RUNNING FOR COVER: MARKETPLACE EXITS

(c) Leo Haviland, 646-295-8385 August 9, 2019

"If you're gonna play the game, boy
You gotta learn to play it right
You've got to know when to hold 'em
Know when to fold 'em
Know when to walk away
And know when to run
You never count your money
When you're sittin' at the table
There'll be time enough for countin'
When the dealin's done". "The Gambler", by Kenny Rogers

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OVERVIEW AND CONCLUSIONS

The frantic price rally in several key marketplace benchmarks commencing around end year 2018 probably reflected a fervent hunt for "yield" ("return") by "investors" and other asset purchasers. In addition to buying the S+P 500, yield seekers searched for sufficient return in domains 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. Easy money policies and pronouncements by the Federal Reserve, European Central Bank, and their comrades greatly encouraged these eager yield searches.

That ferocious yield hunt has diminished and the associated price rally for these signposts in general probably is finished. The terrifying slip in the S+P 500 from 7/26/19's 3028 summit, in conjunction with the renewed tumble in emerging marketplace equities and the retreat in petroleum prices, signals a reversal of the avid enthusiasm of the hunt for yield in these arenas. The recent plummeting interest rate in the US 10 year government note underlines this. Although the US Treasury note's yield decline commenced in autumn 2018 at around 3.25 percent, and although chroniclers can attribute further erosion during early 2019 to central bank easy money talk and schemes, its recent dive beneath two percent likely represents a "flight to quality" stage for UST yields.

Therefore, dutiful marketplace pilgrims who raced to identify and achieve "good" (acceptable, reasonable) returns (by purchasing asset classes such as stocks and commodities) at the end of calendar 2018 and for several months thereafter in these sectors probably have started running for cover (begun to liquidate their long positions). Many other investors/owners in these marketplaces probably are running for the exits too.

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America and the rest of the world are 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 advanced nations in general), a noteworthy slowdown in global real GDP growth (including China and other emerging realms) likely is underway. Ongoing or further rounds of central bank easing probably will have limited effectiveness in maintaining adequate economic growth.

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Marketplace history of course does not necessarily repeat itself, either entirely or even partly. Apparent marketplace convergence and divergence (lead/lag) relationships can and do change, sometimes dramatically. Nevertheless, especially since around autumn 2018, the relationship between the S+P 500, emerging stock marketplaces, the United States 10 year government note, petroleum, and the broad real-trade weighted US dollar in key respects increasingly has resembled that of the mid-2014 (and especially mid-2015) to first quarter 2016 time horizon. (One can trace the 2014/2015 trend relationship antecedents back to around spring 2011.)

In the prior era, noteworthy price divergence existed between the S+P 500 and emerging stock marketplaces. However, beginning sometime around late 2014, convergence (less divergence) began to develop between these realms. By spring 2015 (May 2015 high in the S+P 500; late April 2015 emerging stocks top), prices in these equity playgrounds had converged. Prices for both cratered thereafter until first quarter 2016.

Though yields for the United States Treasury 10 year note began to fall in early 2011, the accelerating drop from the yield highs of July 2014 and (especially) June 2015 was a critical factor in relation to stocks and other financial marketplaces. The initial key low yield for the UST occurred in first quarter 2016 (alongside stocks). The decline in commodities in general started in spring 2011, and raced downhill after June 2014's interim top (and especially) after May 2015 (note the convergence with emerging marketplace stocks and eventually with the S+P 500). Commodities, like stocks, bottomed in first quarter 2016.

The gradually strengthening broad real trade-weighted US dollar intertwined with these various trends. After making a major bottom in July 2011, it gradually appreciated. The dollar's climb after September 2014 was significant; its fourth quarter 2015 rally above March 2009's financial crisis peak substantially influenced other financial battlegrounds (note the convergence between and sharp bear moves in the S+P 500 and emerging marketplace stocks), achieving a key high in first quarter 2016.

In both that past era as well as recently, UST 10 year yields dropped substantially. In those two periods, emerging marketplace stocks and commodities crumbled (and alongside each other).

Especially around late 2015, the bull move in the broad real trade-weighted dollar ("TWD") became remarkably strong. Underline its violent charge above first quarter 2009's financial crisis top. In the "current" marketplace (which includes many preceding months), the TWD likewise has been very robust. Though the TWD did not push through the economic disaster top recently, it has remained above it for many months. The key parallel between the two periods thus is a strong dollar, and one above the financial crisis high.

Underscore the significant divergence between the S+P 500 and emerging marketplace stocks in both epochs. After its spring 2011 interim top, the S+P 500 continued to attain new highs, peaking in spring 2015. In contrast, emerging marketplace stocks in general were in a sideways to down trend beginning in spring 2011 (though they eventually achieved price convergence with the S+P 500 by spring 2015).

