EMERGING MARKETS, COMMODITIES, BITCOIN, AND THE S+P 500: TRAVELS AND SIGNS

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The movie "They Shoot Horses, Don't They?" (Sydney Pollack, director) depicts a Depression Era dance contest marathon with a noteworthy monetary prize for the winning couple left standing. The master of ceremonies declares: "And believe me, these wonderful kids [the "kids" are all adults] deserve your cheers, because each one of them is fighting down pain, exhaustion, weariness, struggling to keep going, battling to win. And isn't that the American Way?"

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OVERVIEW AND CONCLUSION

Since around first quarter 2018, the price trends in emerging marketplace stocks "in general" and emerging marketplace sovereign debt securities in general have made important highs and lows at roughly the same time. Thus, for example, around year-end 2018, prices (not yields) for sovereign emerging marketplace bonds attained important lows (yields had been rising) alongside troughs in emerging marketplace stocks. United States high-yield corporate bonds have moved in a similar pattern over that time span. Key commodity sectors such as the petroleum complex and base metals likewise have established important highs (lows) around the same time as those in emerging marketplace equities and sovereign debt. The timing of these assorted shifts of course is not always exactly the same, only approximately so.

Unlike emerging marketplace stocks, during calendar 2018 and calendar 2019, America's S+P 500 has marched to new highs. Despite this price divergence, many key turns in the interim trends for the S+P 500 occurred "around" the same time as those in emerging marketplace stocks, as well as in emerging sovereign marketplace debt (in both dollar-denominated and local currency arenas), US high-yield corporate bonds, and commodities.

As the S+P 500 was sinking lower in late 2018, the Federal Reserve Board lifeguard jumped to the rescue and unveiled its monetary "patience" doctrine. It cut the Federal Funds rate three times during calendar 2019. Central banking allies such as the European Central Bank enhanced or maintained existing easy money schemes. Beginning around end-year 2018, this accommodative monetary policy (encouraged by widespread negative yields in advanced nation government debt domains), inspired waves of "investors" (speculators, traders) to hunt, more avidly than ever, for sufficient (good, reasonable, acceptable) "yields" ("returns") in other provinces. These districts around the globe included emerging marketplace securities, high-yielding corporate debt, and even commodities.

The exciting cryptocurrency frontier, which includes stars such as Bitcoin, attracts interest from assorted financial pioneers and the economic media (and even central bankers at times). In the opinion of some observers, Bitcoin belongs to some variety of "asset" class. In any case, since "around" first quarter 2018, despite Bitcoin's wild price adventures, critical turns in its price action have occurred around the same time as in emerging marketplace securities, high-yield US business debt, commodities (petroleum and base metals), and even the S+P 500.

During 2019, the S+P 500 continued its heavenly climb. Nevertheless, at various points during calendar 2019, emerging marketplace securities, US corporate debt, commodities, and Bitcoin established interim highs and began to retreat. For example, note Brent/North Sea crude oil's

4/25/19 summit at $75.60 (S+P 500 interim top 5/1/19 at 2954). Thus the run-up in these asset prices which commenced around end calendar 2018/early calendar 2019 probably is over.

Significantly, emerging marketplace stock, emerging marketplace sovereign debt securities, high-yield US corporate debt, and petroleum and base metals (still "trading together") renewed their price declines in September 2019. Take a look at Bitcoin too. Given that global economic (and political) spheres intertwine, this pattern signals a top in the S+P 500 and the probability that the S+P 500 (and other advanced nation stock battlefields) will decline alongside (converge with ongoing bearish price patterns in) emerging marketplace securities and related domains such as commodities.

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The United States dollar, as measured by its broad real effective exchange rate, has remained sufficiently strong to be a factor tending to undermine prices in dollar-denominated emerging marketplace sovereign debt securities as well as dollar-denominated emerging marketplace corporate debt instruments. Rising dollar-denominated yields, especially as the United States dollar generally has remained strong in recent months, tends to push emerging marketplace equity prices lower. Related to this, prices also gradually have fallen since early September 2019 in the US Treasury 10 year note (low yield 1.43 percent on 9/3/19). Also, US corporate earnings have been relatively flat for calendar 2019 year-on-year, suggesting that the joyous tax "reform" enacted at end calendar 2017 is losing power and thus the capability to propel the S+P 500 even higher. Even if America and China agree on a partial trade deal in the near future, will trade conflicts involving them and others disappear?

