CRITICAL CONDITIONS AND ECONOMIC TURNING POINTS

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"Just Dropped In (To See What Condition My Condition Was In)", a Mickey Newbury song performed by Kenny Rogers

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CONCLUSION

With the passage of time following 2007-09's global economic disaster, memories regarding the accompanying bloody bear trend in America's stock marketplace benchmarks such as the S+P 500 gradually yet significantly faded. As the S+P 500 ascended, and especially as it advanced to and sustained record highs, widespread sermons declared that we should "buy the dip". This aligned with the venerable proverb regarding the reasonableness of buying and holding United States stocks for the "long run".

What constitutes a "dip" or the "long run" is debatable, a matter of subjective perspective (opinion). How substantial a drop from some key elevation justifies buying? Is it one percent, five percent, ten percent, or twenty percent or greater? Is the long run one year, five years, or ten or more?

Of course since the S+P 500's major bottom on 3/6/09 at 667, a few bloody stock price slides in that signpost (and "related" global equity yardsticks) terrified stock "investors" and their allies, including central banks such as the Federal Reserve, American politicians, and the financial media. Yet as the S+P 500 achieved a record height quite recently with 1/22/20's 3338 (2/5/20's level matched this), such advice definitely looked excellent to many stock owners and observers!

Besides, as they have numerous times over the past eleven years, won't beloved central bank physicians such as the Federal Reserve Board (under the guise of fulfilling their mandate), European Central Bank, the Bank of England, China's central bank, and the Bank of Japan rescue stocks and generate rallies in them? Not only soothing rhetoric, but also yield repression and quantitative easing (money printing) remain antidotes for stock price drops, right? And politicians might assist via new tax cuts, boosts in infrastructure spending, or similar schemes.

Thus the majority of US stock marketplace players have focused more on the rewards of owning than the dangers of doing so. Substantial complacency reigns regarding the potential for noteworthy American and other stock marketplace price declines.

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The recent emergence within China of a deadly coronavirus and its spread elsewhere around the globe helped to push US and other equities downhill. Whether this medical problem will injure the S+P 500 and other global stocks significantly (and for a sustained period of time) remains uncertain. Government actions to prevent the spread of the virus will tend to hamper economic growth. Fearful consumers and nervous corporations may slow their spending. The wider the reach and the longer the persistence of the ailment, the greater the economic damage. And economic (financial) weapons such as money printing and yield repression available to the Fed and its friends obviously do not halt epidemics or cure diseases (or fears of them).Though the S+P 500 descended to 3215 on 1/31/20, the index recovered, touching 3338 again on 2/5/20.

AMERICAN STOCKS: MONITORING MARKETPLACE PULSES

In any event, the coronavirus is not the only phenomenon warning of (helping to create) eventual significant American stock marketplace price feebleness. Prior to the coronavirus's dramatic move into the spotlight, several bearish signs for US stocks (in addition to the widespread complacency regarding the risk of a downtrend) existed. Let's summarize several of these.

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America's generous tax "reform" enacted at end calendar year 2017 blasted US year-on-year corporate earnings to heavenly heights. This motivated greater enthusiasm to own American stocks (and to engage in ardent stock buyback and merger and acquisition programs). However, in contrast to calendar 2018's awesome earnings growth versus the prior year, US corporate earnings increases for calendar 2019 were mediocre, up around one percent year-on-year.

Will the nation's calendar year 2020 corporate earnings growth expand around nine percent versus 2019's level, as some optimistic Wall Street wizards forecast? American tax "reform" helped to propel 2018 earnings much higher. However, calendar 2019 corporate earnings were essentially flat. FactSet places them up merely .3 percent year-on-year ("Earnings Insight", 1/31/20), Refinitiv up only 1.5pc versus 2018 ("S&P 500 Earnings Scorecard", 1/31/20). This uninspiring calendar 2019 earnings performance hints that tax reform will not resuscitate them much in subsequent years, especially as the US economic growth outlook is only fair. Besides, as calendar 2019 passed, previously lofty earnings estimates for that year eroded substantially.

