prices in the S+P 500 and other stocks, corporate debt (see the Baa), and US dollar-denominated emerging marketplace sovereign debt EMB). A fall in the UST 10 year yield toward and especially beneath) 3/28/19’s 2.34 percent (2.39pc low 5/13/19), if it occurred in conjunction with mournful indications of global economic slowdown, probably also will push these securities prices downhill.

The petroleum complex obviously has its own supply/demand and inventory situation. Thus its price patterns do not necessarily converge (or diverge; lead/lag) those in stocks, interest rates, and the US dollar. And nowadays, fears of supply interruption (shortages) are substantial. However, major trend changes in the petroleum complex often have occurred alongside (around the same time and in the same direction as) those in key equity territories such as the S+P 500.

WARNING SIGN: AMERICAN “INFLATION”

The Fed’s legislative mandate speaks of the effective promotion of the “goals of maximum employment, stable prices, and moderate long-term interest rates” (Federal Reserve Act, Section 2A. Monetary policy objectives). The Act does not define these terms. Thus the Fed has great latitude to define and to assess progress toward achieving them.

Perhaps nowadays there is insufficient inflation (less than a sustained height around two percent) according to the Fed’s selected core personal consumption expenditure (PCE) indicator, or in the consumer price index (CPI-U; all urban consumers). But the April 2019 CPI (all items) rose 2.0 percent year-on-year. Based upon similar inflation yardsticks, other important central banks such as the European Central Bank and Bank of Japan report inadequate progress toward reaching their roughly two percent inflation target.

Economic (and political) participants of course partly respond to expectations regarding the future. Since the Fed concentrates on PCE statistics (and similar inflation measures), so do most marketplace generals and warriors. Sustained yield repression and related forward guidance by the Fed arguably have promoted expectations that low Federal Funds and US government interest rates will persist. Expectations influence actions. Levels of and trends in interest rates are not islands completely apart from marketplace variables such as the PCE and CPI-U. Sustained low US government interest rates (all else equal) to some extent tends to diminish marketplace inclinations and efforts to push PCE and CPI components (in general) higher. Thus some inflation barometers such as the PCE and CPI have remained rather quiescent. In an interconnected global economy, yield repression and paltry inflation outside of the United States to some extent also can encourage the persistence of low inflation in America.

Even so, by focusing on a few other weathervanes, there arguably is more “inflation” in the US than the Federal Reserve Board and many other clairvoyants assert. The Fed may be a less alert chaperone at the economic dance than many believe. If the Federal Reserve and its allies ever ceased their yield repression games, some of this “other inflation” might be more fully reflected via higher US government (and other) interest rates. Such yield increases would tend to pressure stocks and other asset prices favored by the eager hunt-for-yield congregations.

First, the New York Fed’s releases an “Underlying Inflation Gauge”. This “captures sustained movements in inflation from information contained in a broad set of priced, real activity, and financial data.” Its “full data set” in April 2019 was slightly over 2.8 percent. This is broader than the “prices-only” measure, which stood just over 1.9 percent. “The UIG measures currently estimate trend CPI inflation to be approximately in the 1.9% to 2.8% range.” To what extent will tariff wars, such as that between the US and China, raise these inflation yardsticks (and even though increased tariffs can subdue growth to some extent)?

In addition, the March 2019 Employment Cost Index (compensation) for civilian workers increased 2.8 percent over the past 12 months. US average hourly earnings in March 2019 rose 3.2 percent year-on-year, the eighth consecutive month in which growth exceeded three percent.

The widely-revered Federal Reserve indeed focuses on "asset prices", but primarily from the standpoint of "financial stability" concerns (see, for example, the Chairman's 5/1/19 Conference). Therefore the monumental US stock price rally and the magnificent ascent in American home prices in practice do not appear inflationary ("unstable") relative to its adored two percent inflation signpost. It of course keeps in reserve wordplay relating to "irrational exuberance". The Fed guardian also in recent years has shown (as in its patience rhetoric) a tendency to support United States equity prices if they slump around twenty percent from a noteworthy high.