MARCHING AROUND: DEBT SECURITIES: STOCKS, PETROLEUM, AND BITCOIN

In Frank Norris's 1901 novel, "The Octopus", Cedarquest proclaims: "The great word of this nineteenth century has been Production. The great word of the twentieth century will be…Markets."

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The global economic recovery since the end of the 2007-09 worldwide financial crisis has been long-running. But have slowdowns and recessions been abolished?

The International Monetary Fund said world real GDP rose 3.6 percent in 2018, but only 3.0pc in 2019; it expects 2020's at 3.4pc ("World Economic Outlook"; Table 1.1: October 2019). What about for "emerging market and developing economies"? Emerging market GDP increased 4.5 percent in 2018, but 2019's will rise only 3.9pc (advanced economies GDP crawls up only 1.7pc in 2019). The IMF suspects emerging market GDP will expand 4.6pc in 2020 (with the advanced crew up 1.7pc again), beneath 2001-10's 6.2pc average (Table 1.1; Statistical Appendix, Table A1).

General government gross debt as a percentage of GDP for emerging market and middle-income economies has been growing steadily (IMF, "Fiscal Monitor"; Table A15). In 2012, it was 37.0 percent of GDP, with 2018's at 50.8pc and 2019's 53.8pc, with 2024's predicted at 63.9pc. Corporate debt in many emerging marketplaces is substantial.

Trade (tariff) wars and currency battles (including competitive depreciation) can reflect quests to improve one's relative or absolute economic or political situation or advantage. But these conflicts also may signal slowing or even declining economic growth for a given nation, or for the world as a whole. Many generals believe that ongoing trade wars probably reduce global GDP growth.

The IMF's World Economic Outlook (Table 1.1; "Statistical Appendix", Table A9) stated that the average annual global trade volume increase between 2001 and 2010 was five percent. World trade volume (goods and services) expanded 5.7 percent in 2017 versus the prior year, but 2018's growth rate slipped to 3.6pc year-on-year. The IMF predicts 2019 trade growth will be merely 1.1pc. To what extent is 2019's slower trade growth a casualty of Trump's trade strategies? The IMF projects 2020 trade will increase 3.2pc year-on-year.

The IMF's forecasts on both growth and trade for 2020 arguably are overly optimistic. Regarding emerging marketplaces in particular, imagine the probable consequences if growth in advanced nations probably is not accelerating and when trade wars likely will remain relatively entrenched. Compare the IMF's fairly sunny 2020 outlook on GDP and trade with the faith of many luminaries that US corporate profits will ascend quite a bit in calendar 2020 relative to 2019.

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In "Ocean's Eleven" (1960; Lewis Milestone, director), a group of former World War Two paratroopers from the 82nd Airborne plot to rob Las Vegas casinos. A character says: "The whole point in having money is so that other people know that you got it. I'm gonna get me a big 50 foot Chris-Craft and note even put it in the water. Just gonna leave it in my driveway."

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The S+P 500's bull move since its major bottom over ten years ago has been titanic. The S+P 500's Thanksgiving time high, 11/27/19's 3154, skyrockets 4.7 times from 3/6/09's major bottom at 667. The mighty upward voyage since 2/11/16's crucial trough at 1810 totals 74.3 percent. Pilgrims aboard the S+P 500 have enjoyed a joyous rally of 34.3 percent from 12/26/18's 2347 low.

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Obviously, the various emerging marketplace countries are not identical in their economic and political strengths and structures. Several of them are important commodity producers or consumers (such as China). In one or more of these nations, crises may erupt.

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The following discussion includes various ETF (exchange-traded fund) benchmarks.

EEM is the iShares (Blackrock) MSCI Emerging Markets ETF. It "seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities." As of 9/30/19, the top five nations were China (about 31.8 percent), South Korea (12.1pc), Taiwan (11.4pc), India (8.8pc), and Brazil (7.5pc). EEM's leading sectors are financials (24.6 percent), information technology (15.0pc), consumer discretionary (13.0pc), communication (11.5pc), and energy (7.6pc).