Higher corporate taxes of course will diminish corporate earnings. The US 2020 election outlook (especially for the Presidency) and the ultimate identity of the Democratic Presidential candidate (and the content of the Democratic platform) are very relevant to potential changes in the existing tax regime, especially those relating to 2017's reform law. To the extent fears of US corporate tax increases (or boosts in capital gains tax, higher income taxes on affluent individuals) grow, the S+P 500 becomes more vulnerable to price declines. Given the highly competitive Democratic political situation, outcomes for its primaries and thus the presidential race are quite uncertain. Much depends on the extent and pattern of US economic growth in influencing voter decisions. However, in this presidential campaign process, suppose Democratic prospects in general relative to President Trump improve. That heightens the odds of higher taxes. If this links to a potential victory by a liberal (progressive) Democrat (such as Senator Sanders), this probably will undermine bullish stock marketplace sentiment even more.

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In marketplaces, views on whether a stock price, valuation measure, or other economic (financial) variables are high, low, average, natural, reasonable (unreasonable), rational (irrational), logical (illogical) at an equilibrium or fair value (overshooting or undershooting; overvalued or undervalued) and so on are subjective (opinions), not scientific (objective). However, many valuation measures arguably indicate that the S+P 500 is high (expensive).

US federal budget trends point to large future deficits and increasing debt levels as a percentage of GDP. All else equal, some point this massive borrowing probably will help to push interest rates higher as corporations and individuals compete for credit, which will tend to slow economic growth. The nation's exciting tax reform law enacted at end 2017, championed primarily by President Trump and Republican legislators (and corporations and affluent individuals), substantially expanded the federal budget deficit. Under current law, these hefty deficits and the increasingly bloated overall national debt will persist. The long run US deficit problem was substantial even before the tax reform law. Various spending (entitlement) schemes adored by several vote-hungry Democratic Presidential contenders also have a substantial likelihood of continuing rather than curing the existing deficit problem and trend.

For many countries, not just America, there is little likelihood for notable government debt reduction anytime soon. And a fair amount of corporate debt is of mediocre quality. The World Bank warns: "Global debt [government plus private] has trended up since 1970, reaching around 230 percent of GDP in 2018." The international government debt level as a percentage of GDP nowadays is greater than at the dawn of the 2007-09 global economic disaster. ("Global Waves of Debt: Causes and Consequences"; Figure 1.1, p6; 12/19/19).

Not only does America have significant internal divisions across various parameters (political ideology, economic principles (and haves versus have-nots), age, sex/gender, region, urban/rural, racial/ethnic background, religion). The virulent partisan politics (which partly reflect these cultural divisions) likely will persist on the national legislative stage at least through the 2020 election, and probably for many months thereafter. Populist agitation from diverse directions will continue. So will fervent efforts by various elites (the establishment) to preserve or enhance their privileges (forms of entitlement).

The Democratic House of Representatives probably will not compromise often on significant issues with the Republican Senate and President, including tax and spending ones, especially in election year 2020. Since therefore tax reform as well as entitlement spending (note the long run burden of such obligations) will remain in place, America's trend of substantial budget deficits and expanding (increasingly worrisome) public debt will remain entrenched.

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The US, Mexico, and Canada replaced NAFTA with a new trade deal. America and China signed an initial pact, but substantial tariffs remain in the US/Chinese relationship. And trade wars elsewhere have not ceased.

The International Monetary Fund predicts global growth of 3.3 percent in calendar 2020, up from 2019's 2.9pc. Advanced nation output in calendar 2020 rises only 1.6 percent, less than 2019's 1.7pc year-on-year gain and 2018's 2.2pc increase. It prophesized an emerging/developing nation real GDP increase from 3.7 percent in 2018 to 4.4pc in 2020 ("World Economic Outlook", Table 1, 1/9/20).

However, Chinese growth was slowing long before the coronavirus problem appeared. Given that, as well as mediocre prospects for advanced nation economic growth in general, the IMF's early January 2019 diagnosis of a jump in emerging/developing nation real GDP increase from 3.7 percent in 2018 to 4.4pc in 2020 probably was overly optimistic. So therefore was its sunny view for overall global output.

With the advent of the coronavirus, the global growth rate probably will fall beneath the IMF's expectations.

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Let's examine the United States dollar trend and level in relation to the S+P 500 and other marketplaces.