DANGER SIGNAL: US UNEMPLOYMENT

A few days ago, the front page of the NYTimes shouted: "U.S. Jobless Rate Hits 50-Year Low as Wages Expand"; 100 Months of [Economic] Growth; "Bright Economic Picture Chases Away Fears of Brewing Recession" (5/4/19, ppA1, 13). The 3.6 percent unemployment rate "Hits Low Unseen Since [December] 1969". A NYTimes article headlines: "An Economic Boom That Might Be Changing the Rules" (5/4/19, pA13). And inflation is low!

Despite such happy visions, there are indeed signs of wage inflation.

Perhaps the good times represented by such unemployment data will keep on rolling. Maybe we (or at least the affluent sector of the population) are in the best of all possible worlds! And after all, the US unemployment rate was 2.5 percent in June 1953!

History warns that profit-seeking pilgrims should be wary of marketplace wordplay evoking a "new era". Sometimes "this time is different".

Yet sometimes "history repeats itself" in some fashion. There is not much talk nowadays about the timing relationship between "low" US unemployment rates and peaks in economic cycles, particularly a very long (by historical standards) economic expansion. Therefore, reviewing this relationship in recent decades illuminates risks to the current economic expansion.

This analysis also thereby evidences the probability that the recent (since around end calendar 2018) "hunt for return" price rallies in stocks as well as corporate and US dollar-denominated sovereign emerging marketplace debt securities probably will not last much longer. These securities are vulnerable to noteworthy price declines.

The headline US unemployment rate (percent, seasonally adjusted) in the following table comes from the Bureau of Labor Statistics. Data for the duration of business cycle expansions, as well as the timing of the peak are from the National Bureau of Economic Research.

In the aftermath of the worldwide economic crisis, US unemployment peaked in October 2009 at 10.0 percent. April 2019's 3.6 percent level stands far beneath October 2009's 10.0pc. And based upon statistics from the National Bureau of Economic Research, the NYTimes 5/4/19 banner understates the duration of the current awesome expansion. From the business cycle trough of

June 2009 through March 2019, the expansion has lasted 117 months. Of course various factors interrelate to generate unemployment levels and economic strength, weakness, and trend changes.

Perhaps the unemployment rate will diminish a bit more. However, historical study shows that the current unemployment rate is sufficiently low to warn of an imminent end to the present business cycle expansion. Admittedly the unemployment calendar low (or the same low on more than one month) preceded the timing of the business cycle expansion peak by several months. However, the month from which unemployment accelerated (such as December 1969's 3.5 percent and November 2007's 4.7pc) stood close in time to business cycle peaks. But given the very low current unemployment rate, and the potential nowadays for rapid changes in economic policy and on the political scene (especially, but not only, in America), it would be unsurprising if the business cycle expansion peak occurred close in time to the actual calendar month low for the unemployment rate (in this situation, the take-off point would be that monthly low or one very close in time to it).

US Unemployment Rate Low (date)	**Business Cycle Expansion Peak (duration in months)**	
**3.4pc (Sept 1968 to May 1969; take-off from Dec 1969's 3.5pc)	December 1969	(106 months)
** 5.0 pc (March 1989; take-off March 1990 at 5.2pc)	July 1990	(92 months)
** 3.8 pc (April 2000; take-off Dec 2000's 3.9pc)	March 2001	(120 months)
**4.4pc (Oct 2006+May 2007; jump from Nov 2007's 4.7pc)	December 2007	(73 months)

END GAMES

"Glory days well they'll pass you by", sings Bruce Springsteen in "Glory Days".

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In addition to the topics discussed above, what other current conditions, developments, and indicators can portend or inspire a noteworthy reversal of the ravenous search for yield/return (and the upward price march of stock, corporate and dollar-denominated emerging marketplace sovereign debt, and petroleum) which began around end-December 2018? This summary of course is not exhaustive. Some phenomena may intertwine.