EMB is 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 75.2 percent of the index debt belongs in the BBB/BB/B (S&P rating scale) category, with the weighted average maturity about 12.6 years (9/30/19; 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 higher the yield.

EMLC is the VanEck Vectors J.P. Morgan Emerging Markets Local Currency Bond ETF. It is based on "bonds issued by emerging market governments and denominated in the local currency of the issuer." As of 10/31/19, the top ten countries constituted about 71.5 percent of EMLC. Brazil represented about 10.0pc, Indonesia 9.0pc, Mexico 8.9pc, Thailand 8.4pc, and South Africa 7.6pc. The EMLC's weighted average years to maturity is 7.6 years. It also is quoted in price terms.

Another ETF is HYG: iShares iBoxx US dollar-denominated high-yield corporate bonds. As of 9/30/19, despite being labeled as a "bond" ETF, it is closer to a note one, for the weighted average maturity was about 3.5 years. About 88.2 percent of the index debt was BBB/BB/B rated, with almost all of that in the BB/B group. HYG is likewise quoted in price terms.

Commodities are important to many emerging marketplaces. Price levels and movements in agricultural marketplaces are critical to several of these nations. However, elevations and patterns in petroleum and base metals generally are better macroeconomic benchmarks for the assessment of key global stock and debt securities marketplaces and for worldwide macroeconomic trends in general. Many economic experts in recent decades designate and promote commodities as an "asset" class or an "alternative asset". In the following table, Brent/North Sea represents the petroleum complex as a whole. Its prices are in dollars per barrel.

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As always, marketplace history does not necessarily repeat itself, either entirely or even partly. Price convergence and divergence (lead/lag relationships) need not persist. They often can change dramatically.

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As a prelude to examining the period from autumn 2018 to the present, let's survey price and time coincidences across leading marketplace signposts around first quarter 2018.

Recall the S+P 500's interim high on 1/26/18 at 2873. The EEM has been in a bear trend since 1/26/18's 52.08. The EMB attained its 1Q18 price high at 116.83 on 1/5/18. The EMB made critical highs earlier in time than its January 2018 one, but these summits were only slightly above January 2018's top (9/8/17's 117.46 and 9/7/16's 118.14). The EMLC's high water mark occurred 1/25/18 at 39.82. Brent/North Sea crude oil formed an interim top on 1/25/18 at $71.25.

The HYG's iShares IBoxx dollar-denominated high-yield corporate bond ETF collapse point in 1Q18 coincided with those in other playgrounds, 1/25/18's 87.90. Its summit preceded this, 7/26/17 at 89.04, but that price high occurred fairly close in time to the EMB's September 2017 one.

The London Metal Exchange's base metals index, LMEX, made an important interim high 2/16/18 at 3464 alongside that in other marketplaces. Its April and June 2018 highs did not exceed this elevation by much.

Bitcoin's pinnacles occurred alongside the first quarter 2018 peaks in these other marketplaces. Its awesome top was slightly earlier, at $19,787 on 12/18/17, with 1/9/18's final high $15,435.

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	S+P 500	**EEM**	**EMB**	**EMLC**	**Brent/NSea Crude Oil**
High Around Fall 2018	2941 (9/21/18)	43.51 (9/26/18)	108.11 (9/27/18)	34.94 (7/30/18)	86.74 (10/3/18)

The EEM's initial top, 7/25/18's 45.06, though near in time to its September 2018 drop-off point, began prior to the S+P 500's. The EMB's slide started on 7/27/18 at 109.77, about the same day as the EEM's. Although the EMLC did not establish a notable high in autumn 2018, it established a minor high on 7/30/18 at 34.94 alongside the EEM's and EMB's late July ones. The S+P 500's second high, 10/3/18 at 2940, was on the same day as Brent/North Sea's high.

HYG established its plateau on 9/28/18 at 86.47.

The LMEX base metals index peaked earlier, on 6/7/18 at 3500 (next to 4/18/18's 3494). However, it had an interim high thereafter alongside the major one in the petroleum complex, 10/3/18's 3052.