What about the current stock landscape? The divergence between the S+P 500 and emerging marketplace equities probably began before autumn 2018. Emerging marketplace stocks started their bear descent in first quarter 2018. Although the S+P 500 made an important interim high in first quarter 2018, it attained new highs (though not much above the 1Q18 top in percentage terms) up through end July 2019. Therefore divergence between the S+P 500 began around late 1Q18 and continued into summer 2019.

Why the substantial divergence between the S+P 500 and emerging/developing nation equities beginning in early 2018? The passage of America's tax "reform" legislation in late 2017 was a critical difference. American corporations have reaped major benefits (higher earnings/profits) from this, thus helping to propel the S+P 500 upward. Emerging stock marketplaces (and those of other advanced nations) did not receive such benevolent new legislation.

The S+P 500's decline since its late July 2019 high probably is the start of price convergence between it and emerging marketplace stocks. Given the similarities of (parallels between) interrelated price movements involving emerging marketplace stocks, commodities (petroleum), the UST 10 year note yield, and the broad real trade-weighted dollar during both eras, convergence between the S+P 500 and emerging marketplace stocks is probable. Thus the S+P 500 probably is in, or soon will begin, a bear trend. Therefore the S+P 500 retreat will confirm the slowing down of the global economy. Keep in mind the spring 2015 association (linkage between) the S+P 500 and MXEF highs and the aftermath in those and other marketplaces.

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For related marketplace analysis, see essays such as: "US Dollar Travels: Crosstown Traffic" (7/2/19); "Petroleum: Rolling and Tumbling" (6/10/19); "Wall Street Talking, Yield Hunting, and Running for Cover" (5/14/19); "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).

WISHFUL THINKING, HOPEFUL ACTION, LIMITED EFFECTS

"In the days when wishing still worked" begins the fairy tale "The Iron Stove", by Jacob and Wilhelm Grimm.

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An economic slowdown can 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 the inauguration of President Trump (Make America Great Again! America First!).

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

Central bank wizards and traditional political generals probably worry specifically, even if usually quietly, about potential for increased populist pressure from both left and right wing corners.

In late 2018, the unnerving scenario of slower real GDP growth, inadequate inflation, and a violent S+P 500 fall sparked the trusty Federal Reserve to halt its Federal Funds rate-raising policy (part of its normalization scheme), underline that it would maintain a hefty balance sheet stuffed with debt securities, and preach the welcome sermon that for the near term it would be “patient”. The European Central Bank and other devoted central banking luminaries promised continued easy money programs.

The central bank easing orations and policy shift helped to rally equities and bolstered confidence in growth prospects. The S+P 500 hit a floor on 12/26/18 at 2347 (20 percent fall from its autumn high at 2941 equaled 2353) and thereafter rose gloriously.

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Central banking and political action to influence currency levels and trends, whether by China, America, or others, allegedly is a form of marketplace “manipulation”. If that is the case, central bank policies such as yield repression and money printing also are forms of “manipulation”. So are legislative maneuvers such as deficit spending and tax reform.

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Many marketplace congregations and their political and media friends have deep faith in the individual- and especially the combined- powers of central bank shepherds such as the Federal Reserve, European Central Bank, Bank of England, and Bank of Japan, as well in the capabilities of China’s authorities. In particular, they believe (hope) that very accommodative monetary policy by these revered guardians will continue to triumphantly guide most nations and the global economy as a whole toward the promised land of satisfactory economic growth and sufficient inflation. Also, over ten years of easy money pronouncements and programs (from the global economic disaster to the present) probably has developed an addiction by central banks to their widely-applauded easy money rhetoric and policies.

However, looking forward, and for at least the near term, further rounds of central bank easing propaganda and behavior probably will have limited effectiveness in maintaining adequate economic growth (or creating appropriate inflation). Central banks have not permanently banished insufficient growth or abolished recessions. Inspiring central bank “whatever it takes” and other accommodative rhetoric and related marketplace actions likewise increasingly will only represent temporary remedies. Interest rate cuts (including further ones by the Federal Reserve) and yield repression (and even more widespread negative interest rates around the globe) will provide minimal and merely temporary help. What if leading central banks expand or renew quantitative easing (money printing) programs? As a response to the global financial disaster of 2007-09, this confidence booster (assisted by yield repression) helped to ignite, propel, and sustain the worldwide recovery. But nowadays, although money printing in the current environment may mitigate the depth and duration of the current global slowdown, it probably will not significantly promote longer run economic growth or result in sustained, long-lasting climbs in equities.