Currency cross rates such as the US dollar versus the Chinese renminbi entrance politicians, the Wall Street community, regiments of corporations, earnest financial media storytellers, and some Main Street pilgrims. However, broad dollar indices (such as those of the Federal Reserve Board and Bank for International Settlements) better indicate the level, strength (weakness), and trends of a country's currency.

The Federal Reserve releases indices for a real Broad trade-weighted dollar H.10; monthly average; "TWD"; 2/3/20). Examine the TWD's real Broad Dollar Index (which includes goods and services; January 2006=100). It started a major bull charge from July 2011's bottom at 83.9. It peaked in December 2016 at 110.1, significantly above March 2009's worldwide economic disaster pinnacle at 101.5. The goods and services based TWD fell to 100.2 in February 2018.

For quite some time, investors and other marketplace participants (speculators, traders) have wondered where they should put their money when government interest rate yields were so low (and in many government realms around the globe, even negative).

The S+P 500 commenced a sickening fall after attaining a plateau in autumn 2018. Recall the 20.2 percent breakdown from 9/21/18 (2941)/10/3/18 (2940) to 12/26/18's 2347 valley. Yet the worthy Fed doctors fortunately solved this stock price emergency. Easy money can be excellent medicine for an unhealthy stock market, yes?

An intensified hunt for sufficient (good, reasonable, acceptable) yield (return) coincided with (partly resulted from) the promulgation of the Fed's glorious accommodative patience doctrine (and the related slashing of the Federal Funds rate). Recall the association (linkage) beginning around end December 2018/early 2019 between a relatively strong US dollar, the S+P 500 rally, and other upwardly moving asset prices, particularly dollar-denominated ones.

The S+P 500 probably was the leader in this asset price climb, but we should highlight the interrelated contagious price jumps in other advanced nation equities, emerging marketplace stocks in general, lower-grade United States corporate debt, as well as emerging marketplace sovereign debt securities denominated in US dollars. Around Christmas 2018, the petroleum complex joined the constellation of bull moves in dollar-priced assets.

The real Broad TWD (goods and services) was 107.7 in December 2018. It stayed strong (though in a narrow range) during calendar 2019, with February 2019's 105.9 the calendar year 2019 low. Though the TWD depreciated to 106.0 (January 2019)/105.9 (February 2019), it thereafter climbed to September 2019's interim high at slightly over 108.4 (August 2019's level was just under 108.4).

The epic yield (return)-seeking quest in various asset classes probably helped to maintain US dollar strength throughout calendar 2019. American stock marketplace strength arguably encouraged faith that America and the dollar (and dollar-denominated assets) were good places to place one's funds.

Given that since early 2019, a strong TWD linked to a strong (rallying) S+P 500, then (all else equal) a decline in the real Broad TWD probably encourages s down move in the S+P 500. Since September 2019, the real Broad TWD indicator has fallen slightly but steadily. In October 2019, it was 107.9, with November 2019 at 107.8 and December 2019 at 107.2. January 2020 crawled down to 106.4. The withering of the TWD, which began over the past several months, therefore encourages (is leading to) a fall in the S+P 500. A fall in the S+P 500 probably will connect with declines in prices of lower grade corporate debt and many other asset sectors. In addition, since the TWD has enjoyed a long bullish period (its rally began with July 2011's 83.9), and as the TWD has not surpassed its December 2016 summit at 110.1, it therefore is vulnerable to a fairly sizable further drop from its January 2020 height.

Moreover, the dollar can remain "too strong for too long". Despite the TWD's decline since September 2019, that remains the case. Picture the financial exposure of emerging marketplace foreign borrowers (whether corporations or sovereigns) with substantial dollar debt obligations and inadequate revenues. If debt repayment becomes too expensive (dollar acquisition too costly) for many of these entities, pressure on emerging marketplace stock benchmarks may appear. A slump in emerging marketplace stocks thus may undermine the S+P 500 and other advanced nation stock indices.