Bitcoin's apex also occurred earlier than September 2019, on 7/25/18 at 8,487. However, Bitcoin's ensuing pattern of descending highs roughly coincided with the autumn tops in the S+P 500 and emerging marketplace stocks, as well as the price highs in emerging marketplace debt. Bitcoin's gradually decreasing highs were 9/4/18's 7,402, 10/15/18's 6,808, and the 11/7/18 minor high at 6,545.

Low End-2018/ Early 2019	2347 (12/26/18)	37.58 (10/29/18); 38.04 (12/26/18)	102.15 (11/27/18); 102.62 (12/26/18)	32.06 (11/13/18); 32.40 (12/14/18)	49.93 (12/26/18)

The EMLC's initial trough on 9/5/18 at 31.48 occurred before its 11/13 and 12/14/18 ones, but it was only slightly lower than these. The HYG hit bottom on 12/26/18 at 79.55. The subsequent HYG rally indicated that the thirsty rush for yield did not confine itself to emerging marketplaces or developed country stocks.

LMEX's valley was 1/3/19's 2730.

What about Bitcoin? Its crucial bottom was 12/14/18's 3,138, a monumental crash from its majestic 12/18/17 pinnacle.

	S+P 500	**EEM**	**EMB**	**EMLC**	**Brent/NSea Crude Oil**
High Around Spring 2019	2954 (5/1/19)	44.84 (4/17/19)	110.37 (3/20/19)	34.49 (3/20/19)	75.60 (4/25/19)

The EEM dove from a subsequent interim top, 5/1/19's 44.35. The EMB low preceded the EEM's. The EMLC turned lower before the other marketplaces, with its interim top at 1/31/19 at 34.85. Its March 2019 height nevertheless bordered 1/31/19's elevation. HYG reached its high price on 4/30/19 at 87.04.

The LMEX high, as in mid-2018, preceded that in Brent/North Sea crude oil: 2/28/19's 3058.

Note Bitcoin's minor tops on 4/23/19 at 5,650 and 5/16/19 at 8,388.

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Bitcoin's stratospheric rally up to its 6/26/19 peak at 13,868 and the early stages of its subsequent decline did not always closely (or at least clearly) align with those in these other marketplaces. For example, see the 5/30/19 top at 9,090; compare the May and early June 2019 lows in other marketplace ponds. See also Bitcoin's 8/6/19 high at 12,316.

Yet arguably Bitcoin's substantial decline commencing in late June 2019 "led" the price tumbles in other marketplaces. Remember that its December 2017/early January 2018 major high and its 12/14/18 bottom preceded turns (trend changes) in several other marketplaces. In any case, Bitcoin's September 2019 interim highs link closely from the timing perspective to price tops in emerging marketplaces, high-yield US corporate bonds, petroleum, as well the interim high in the S+P 500.

	S+P 500	**EEM**	**EMB**	**EMLC**	**Brent/NSea Crude Oil**
Low Mid-May/Early June 2019	2729 (6/3/19)	39.75 (5/23/19)	108.41 (5/13/19) 109.08 (6/3/19)	32.51 (5/17/19)	59.45 (6/5/19)

HYG's low price around then was on 84.47 on 6/3/19. LMEX attained its related trough on 6/7/19 at 2736. Compare the timing of Bitcoin's low, 6/5/19 at 7,433.

	S+P 500	**EEM**	**EMB**	**EMLC**	**Brent/NSea Crude Oil**
High July 2019	3028 (7/26/19)	43.74 (7/1/19)	114.50 (7/25/19)	35.18 (7/18/19)	67.65 (7/11/19)

The EEM slumped from 7/25/19's minor high at 43.11.

HYG established an earlier high on 6/20/19 at 87.65, but its falling from 7/31/19's minor high at 87.26 coincides with other marketplace timing.

Though LMEX was not dancing around very far in spring and summer 2019, the timing of its turns fit those in crude oil and other marketplaces; see 7/19/19's high at 2874.

Compare Bitcoin's 7/10/19 high at 13,200 and 8/6/19's at 12,316. The midpoint of those date ranges is about 7/23/19.