If enacted, enhanced fiscal spending programs (debt creation) in response to slowing or falling GDP growth probably will suffer the same fate: exciting hopes, but with limited effectiveness. There already has been about ten years of substantial debt creation on the overall (worldwide) government side since the dreadful time of the global financial crisis. For much of the world, political and other cultural divisions (notably America as its 2020 national election looms) make it challenging to engineer a satisfactory legislative response to sluggish growth. And the upcoming American federal spending increase via raising the debt ceiling (which exacerbates the existing dangerous long run debt problem) will not engender much incremental growth, especially if various other forces keep undermining global GDP prospects. In many regions, corporate (not only China) and consumer debt also has expanded, so there is likely little scope for economic growth rate acceleration from these sectors.

Trade wars and tariff battles currently injure growth and confidence to some extent. The noisy quarrel between America and China is a crucial example of such hostilities, but other noteworthy international conflicts share the stage. Feuds directly involving the US probably will not disappear, if at all, until after America's 2020 election.

Many observers believe that depreciation of a given home currency is a form of financial easing which can ignite, maintain, or enhance that country's economic growth, at least for a while. Perhaps China's allowing its renminbi to depreciate beyond 7.00 in its cross rate versus the US dollar is an example of this. In any case, China thereby displays a willingness to engage in competitive devaluation (currency wars) to sustain its output at desirable levels.

In the intertwined, multipolar, and competitive international economic landscape, will currency depreciation enable the global economy to escape a notable deceleration (with recessions in some domains)? Probably not. Competitive depreciation is an option for all countries. Thus efforts by any nation (or several countries) to weaken a given currency (either on a broad real effective exchange rate basis, or for a particular cross rate) will not in practice always (necessarily) assist expansion. Besides, not all nations can depreciate at once.

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Using US history as a guideline, America already has enjoyed an extremely long and record-setting expansion (see National Bureau of Economic Research estimates), and much longer than that of the beloved Goldilocks Era which ended in 2007. And America's tax "reform" benefits for economic growth (and for significant year-on-year corporate earnings gains) likely are complete, or nearly so.

MARKETPLACE RACES: AUTUMN 2018 TO THE PRESENT

"The Master said, 'He who gives no thought to difficulties in the future is sure to be beset by worries much closer at hand.'" Confucius, "The Analects" (Book XV, 12)

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Let's survey marketplace history since autumn 2018 for the S+P 500, emerging marketplace stocks, the United States Treasury 10 year note yield, US dollar-denominated emerging marketplace bonds issued by sovereigns, the petroleum complex, and the broad real trade-weighted US dollar ("TWD"; based on goods only; Federal Reserve Board, H.10; monthly average, March 1973=100).

As a guide to emerging marketplace stocks "in general", enlist the MSCI Emerging Stock Markets Index (from Morgan Stanley; "MXEF"). Emerging marketplace equity price trends in recent decades often but not always have moved similarly to those of the US.

As a representative for the overall petroleum complex, use ICE Brent/North Sea crude oil (nearest futures continuation).

The layout also 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 81.1 percent of the index debt belongs in the BBB/BB/B (S&P rating scale) category, with the weighted average maturity about 12.4 years (6/30/19; 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 more elevated the yield.

	S+P 500	UST 10 Year	Emerging Markets Stocks MXEF	Brent Crude Oil	Emerging Markets Bond EMB
Autumn 2018 High	2941 (9/21/18) 2940 (10/3/18)	3.26 (10/9/18)	1053 (9/28/18)	$86.74 (10/3/18)	Minor high: 108.11 (9/27/18)

The MXEF's 9/28/18 top did not surpass 1/29/18's 1279 summit. In contrast, the S+P 500's autumn 2018 top exceeded the 1Q18 high it had achieved (1/26/18's 2873) adjacent to the MXEF's January 2018 top. 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. Within its bear retreat from its first quarter 2018 pinnacle, the MXEF had a minor rally from 9/12/18's 999 to 9/28/18's 1053. Compare the timing of that September high with the autumn highs in the S+P 500.

The S+P 500, MXEF, Brent/North Sea crude oil, and the EMB slumped from late September/early October 2018.

A linked decline also began in both emerging marketplace stock (MXEF) and dollar-denominated emerging marketplace sovereign debt prices in late September 2018. Note the prior emergence of the connection (association) between the EMB price trend since autumn 2017/early 2018 tops in the EMB and the MXEF's 1Q18 top. The EMB established a ceiling with 9/7/16's 118.14 and 9/8/17's 117.46. It then made a succession of lower highs following 1/5/18's 116.86 and 2/27/18's 113.19 (compare the timing of the first quarter 2018 highs in the S+P 500 and MXEF). For the EMB, 9/27/18's 108.11 was the final interim price top.