On the Japanese Yen versus the dollar cross rate front, recall the timing of recent bottoms for the Japanese Yen alongside important interim tops in the S+P 500. The Yen established important lows on Y114.6 on 10/4/18 and Y112.4 on 4/24/19. Compare these marketplace turns with the S+P 500's highs at 2941 (9/21/18)/2940 (10/3/18) and 5/1/19's 2954. The Yen's recent interim low against the dollar is 1/17/20's Y110.3, neighboring the S+P 500's 1/22/20 high. Although the Japanese government is a major debtor, the country's households and many of its corporations are global creditors. Arguably a strengthening Yen (especially if it is on an effective exchange rate basis, not only on a cross rate view) warns that Japan is "liquidating overseas assets" (such as stocks) and "bringing the money back home."

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

Thus the climb in the US Treasury 10 year note yield from 1.32 percent to 10/9/18's 3.26 percent "led" to the S+P 500's important high on 9/21/18 (2941)/10/3/18 (2940). The S+P 500 raced downhill to 12/26/18's trough at 2347, a 20.2 percent bear decline.

The S+P 500 thereafter skyrocketed to new highs, attaining 3338 on 1/22/20 (and 2/5/20). The US 10 year government note yield climbed 54 basis points from 1.43 percent on 9/3/19 to 1.97 pc on 11/7/19 (1.95pc 12/19/19; 1.90pc 1/9/20).

Is the rise in the US Treasury 10 year note yield since its 9/3/19 bottom at 1.43 percent (and related increases in the ten year note yields of other important sovereign debt marketplaces) leading to a peak in the mighty S+P 500 (and other key stock marketplaces)? Probably. See "Ringing in the New Year: US and Other Government Note Trends" (1/6/20).

Even though a 54 basis point rise in the UST 10 year note is modest from the arithmetical perspective, as "History on Stage" states, the precipitating arithmetical change has not always been big. For example, the yield increase linked to the 9/3/29 peak in the Dow Jones Industrial Average at 386.1 was 57 basis points. The UST stood at 3.17 percent in December 1927 and March 1928, traveling up to 3.74 percent in March 1929 (3.71pc in August 1929). On a change in percentage yield basis, the 1927-29 shift was about eighteen percent (57/317 basis points). The 2019 percentage yield escalation is 37.8pc (54/143 basis points), dramatically larger than that of 1927-29

In 1937-38, the UST 10 year walked up only 29 basis points, from 2.54pc in February 1937 to 2.83pc in April 1937. The DJIA peaked at 195.6 in March 1937. In 2015, the S+P 500 peaked

5/20/15 at 2135. Remember the UST yield rose 87 basis points from 1.64pc on 1/30/15 to a high of 2.50pc on 6/11/15.

The United States Treasury 10 year note yield completed a triple bottom. Recall 7/5/12's 1.38 percent trough. Then see 7/6/16's 1.32 percent major low and 9/3/19's 1.43pc. September 2019's UST depth probably commenced an extended period of rising government (as well as other) interest rates for America and its important trading partners "in general". If so, and as history demonstrates that the yield advance sometimes has extended past the time of a stock pinnacle, the UST 10 year note yield can exceed its recent elevation around two percent.

Let's explore some "flight to quality" issues related to the recent high in the S+P 500. Fearful searches for safe havens at times can depress government debt yields of "strong" (secure) nations such as America and Germany. Only 20-20 hindsight will determine whether the UST 10 year notes slide from its 1/9/20 interim high (or earlier) commenced (or accelerated) a flight to quality. In any case, the yield slump down to 1.50 percent (1/31/20) connects with the S+P 500 erosion following 1/22/20's 3338. Major support for the UST 10 year note exists around its 7/25/12 (1.38 percent)/7/6/16 (1.32pc)/9/3/19 (1.43pc) triple bottom. An attack of this bottom will agitate faithful stock marketplace bulls.

A flight to quality can occur even if there probably is a long run secular move underway toward higher interest rates. And a modest and relatively temporary break under prior yield bottoms does not necessarily disprove the existence of a long run trend toward higher rates, especially in a landscape in which central bank rate manipulation policies are widespread.