	S+P 500	**EEM**	**EMB**	**EMLC**	**Brent/NSea Crude Oil**
Low August 2019	2822 (8/5/19)	38.72 (8/14/19)	112.48 (8/5/19)	NA	55.88 (8/7/19)

The S+P 500 made another minor low on 8/15/19 at 2826.

Although the EMLC did not achieve a notable low during August 2019, it had a trough not long thereafter, with 9/3/19's 32.70. HYG's low was 8/5/19's 85.35.

LMEX attained a trough on 8/7/19 at 2718.

	S+P 500	EEM	EMB	EMLC	Brent/NSea Crude Oil
High	3022	42.35	115.60	33.59	71.95
Sept 2019	(9/19/19)	(9/13/19)	(9/4/19)	(9/12/19)	(9/16/19)

The EMB made a lower low on 9/20/19 at 114.61. See HYG's crest on 9/18/19 at 87.54.

The ferocious crude oil price rally following the attack on the Saudi Arabian oil facilities in mid-September 2019 was short-lived. The high shortly before that was 9/10/19's 63.78. Compare the level of the Brent/North Sea crude oil top at 71.95 with its 71.25 interim top on 1/25/18.

LMEX's interim top was 9/13/19 at 2874, an encore to 7/19/19's height.

Bitcoin's 9/6/19 top at 10,945 almost reached 8/20/19's 10,953. However, it broke down and plunged from around 9/23/19's 10,147.

	S+P 500	EEM	EMB	EMLC	Brent/NSea Crude Oil
Low	2856	40.07	112.33	32.65	56.15
Oct 2019	(10/3/19)	(10/2/19)	(10/2/19)	(10/1/19)	(10/3/19)

The HYG's related price trough was on 10/3/19 at 85.75. Note the LMEX base metals low on 10/2/19 at 2757.

Bitcoin briefly halted its bloody decline, making a temporary low on 9/30/19 at 7,703, but it cratered further to 10/23/19's 7,298 depth.

	S+P 500	EEM	EMB	EMLC	Brent/NSea Crude Oil
High to Date Thereafter	3154 (11/27/19)	44.25 (11/7/19)	114.01 (10/4/19)	34.19 (10/28/19)	64.60 (11/27/19)

The EMB's dip resumed from 11/1/19's 113.74, making another (and lower) minor high on 11/26/19 at 112.65. Thus the EMB has had rising yields since early September 2019, the EMLC since mid-July 2019. The HYG's high thereafter was 10/28/19's 87.44 (see also 11/27/19's lower top at 87.15).

Brent/North Sea plummeted from its November 2019 high. OPEC meets 12/5/19.

The LMEX high to date after its October 2019 trough is 11/7/19's 2873.

Bitcoin leaped up to 9,918 on 10/28/19. It collapsed after 11/4/19's 9,599, reaching 6.527 on 11/25/19.

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CEW is the symbol of WisdomTree's "Emerging Currency Strategy Fund". This fund aims to "provide investors with a liquid, broad-based exposure to money market rates and currency movements within emerging market countries." "The goal of CEW is to provide a liquid tradable exposure to emerging market currencies [relative to the U.S. dollar]." Its portfolio is "U.S. Money market securities combined with local forward currency contract overlay." The fund selects at least eight currencies on an annual basis, investing in these in equal portions. The portfolio maturity is 90 days or less.

The CEW emerging marketplace currency ETF has walked in a narrow range over the past year. However, recall its significant top on 1/25/18 at 20.09 alongside the 1Q18 ones in prices for emerging marketplace stocks and debt instruments. CEW's important low 12/26/18 at 17.93 coincided with bottoms in prices in various emerging marketplace stocks and debt instruments (earlier low 9/10/18 at 17.63). CEW's subsequent high on 7/19/19 at 18.94 likewise fit these other emerging marketplace securities. A lower high succeeded July 2019's top, 11/4/19's 18.77.