The EMB's falling price (higher yield) pattern after 9/8/17 was akin to the UST 10 year note's pattern of rising yields from 9/8/17's 2.01pc yield low up until its October 2018 peak. Compare the timing of the UST 10 year's 7/6/16's 1.32 percent major bottom with the EMB's price high in September 2016.

But prices (yields) for the EMB and UST 10 year note do not always travel in the same direction. Unlike 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 MXEF.

Moreover, the EMB had falling prices (rising yields) for a couple of months after its 9/27/18 interim high. In contrast, the UST 10 year note yield peak occurred on 10/3/18, with lower yields ensuing.

What about trends for the broad real trade-weighted US dollar ("TWD"; goods only; monthly average)? After peaking at 103.3 in December 2016/103.1 in January 2017, the broad real TWD briefly edged beneath March 2009's 96.8 global financial crisis pinnacle, making a minor trough in January 2018 at 94.3. May 2018's 97.5 breached the March 2009 elevation, and the TWD rally continued up to December 2018's 102.0. That rally in the TWD from May to December 2018 probably encouraged the price declines which commenced in autumn 2008 in the S+P 500, MXEF, and other asset sectors.

The UST 10 year note yield fell modestly (prices increased) from early October 2018 until late December 2018/early January 2019, whereas EMB interest rates rose (prices fell) over those months.

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. The UST's yield dip to 1/4/19's 2.54 percent interim low reflected some fear regarding a slowdown in GDP expansion, but it did not signal a widespread flight to quality.

Notably, US dollar-denominated emerging marketplace government yields "in general" (EMB) sprinted higher following the 9/27/18 price top, reaching 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 UST 10 year note's initial yield valley on 1/4/19). 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).

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	S+P 500	**UST 10 Year**	**Emerging Markets Stocks MXEF**	**Brent Crude Oil**	**Emerging Markets Bond EMB**
A Following Turning Point	Low: 2347 (12/26/18)	Low: 2.54 (1/4/19)	Lows: 930 (10/30/18); 945 (12/26/18); 946 (1/4/19)	Low: $49.93 (12/26/18)	Lows: 102.15 (11/27/18); 102.62 (12/26/18)

S+P 500 and MXEF stock marketplace "investors", EMB owners, and petroleum traders thus ran for their lives and rushed to the exits in the bearish moves which commenced in fall 2018, not resting until around end 2018/early 2019 when the Fed loudly preached its patience gospel! The trusty European Central Bank likewise heralded easy money policies. China's Shanghai Composite Index touched bottom on 1/4/19 at 2441.

Many marketplace leaders honor commodities as being an "asset class". The time of the broad S&P Goldman Sachs Commodity Index ("GSCI")'s bottom, 12/26/18 at 366, neighbored those in petroleum and the S+P 500. The ascents in the EMB and the petroleum complex after around end 2018 in large part reflected a hunt for sufficient return.

The slight dip in the TWD from December 2018's 102.0 to the 100.4 January 2019/February 2019 height, as it occurred alongside Federal Reserve and other central bank easy money rhetoric, probably assisted rallies in stocks and "related" asset prices.

The UST 10 year note rate edged up to 2.80 percent on 1/18/19 (2.76pc on 3/4/19). Was a suitably strong global economy on the horizon?

"Wall Street Talking, Yield Hunting, and Running for Cover" (5/14/19) underlined that many marketplace pundits were hopeful that the beneficent Fed might even cut rates. That attitude probably reduced yield (return)-seekers fears about hazards in many stock and debt playing fields. Extremely low (even negative 10 year) government interest rates in Germany and Japan (ongoing easy money policies by the European Central Bank and the Bank of Japan) further inspired marketplace pilgrims to hunt for and race into fertile fields in order to unearth and hopefully profit from great (or at least acceptable) buying opportunities.

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But especially since around mid-April 2019, the steady and substantial decline in the US 10 year government note yields has been a highly significant phenomenon, warning of (encouraging) price declines in the S+P 500 (and other advanced nation stock marketplaces), emerging stock marketplaces, and petroleum.

The UST 10 year note interest rate trend during calendar 2019 obviously shows that its initial yield trough at 2.54 percent was not the lowest in the slump which began in October 2018. The yield fall pattern resumed after 1/18/19's 2.80 percent. Lower highs followed, such as 4/17/19's 2.61pc, a bounce from 3/29/19's 2.34pc low. Some of the UST's yield fall during this time period related to hopes for Federal Reserve rate cuts rather than a flight to quality.