Note the recent worsening of America's ongoing trade war with China. "China Retaliates by Raising Tariffs Against U.S. Goods" headlined the front page of the NYTimes on 5/14/19 (ppA1, 10). Squabbles relating to NAFTA continue (and Congress has not approved the new agreement), as do feuds with the European Union.

Suppose the Federal Reserve appears unwilling to cut rates anytime soon, despite the hopes of many observers.

Keep in mind that US Treasury yields may slump in a "flight to quality" (safe haven) scenario while yields for lower-grade debt securities (whether corporate or lower-quality sovereign) are rising.

Especially given the magnificent lengthy duration of America's glorious real GDP expansion, examine two other danger signs from credit marketplaces hinting that a recession (or at least very mediocre growth) looms. Survey yield spread relationships in the context of American economic growth and recession cycles. The credit spread trend between lower-grade United States corporate bonds (Moody's Baa corporate bond index) and the ten year US Treasury note generally widened from about 156 basis points (1/31/18) to 248 basis points (1/3/19). It dipped only slightly to 211 basis points on 5/1/19 (the day of the S+P 500 peak); it since widened to 221 basis points (5/9/19; data through 5/10/19). The US government yield curve has flattened substantially (moved toward a negative slope/inversion). See the NY Fed's statistics for the 10 year note less the three month T-bill relationship.

US corporate earnings growth prospects for at least the first three quarters of 2019 have dimmed substantially relative to the 2018 year-on-year growth rates. Assorted valuation measures for US equities tell diverse and sometimes competing tales, but some suggest "overvaluation". What if more stock marketplace bulls begin to worry about the mediocre US corporate earnings for not only 1Q19, but the next few quarters?

Monitor consumer and small business confidence trends alongside those in US and other equities. US consumer confidence (Conference Board) remains high. However, it peaked in October 2018 at 137.9 (alongside the highs in the S+P 500 and other stock benchmarks). This yardstick retreated to 121.7 in January 2019, and April 2019 hovers at 129.1.

Overall global debt levels are lofty (and more of a problem than at the end of the glorious Goldilocks Era in 2007), including in the corporate sector. What if worries about American and overseas debt levels increase?

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Fierce political conflict (including populist pressures) and other cultural battles in America and many other advanced nations around the world eventually may weaken economic confidence and growth prospects.

Economic, political, and other cultural divisions in America are significant. Prior to the completion of the 2020 election battles, there is little chance of reducing hostilities between warring camps. Concerns about the quality of the current US Presidential leadership remain widespread.

For the S+P 500, lower tax rates legislated via America's end-2017 corporate tax "reform" helped to produce the upward spike in US corporate earnings and encouraged massive share buybacks. Share buybacks and determined digging around for yields ("good returns") have played critical roles in the recent S+P 500 (and other stock) rallies. The S+P 500's strength from around Christmas 2018 until its recent high on 5/1/19 at 2954 and the US's robust 1Q19 real GDP of 3.2 percent do not necessarily foretell either higher equity prices or significant future economic expansion.

Wall Street is not the only battlefield where it pays to monitor rhetoric. In the US, suppose that in the upcoming 2020 election, the Democrats recapture the Presidency, win control of the Senate, and maintain their reign in the House. In general, the wordplay from America's Democratic Party in general and the orations of many of its Presidential contenders in particular suggest that US tax rates (at least on the wealthy/big earners and on larger corporations) probably will rise. Thus much of the tax reform legislation probably would be reversed. The tax reform program enacted in late 2017 encouraged much of the rally in the S+P 500 (and other equities); related greater deficit spending generated by the tax legislation helped to boost GDP output. Therefore, eliminating many of those generous tax breaks probably (all else equal) will be bearish for stocks. And even some American billionaires wedded to capitalist values are talking nowadays about the need for tax fairness and the importance of reducing income inequality.

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Even in the Goldilocks fairy tale, the bears eventually came home.

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