SPOTLIGHTS: THE DOLLAR, THE S+P 500, AND 10 YEAR US TREASURY NOTE

A character remarks in Alfred Hitchcock's World War Two film, "Lifeboat": "we're all sort of fellow travelers in a mighty small boat, in a mighty big ocean. And the more we quarrel, criticize, and misunderstand each other, the bigger the ocean gets and the smaller the boat."

"He was an honest Man, and a good Sailor, but a little too positive in his own Opinions, which was the Cause of his Destruction, as it hath been of many others." Gulliver's Travels", by Jonathan Swift (Part IV, "A Voyage to the Country of the Houyhnhnms", chapter 1)

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Cross rates such as the US dollar versus the Chinese renminbi entrance politicians, the Wall Street community (especially its currency gunslingers), regiments of corporations, the financial media, and some segments of Main Street. However, real effective exchange rate ("EER") measures better indicate the strength (weakness) and trends of a country's currency. The Bank for International Settlements publishes a broad real effective exchange rate (CPI-based; goods; monthly average; 2010=100; most recent release 11/20/19). The BIS EER statistics extend back to January 1994.

For any given nation, its trading counterparts have different percentage weights within that country's EER. And the actual trade weights (importance) of a nation (such as China) can differ, often substantially, within the assorted EERs.

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The United States dollar's glorious bull charge has lasted for a very long time, over eight years, dating back to July 2011's 93.1. Despite the US broad real EER's generally sideways movement since around January 2017's 120.2 zenith (compare January 2016's interim top at 117.1), the US EER generally has remained robust from the perspective of its July 2011 major bottom and the January 2017-present range itself. The average US EER since January 2017 is 115.1. Although it slumped to 108.8 in February 2018, the US EER rose to 118.9 in September 2019. October 2019's level was 118.1. Although the BIS has not released statistics for November 2019, the US EER's height for November 2019 height probably neighbors October 2019's.

The Federal Reserve Board releases indices for the real broad trade-weighted dollar H.10; monthly average; "TWD"). The TWD's Real Broad Dollar Index (which includes goods and services; January 2006=100) fell slightly from September 2019 (around 108.5) to October 2019 (107.9), with November 2019 slightly lower (107.7). It thus remained near December 2016's 110.1 peak. The TWD's Real Broad Dollar Index (goods only; March 1973=100) averaged 102.8 in September 2019, inching down to 102.2 in October 2019 and 101.8 in November 2019. This TWD weathervane stood near December 2016's 103.3 pinnacle. Such modest alterations in the US TWD's travels from October 2019 to November 2019 suggest that the US probably did not shift much in November 2019 according to the BIS EER standard.

Recall the association (linkage) since around end December 2018 into mid-year 2019 between a relatively strong dollar and upwardly moving asset prices, particularly dollar-denominated ones. The S+P 500 (12/26/18 valley at 2347) probably was the leader in this ascent, but note also the rallies in lower-grade United States corporate debt prices, as well as emerging marketplace sovereign debt securities denominated in US dollars. The commodities sector (note the petroleum complex) for a few months joined the fraternity of rallying assets priced in dollars. Yet the dollar can remain "too strong for too long".

Some emerging marketplace nations and their corporations are burdened with substantial amounts of dollar-denominated debt. Especially if global economic growth slows, this sustained strength in the US dollar eventually can help to undermine dollar-denominated emerging marketplace debt prices (and perhaps even prices of some "associated" emerging marketplace debt instruments denominated in the local currency). To the extent UST (and "related") yields begin to rise a fair amount (or threaten to do so), that tends to further weaken dollar-denominated (and probably some local currency denominated) emerging marketplace debt prices.

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Recall an earlier US EER climb in relation to the S+P 500. As part of the ascent up to the US EER's important interim top in January 2016 at 117.1, a key stage was the march upward from May 2015's 108.6, which rapidly surpassed March 2009's rather lofty global economic disaster high at 110.9. The S+P 500's significant plateau occurred 5/20/15 at 2135. Thereafter the S+P 500 capsized, sinking to a major bottom at 1812 (1/20/16)/1810 (2/11/16). Thus arguably a sustained "strong dollar" EER (or a "too strong dollar" EER), including climbing over March 2009's 110.9 obstacle, encouraged the S+P 500's retreat from its 2015 top.