However, the UST 10 year note yield broke beneath 3/29/19's floor with 5/28/19's 2.27pc close. This development hinted at a retreat by some marketplace participants into the safe haven of US government debt instruments. Its yield dived even lower, but it managed to hover around 2.00 percent for a while. However, the decisive yield move beneath 2.00 percent occurred with 8/1/19's close at 1.89 percent. That yield cratering in the UST 10 year and the subsequent further yield tumble very likely represented a fearful flight to quality. Note the timing of the related price breakdown in stocks and petroleum.

Significantly, including in regard to warning of a global economic slowdown (or worse, recessions in some important jurisdictions), the UST 10 year note move under 2.00 percent pierced 12/18/08's 2.04pc, the yield bottom achieved during the global financial debacle. In addition, it plunged under the important low at 2.01pc on 9/8/17; a fifty percent yield rally from 7/6/16's 1.32 percent major bottom is 1.98pc.

The UST 10 year's yield low in its recent crash is 8/7/19's 1.59 percent. Half of the 10/9/18's 3.26 percent pinnacle is 1.63pc. The initial yield bottom in its collapse from 6/11/15's 2.50 crest (and higher levels previously) was 2/11/16's 1.53pc. Thus the UST yield is around important support. However, that does not preclude even lower UST yields. Recall that the major bottom in the UST 10 year back in 2016 occurred later, with 7/6/16's 1.32 percent. The yield low for the German Bund thus far is around -.60 (negative rates) on 8/7/19. The Japanese JGB yield is around a negative 20 basis points.

Significantly, the S+P 500's 7/26/19 peak, accompanied by further drops in the MXEF and petroleum complex, signals the reversal of the search for yield (return) trends in those playgrounds. The conjunction (price convergence) of the stock and petroleum "asset classes" alongside the sharp fall in the UST 10 year yield supports this viewpoint; that convergence thereby underlines that the UST's yield slump (price rally) at this stage substantially involved a "flight to quality".

"Wall Street Talking, Yield Hunting, and Running for Cover" (5/4/19) emphasized: "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 103.3 (December 2016)/103.1 (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, if it occurred in conjunction with mournful indications of global economic slowdown, probably also will push these securities prices downhill."

	S+P 500	**UST 10 Year**	**Emerging Markets Stocks MXEF**	**Brent Crude Oil**	**Emerging Markets Bond EMB**
Aftermath Since End 2018/ Early 2019	Initial top: 2954 (5/1/19); High: 3028 (7/26/19)	Minor highs in yield: 2.61 (4/17/19); 2.44 (5/21/19); 2.18 (6/11/19)	Tops: 1099 (4/17/19); 1085 (5/3/19); Drop-off point: 1062 (7/16/19)	Highs: $75.60 (4/25/19); $67.65 (7/11/19)	High so far: 114.50 (7/25/19) 114.53 (8/8/19) 114.72 (8/9/19)

Although the broad real TWD (monthly average) has not broken over its December 2018 high, it has stayed close to that lofty level. Thus from the perspective of the MXEF, S+P 500, and the petroleum complex, it has remained ominously strong. This TWD dollar strength, especially when interpreted alongside the sharp drop in UST yields, is a warning sign that the global economy will weaken.

May 2019's 101.6 (monthly average) has been the high for the TWD since January 2019's 100.4 low. However, June 2019's 101.0 and July 2019's 100.5 are not much below May 2019's height (or the December 2018 high; or very distant from the December 2016 103.3/January 2017 103.1 plateau; January 2016 interim high was 101.2). Moreover, the broad real TWD in recent months has remained decisively above March 2009's 96.8 global economic crisis peak. So even though the broad real TWD has not made new highs lately, if one interprets this track record of ongoing dollar strength alongside the sharp drop in UST yields, the TWD has remained sufficiently strong to help weaken MXEF, S+P 500 (and other advanced nation stocks), and petroleum (and other commodity) prices.

Unlike the broad real trade-weighted dollar, the broad nominal trade-weighted dollar (goods only) has daily data. The broad nominal US dollar formed a peak on 12/28/16 (at 128.9) and 1/3/17 (128.8). The nominal TWD's recent high, 5/31/19's 129.6, edged only half of one percent over the 2016/17 high. The nominal TWD on 8/2/19 (the most recent data point) stood at 129.1.

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Although the S+P 500's dash up to its 7/26/19 high at 3028 thrilled stock marketplace bull cheerleaders, that high exceeded autumn 2018's 2941 high by only three percent (it ventured 2.5pc over 5/1/19's 2954 plateau). In its recent decline, the S+P 500's low was 8/5/19's 2822, a 6.8 percent fall from 7/26/19's top. A ten percent correction in the S+P 500 from its recent high equals 2725, a twenty percent collapse 2422. A 33pc crash in the S+P 500 gives 2017.

Watch to see if the S+P 500 can remain above its 1Q18 interim top at 2873. Will US corporate earnings remain sluggish (or decline), or rebound (as many stock bulls pray) in 4Q19 and calendar 2020?