In some scenarios, flights to quality into (and thus lower yields for) allegedly high-quality debt (such as American, German, or Japanese government securities) may be accompanied by yield spikes in relatively low-quality instruments. Such lower quality debt may be that of a sovereign state. Picture emerging marketplaces; also, recall government debt yield leaps in Greece, Italy, Portugal, and Spain during the Eurozone crisis. Low-quality corporate debt (even if labeled as investment grade) likewise is vulnerable to adventurous yield climbs. Such yield ascents in low-grade corporate debt probably will confirm significant falls in the S+P 500 and other stock marketplaces.

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The US Treasury yield curve warns of a peak in United States stock benchmarks. Review the Federal Reserve Bank of New York's graph of and statistics for the yield spread between the three month bill and the UST 10 year. It had been negative (inverted yield curve) from June through September 2019 (monthly average; August 2019's -.36 percent the widest). It thereafter shifted to being slightly positive, at 29 basis points (in December 2019, UST 10 year at 1.86 percent versus the three month bill's bond equivalent yield of 1.57pc). History reveals that a shift from a negative (or nearly negative) slope to an upward one (longer term rates above short term ones) has preceded (or coincided with) eight recessions since 1959.

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In the avid search for yield (return) following the Federal Reserve's embrace of its "patience" ideology, some pilgrims bought commodity "assets" such as petroleum and base metals. The petroleum complex rallied for a while alongside stocks. ICE Brent/North Sea crude oil (nearest futures continuation) flew from 12/26/18's $49.93 to 4/25/19's $75.60. However, not only does that price lurk well under 10/3/18's $86.74 pinnacle. Despite an attack on Saudi Arabian oil facilities and other Middle East turmoil, petroleum prices plunged. See Brent/North Sea crude oil’s 9/16/19’s interim high at $71.95, and especially the murderous nosedive from 1/8/20’s $71.75. The 2/4/20 low was $53.69.

Base metals in general have followed a roughly similar pattern to the petroleum complex. See the London Metal Exchange’s base metals index (“LMEX”). The LMEX rallied from 1/3/19’s 2730 depth up to 2/28/19’s top. It thereafter slipped to 8/7/19’s 2718. Though it motored up to 1/20/20’s 2894, it thereafter tumbled (alongside petroleum and the S+P 500). Its 2593 close on 2/3/20 burrowed beneath August 2019’s level.

These price crashes in petroleum and base metals warn of eventual falls in the S+P 500 and other global stock marketplaces.

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What about emerging marketplace stocks in this context? Emerging stock marketplaces allegedly also provided “good” opportunities for yield (return), right?

Don’t overlook the timing of the S+P 500’s 12/26/18 bottom on 12/26/18. The EEM (iShares MSCI Emerging Stock Markets ETF) raced up from 12/26/18’s 38.04 (initial trough 10/29/18 at 37.58), reaching 44.84 on 4/17/19 (S+P 500 interim high 5/1/19 at 2954; compare the time of the petroleum complex highs; Brent/North Sea high 4/25/19 at $75.60). The EEM descended to 38.72 on 8/14/19 (S+P 500 minor low 8/5/19 at 2822; Brent/North Sea crude oil interim low 8/7/19).

Was the S+P 500’s rally from its August 2019 low infectious? After the EEM’s August 2019 trough, the hopped up to 1/13/20’s 46.32 high. The EEM cratered 9.6 percent following that top, touching 41.88 on 1/31/20. Although the EEM rallied over the next few days, the drop from 1/13/20 was an ominous sign for US stocks. Note that the EEM has not exceeded 1/26/18’s 52.08 peak, whereas the S+P 500 surpassed its 1Q18 interim high.

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In the World War II film, “12 O’Clock High” (Henry King, director), General Frank Savage gives his bomber crews the bottom line. “The one thing which is never expendable is your obligation to this group. This group…has to be your loyalty, your only reason for being.”

Assorted fraternities of US stock marketplace bulls (especially investors) assemble and disseminate counterarguments to battle bear viewpoints. For example, global growth prospects (at least until China’s coronavirus struck) still looked adequately healthy to many influential observers. Injections of fiscal stimulus (look at US federal deficit spending) will sustain sufficient economic growth, right? The long run fiscal indebtedness problem can be kicked down the road. The overall American consumer balance sheet (net worth) is healthy, and consumer and small business confidence remain high. Consumer price-type inflation remains under control, and wage inflation currently does not appear overly troublesome.