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To some extent, America's generous tax "reform" blasted US year-on-year corporate earnings to celestial heights, which motivated greater eagerness to own US stocks (and to engage in stock buyback programs). American stock marketplace strength arguably encouraged faith that America and the dollar were good places to place one's funds. However, in contrast to calendar 2018, US corporate earnings growth in calendar 2019 has been mediocre. Will the nation's 2020 earnings growth be as much as hopeful optimists predict?

Suppose United States 2020 election battles return the Democrats to power in the Presidency (and the House, and perhaps in the Senate as well). The tax reform cuts which benefited US corporations (launched corporate earnings upward) and the wealthy probably will not stay in place. The reversal of tax reform legislation, or even the growing chance that such an event will transpire, all else equal, will encourage drops in stock prices. The increasing likelihood of eliminating (or substantially slashing) the tax reform benefits, given the conjunction with the link between stock prices and dollar strength during the Trump era (and especially since early 2018), warns of eventual weakness in the US real effective exchange rate. What if Congress threatens to increase capital gains tax rates as well?

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Let's summarize the 2019 peaks and their timing in emerging and other marketplaces. Despite differences in the timing of these (and earlier) peaks (and bottoms), these arenas generally have been "trading together" since at least around first quarter 2018.

EEM: 4/17/19 at 44.84	Brent/North Sea crude oil: 4/25/19 at 75.60
EMB: 9/4/19 at 115.60	LMEX: 2/28/19 at 3058

EMLC: 7/18/19 at 35.18 Bitcoin: 6/26/19 at 13,868
HYG: 6/20/19 at 87.65

These highs all occurred quite some time before the S+P 500's 11/27/19 high at 3154.

As the S+P 500 fails to create new highs and starts moving lower alongside the existing downtrends in marketplaces such as emerging marketplace stocks and debt, the convergence between the S+P 500's retreat and the ongoing ones in these other domains probably will be fairly substantial.

To many United States stock marketplace observers, a one-year bull price stage (overall uptrend for a year) and a 33 percent ascent in a broad (diverse members) benchmark index such as the S+P 500 is a noteworthy signpost. Admittedly, fifty percent, sixty-six pc, and 100pc also are important markers. In any case, the S+P 500's rally from its 12/26/18 bottom at 2347 has lasted nearly one year. The 11/27/19 high at 3154 climbed 34.4 percent from that end-year valley.

In the S+P 500's latest stages of its magnificent bull ascent after its important 1/26/18 interim high, the piercing of an initial ceiling by the subsequent next noteworthy high has tended to be relatively minor (less than five percent), and followed by a price slump. The 9/21/18 high at 2941 surpassed 1/26/18's top by 2.4 percent; the bear move to 12/26/18's bottom was about 20.2pc. The 5/1/19 plateau at 2954 edged over the September 2018 interim top by only .4pc. A 7.6 percent decline to 6/3/19's 2729 low ensued. On 7/26/18, the S+P 500 attained a new high, at 3028, moving 2.5pc beyond the prior crest. The price quickly dove to 8/5/19's 2822, a 6.9pc drop. Although 9/19/19 high did not move over the prior high at 3028, the S+P 500 dropped 5.5pc to 2856 on 10/3/19. The S+P 500 vaulted up 10.4 percent from its October trough to its late November 2019 high. The 11/27/19 high exceeded July 2019's high by 4.2 percent.

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The Federal Reserve and its central banking allies and many politicians (especially President Trump) do not want the S+P 500 to get shipwrecked and start to submerge. If the S+P 500 falls 10 percent from a notable high, will the Fed throw it a life preserver, whether renewed easing (such as rate cuts) or rhetoric hinting at this? If the S+P 500 drops around 20 percent (or more) from a peak, the Fed and other central bankers are more likely to engage in actual monetary accommodation (including quantitative easing/money printing).

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In mid-summer and early fall 2018, prices in the EMB (9/27/18), EMLC (7/30/18), and HYG (9/28/28) were making interim highs (lower yields). In contrast to these emerging marketplace and US corporate interest rate yield trends, the yield for the United States Treasury 10 year note peaked (prices were lower) around 3.25 percent in early October 2018 (3.25 pc on 10/5/18; 3.26pc 10/9/18; 3.25pc 11/7/18).