Will the Federal Reserve sheriff rush in again to rescue the S+P 500 if a twenty percent decline from its peak beckons? The Federal Reserve met July 30-31, 2019 and cut the Federal Funds rate 25 basis points, but the S+P 500 still fell. The Fed does not formally gather again until September 17-18/19.

The enactment of America's tax "reform" legislation, especially lower corporate tax rates, helped to propel American equities to lofty heights. Suppose Democrats recapture the Presidency and control both houses of Congress after the 2020 election. That outcome would make it likely that the tax reform cuts benefiting corporations will be reduced, and perhaps eliminated. All else equal, such policy reversal will be bearish for US stocks.

The MXEF's low so far is 8/7/19's 967, fairly close to the fourth quarter 2018 trough around 930/945. A move in the MXEF beneath its 4Q18 lows probably would encourage (interconnect with) a drop in the S+P 500. The fall from 4/17/19's 1099 high is about 12.0 percent. However, since the MXEF's 1Q18 peak at 1279 soars significantly over 4/17/19's top, that hints that a slowing GDP growth pattern in (at least) many emerging marketplace nations has been underway for quite some time.

Brent/North Sea crude oil's low since 4/25/19's $67.65 interim high (which stood well beneath 10/3/18's towering $86.74 peak) is 8/7/19's $55.88.

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Does the crashing UST 10 year note yield point to the eventual weakening of emerging marketplace dollar-denominated sovereign debt prices (higher EMB yields)? The EMB's price highs since its end 2018 valley are 7/25/19's 114.50 (which occurred alongside the S+P 500's 7/26/18 high at 3028), 8/8/19's 114.53, and 8/9/19's 114.72. In particular, note the EMB price rally from interim lows on 5/13/19 at 108.41 (close to the 108.11 level of 9/27/18's interim high) and 6/3/19 at 109.08. Compare the timing of the UST 10 year note yield falls with those EMB dates; the UST 10 year yield descended following 4/17/19's 2.61 percent, 5/21/19's 2.44pc, and 6/11/19's 2.18pc.

Thus both the UST 10 year note yield and the EMB yield have fallen recently. This suggests that some portion of the US dollar-denominated sovereign emerging market bond arena's rally over the past three months has involved a flight to quality (not just an effort to obtain adequately yielding debt instruments). If so, that EMB price climb is an additional warning flag pointing to further weakening in global economic growth and portending future falls in both MXEF and S+P 500 stock prices.

For seekers of financial safe havens, even if the EMB's sovereigns are not of the best quality (marketplace coaches deem US and German federal debt as very high quality), as sovereigns they represent some security, and more than many corporations. Though the majority of EMB debt is BBB/BB/B, and thus not high-grade, experts generally still call such securities "investment" grade.

To a substantial extent, whether EMB yields rise (prices fall) depends on both US Treasury rate and US dollar trends (and of course on economic growth levels and prospects). Assume a marketplace environment in which there continue to be fearful flights to high-quality government debt instruments (such as those of the United States and Germany; and with many advanced nation government debt instruments offering negative yields). Then some lower-quality but still allegedly investment grade debt securities (which offer some nominal yield, such as many of those in the EMB portfolio), especially debt securities offered by sovereigns, probably still will appeal to some buyers. Somewhat a safe haven, plus some yield! Moreover, given a still-strong dollar, dollar-denominated sovereign debt instruments such as what the EMB represents will appeal to many players.

Nevertheless, the EMB probably will not exceed its 7/25/19 top by much. Ongoing flight to quality fears probably will persist, which will attract buyers of UST. However, as the global economy weakens further, marketplace participants increasingly will view lower grade sovereign debt (including that denominated in US dollars) as relatively risky, thus probably encouraging prices for that lower grade debt (such as the EMB) to decline. Recall not only the EMB's decline during calendar 2018, and especially after September 2018, but also its collapse during the mid-2014/spring 2015 to first quarter 2016 span.

In addition, the US dollar probably eventually will weaken further from current levels. "US Dollar Travels: Crosstown Traffic" (7/2/19) stated: "The broad real trade-weighted United States dollar's December 2016 (at 103.3)/January 2017 (103.1) peak likely will remain intact ("TWD"; based on goods only; Federal Reserve Board, H.10; monthly average, March 1973=100). The high since then, December 2018's crest at 102.0, stands slightly beneath this, as does May 2019's 101.6 (June 2019 was 101.0). December 2018/May 2019's plateau probably forms a double top in conjunction with December 2016/January 2017's pinnacle. If the TWD breaks through the December 2016/January 2017 roadblock, it probably will not do so by much. The majestic long-running major bull charge in the dollar which commenced in July 2011 at 80.5 has reached the finish line, or soon will do so." All else equal, dollar weakness (especially in a weak global economic landscape) probably will help to weaken lower-grade dollar-denominated debt prices.

Various factors of course influence dollar trends. For example, the US Administration probably wants the dollar to weaken relative to its current elevation, especially as 2020's national election looms. The US fiscal situation has continued to worsen, with the long-run situation becoming increasingly dangerous (see Congressional Budget Office documents).

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However, also keep an eye on credit spreads between corporate debt instruments and government securities denominated in the same currency. Historical analysis reveals that widening credit spreads between lower-grade United States corporate debt and US Treasury securities can warn of (confirm) economic feebleness and stock marketplace price falls. The Financial Times headlined (8/7/19, p17), referring to the relationship between US junk bond corporate debt and the US Treasury 10 year note : "Junk bond spreads widen by most in three years as trade tension escalates."

Also, an inverted (negatively sloped) US Treasury yield curve (picture the 10 year note yield beneath that of the three month T-bill) generally has preceded American recessions. See the Federal Reserve Bank of New York statistics. The UST yield curve currently is inverted (three month bill rate higher than the 10 year note yield).

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Lyrics for the song "Me and My Uncle" (by John Phillips; performed often by the Grateful Dead) say: "In the confusion, my uncle grabbed the gold
And we high-tailed it down to Mexico".

Many gurus perceive and promote gold as a safe haven when political and/or economic insecurity is or threatens to become substantial. Gold can become enticing when interest rates are quite low, and especially when many government debt securities have negative yields.

Gold (nearest futures continuation) climbed following 11/13/18's $1,197 low (prior related troughs 8/6/18 at $1,161 and 9/28/18 at $1,180). It motored up to about $1,334 on 2/20/19 before putting on the brakes for a while, descending to $1,226 (4/23/19)/$1,267 (5/2/19)/$1,269 (5/21/19). Gold thereafter gained upward momentum and skyrocketed higher, attaining $1,510 on 8/7/19.

STOCK CONVERGENCE AND OTHER FINANCIAL RELATIONSHIPS: MID-2014 (AND MID-2015) THROUGH FIRST QUARTER 2016 REVISITED

Cardi B sings in "Money": "But nothing in this world that I like more than checks (Money)
All I really wanna see is the (Money)".

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Analyzing marketplace trends and relationships from mid-2014 (and even earlier, back to 2011), and especially since mid-2015 through first quarter 2016 helps to illuminate the marketplace patterns and relationships from first quarter 2018 (and especially from autumn 2018) to the present, and thereby offers indications regarding probabilities for future price movements. A study of the following table of financial marketplaces (including the related commentary on the broad real trade-weighted United States dollar) displays several parallels between mid-2014/mid-2015 to 1Q16 and the time horizon beginning in 1Q18.

For example, both the 2011/2014/2015 and 2018/19 time spans display divergence between the S+P 500 and emerging stock marketplaces (MXEF). In the earlier period, the S+P 500 and MXEF trends eventually converged, with both marketplaces tumbling lower.

A major bull advance in the US broad real trade-weighted dollar ("TWD"; goods only) began in July 2011. The dollar's appreciation accelerated in 2014 and 2015; note its explosive leap from September 2014's 86.5 elevation. The TWD eventually marched above March 2009's 96.8 worldwide economic disaster peak, with November 2015's 98.2 decisively soaring over that resistance. Thus the dollar's sustained substantial rally helped to inspire weakness in emerging marketplace stocks and commodities, and eventually encouraged the withering slump in the S+P 500 (and in the stocks of other advanced nations).

The table uses the broad S&P Goldman Sachs Commodity Index ("GSCI") rather than Brent/North Sea crude oil. However, the GSCI is heavily petroleum-weighted, and major trends in oil usually follow those in the broad GSCI. The EMB had a drop-off point prior to and above the July 2014 top, 1/3/13's 123.35.

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	S+P 500	**UST 10 Year**	**Emerging Market Stocks MXEF**	**Broad GSCI**	**Emerging Markets Bond EMB**
2011 High	Interim high: 1371 (5/2/11)	3.77 (2/9/11)	1212 (4/27/11)	762 (4/11+ 5/2/11)	NA

	S+P 500	UST 10 Year	Emerging Market Stocks MXEF	Broad GSCI	Emerging Markets Bond EMB
2014 High	Interim high: 2019 (9/19/14)	3.05 (1/2/14); 2.69 (7/3/14)	1104 (9/4/14)	673 (6/23/14)	116.32 (7/23/14)
2015 High	Peak: 2135 (5/20/15)	2.50 (6/11/15)	1069 (4/27/15)	459 (5/6/15)	Drop off point: 114.31 (4/27/15)
1Q16 Low	1812 (1/20/16); 1810 (2/11/16)	1.53 (2/11/16)	687 (1/21/16)	268 (1/20/16)	102.90 (1/20/16)