What about recently? The UST yield fell (its price rose) to a low of 1.43 percent on 9/3/19, alongside and thus converging with the September 2019 price highs in the EMB, EMLC, and HYG.

Will the price convergence between high-quality debt instruments like the UST 10 year note and German Bund (9/3/19 yield low at negative .74) and emerging marketplace sovereign (and low-quality corporate debt) suggested by this set of early to mid-September 2019 yield lows (price highs) persist? Or, if the global economy slows down further, or the S+P 500 and related stock marketplaces decline notably, might UST yields fall in a “flight to quality” while emerging marketplace sovereign and poor-quality corporate debt yields climbed?

Long-run history reveals that rising yields in key US government debt benchmarks such as the UST 10 year note tend to precede major peaks in US stock marketplaces such as the S+P 500 and Dow Jones Industrial Average. But nowadays, even if UST yields do not climb much if at all, perhaps an ongoing trend of rising yields in emerging marketplaces and in the US corporate debt may precede and thus warn that the S+P 500 has achieved a peak, or soon will do so.

Nevertheless, even if the American economy slows down further, there is potential for at least modest US Treasury 10 year note yield boosts. Suppose the Federal Reserve Board finally allows UST yields to walk higher to permit a decent return relative to existing inflation rates. According to the Financial Times, “Fed weighs letting inflation headline run above target” (12/2/19, p2). Or, suppose inflation yardsticks rise anyway, regardless of Fed policy changes. Alternatively, survey the troubling US federal debt situation, which has potential to spark yield increases. The nation’s tax “reform” law enacted at end 2017, championed primarily by Republican legislators (and corporations and affluent individuals), substantially expanded the federal deficit. Various spending (entitlement) schemes embraced by several Democratic Presidential contenders have a substantial likelihood of worsening the existing deficit problem and trend. What if China or other nations holding a substantial amount of UST securities, as part of their trade conflict with the US (or for other reasons), become net sellers (or reduced net buyers) of UST?

CRYPTOCURRENCIES ON STAGE: BITCOIN

“Well, I’m flyin’ ’cross the land,
Tryin’ to get a hand,
Playin’ in a travelin’ band.” Creedence Clearwater Revival’s song, “Travelin’ Band”

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Bitcoin and many other fairly widely-traded cryptocurrencies generate widespread curiosity and frequent enthusiasm among financial marketplace watchers and regulators. In the past couple of years, these cryptocurrencies, despite their huge price swings, have been somewhat analogous to an emerging marketplace instrument (“asset”). Of course the supply/demand and inventory situation of Bitcoin and its friends is not the same as in securities and other marketplace playgrounds.

Some gurus proclaim and promote Bitcoin and similar cryptocurrencies as worthy alternatives to traditional currencies. Bitcoin also has been an avenue via which “investors” (speculators; traders) aim to secure better yields (return) than available via conventional instruments such as stocks, debt securities (don’t forget widespread negative yields), real estate, or currencies such as the United States dollar or Euro FX.

Arguably, the growing popularity of Bitcoin and similar cryptocurrencies in the past few years may hint at increasing concerns (at least in some quarters) regarding the quality and safety of existing financial (and political) institutions.

In any case, the key price timing turns since around first quarter 2018 and the associated directional moves (trends) roughly have paralleled those in emerging marketplace stocks and debt. Consequently, they to some extent have resembled those in the S+P 500. Obviously the major trends of Bitcoin can and do vary to some extent from those in emerging marketplace securities and the S+P 500. But compare the dates of key highs and troughs in Bitcoin with those in the preceding table.

Bitcoin's sustained retreat since mid-year 2019, including the important span since early September 2019, though greater in percentage terms than price weakness in emerging stock and debt marketplaces, US high-yield corporate bonds, and commodities during that time horizon, fits the overall directional downtrends of those realms. For at least the near term, notable Bitcoin declines (or advances) probably will confirm those in these other battlefields. Therefore, continued declines in Bitcoin alongside these marketplaces probably can portend (or confirm) a fall in the S+P 500.

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