Although the S+P 500 attained a notable high on 5/2/11 at 1371, plummeting 21.6 percent to 10/4/11's 1075 (slightly exceeding the twenty percent threshold for many definitions of a bear stock market trend), it resumed its advance. The S+P 500 had a brief but sharp "correction" of almost ten percent from 9/19/14's 2019 to 1821 on 10/15/14 (compare the price of the 1Q16 bottom in the S+P 500, 2/11/16's 1810), but following this, it climbed to attain new highs.

The MXEF dipped to 906 on 12/17/14. Despite walking up to 1069 on 4/27/15, it resumed its decline.

Up until mid-year 2015, note the price divergence between the S+P 500 and MXEF, in which "on balance" (generally), the S+P 500 travelled bullishly whereas the MXEF voyaged in a sideways to down pattern. Compare the S+P 500 and MXEF divergence relationship during the period from around end 1Q18 to mid-2019.

The S+P 500 and MXEF stock marketplaces converged as mid-year 2015 approached. Significantly, the S+P 500's May 2015 price high linked to the MXEF's late April 2019 one. However, even during the divergence period, important highs (2011 and 2014) in the two stock domains occurred around the same time. The S+P 500 and MXEF bottomed during 1Q16. Recall the China's Shanghai Composite peak on 6/12/15 at 5178, followed by a bloody crash to 1/27/16's 2638.

Looking forward in the current financial marketplace situation, note the similar timing of the MXEF's 7/16/19 drop-off point at 1062 and the S+P 500's 7/26/19 high at 3028.

In the earlier period, see the parallels between falling MXEF prices and those of the GSCI. Quite a run for the exits by numerous asset owners! Brent/North Sea crude oil (nearest futures continuation) made an interim top on 4/11/11 at $127.02. Its 3/1/12 pinnacle, $128.40, did not venture much above the April 2011 high. The Brent crude oil final high (key drop-off point) was 6/23/14's $115.66. Brent/North Sea crude oil's major bottom occurred 1/20/16 at $27.10.

The collapse in the UST 10 year note yield lasted quite some time, with the yield decline since January 2014 being important and that since June 2015 particularly crucial. Compare this to the falling interest rates in the UST 10 year since October 2018, and especially the recent yield slump.

Also, although 2/11/16's 1.53pc trough in the UST 10 year note was an important interim low, the final low yield in the UST 10 year note was quite a bit later than the bottoms in stocks. It reached its major yield bottom on 7/6/16 at 1.32 percent. Will the UST 10 year eventually break beneath 8/7/19's 1.59 percent?

The EMB price fall (yield increases) since mid-2014 paralleled those in the MXEF and commodities, and occurred alongside the yield drops in the UST 10 year. The S+P 500's May 2015 high occurred close in time to the EMB's drop off point.

The EMB price fell from 9/27/18 to 11/27/18. However, will the most recent EMB pattern (the EMB price rally from interim lows on 5/13/19 at 108.41 and 6/3/19 at 109.08) continue to vary from the EMB price drop pattern (falls from 7/23/14 and 4/27/15) of the earlier period? The EMB's current price is close to the EMB's July 2014 and April 2015 highs.

The broad real TWD's major bottom was July 2011's 80.5. The broad real TWD's growing strength (appreciation) played a critical role in relation to trend patterns in these other financial marketplaces. It made a minor top in June 2012 at 86.2, which remained unbroken until September 2014's 86.5.

The TWD reached 95.5 in July 2015, creeping over the March 2009 high with August 2015's 97.2. It decisively charged above March 2009's financial crisis top at 96.8 with its jump from 96.7 in October 2015 to November 2015's 98.2. It rushed up to 101.2 in January 2016. Note the weakening in the S+P 500 as the TWD climbed near and then surpassed the March 2009 high.

A strong broad real TWD does not necessarily mandate weaker American stocks. Generally speaking, the broad real trade-weighted US dollar tended to be strong over the July 2011 to spring 2015 period. The S+P 500 continued to make new highs until May 2015. What about the current marketplace situation? The S+P 500 also made new highs in recent months despite a strong TWD.

Therefore, (sometimes) the key to the S+P 500's vulnerability to a significant down trend from the perspective of the broad real TWD (and in conjunction with other marketplace phenomena) probably is a persistent "too strong" dollar (the dollar has moved up "too far"). This probably was the case sometime after mid-to-late 2015; the TWD likewise probably is "too strong" nowadays.

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