Moreover, another compelling consideration exists. Government interest rates for leading nations remain low, with many still negative. So where should we put our money? After all, the S+P 500 has rallied 42.2 percent in its charge from December 2018’s bottom to the 3338 (1/22/20; 2/5/20) high-to date. That return is amazing! Plus many stocks pay a dividend.

US corporate earnings may rebound in 2020 (and 2021 as well), thus supporting stocks. Also looking forward, US share buybacks and mergers and acquisitions may remain substantial. Stock marketplace valuations may appear lofty from the very long run historical vantage point. This situation nevertheless can persist for quite some time, especially if the “free supply” of equities is low and a notable quest for sufficient (adequate) yield persists. Plus many believe “there’s a lot of cash around looking for a home.”

And as it often has done over the past dozen years or so, the benevolent and trusty Federal Reserve Board probably (surely) will intervene successfully via wordplay or action to bolster (rescue) the S+P 500 if it (and global stocks in general) declines “too far”, right? Look not only at very recent history, but also review the global economic crisis and subsequent years. The Fed missionary indeed listens to widespread and sustained noisy prayers and pleas by endangered investors (owners) of US equities (and from those entities that serve and benefit from the existence of such stock investors). The Fed unveiled its monetary “patience” doctrine for United States policy interest rates around end-calendar 2018 because of economic slowdown fears (including risks from trade war conflicts), sharp declines in the S+P 500 and other important global equity playgrounds, and criticism from President Trump. It cut the Federal Funds rate three times during calendar 2019. Central banking allies such as the European Central Bank enhanced or maintained existing highly accommodative monetary policy regimens.

As for the coronavirus threat, underscore China’s vigorous medical efforts to contain it and the related fights to financially support and stimulate the nation’s economy.

Also, the given the record highs achieved recently by the S+P 500 (and Nasdaq Composite Index) numerous short sellers are under water. To avoid losing more money and suffering further pain, many of these shorts may close out their positions, thereby helping to propel key stock indices even higher.

However, such views, hopes, and events do not necessarily preclude a notable decline in the S+P 500 (or in the marvelous technology sector exemplified by the thrilling Nasdaq Composite Index).

CRITICAL COMPLACENCY

“’Cause when life looks like easy street, there is danger at your door. “Uncle John’s Band”, by the Grateful Dead

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Over the long run, a high and rising US stock marketplace particularly tends to be associated with American economic advances (including rising corporate profitability) and victories. In many perspectives, a long run strong (bullish; healthy) stock marketplace also connects to a significant extent with the overall success of the assorted aspects of the American Dream, not only the economic dimension. Stock marketplace promoters emphasize the merit and wisdom of owning stocks (especially investment-grade American ones), particularly over the long run.

The S+P 500 has risen majestically from its dismal 3/6/09 major bottom at 667. The duration of the magnificent economic expansion which began in June 2009 (see the National Bureau of Economic Research) has shattered previous records. These awesome bullish trends may continue. However, marketplace history is not necessarily marketplace destiny, either in whole or even partly. Whether in America or elsewhere, economic slowdowns (and even recessions) and stock bear trends have not been abolished.

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The Federal Reserve's accommodative monetary policy, which emerged during the dark days of the 2007-09 worldwide economic disaster, and which has intertwined with easy money programs of other central banks, has been long-running. In practice, the Fed's policy prescriptions relate to more than the achievement of stable prices (sufficient inflation; around two percent) and maximum sustainable employment (a low headline unemployment number). At least in the post-financial crisis era, the Fed generally has aimed to support (and often to rally) American stocks and real estate prices.

In today's globalized economy, significant falls (rallies) in the S+P 500 can be highly contagious, inspiring or intertwining with price drops (bull moves) in other noteworthy equity domains. Significant trends in important international stock battlefields likewise can entangle with and thus substantially influence moves in American stock benchmarks. In many nations, including America, a substantial stock marketplace price climb or collapse can influence the so-called "real economy" significantly. In the United States, the Fed, politicians, Wall Street, Main Street, and investors want a healthy (strong) economy.

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A survey of the S+P 500's notable price declines since its major low in March 2009 reveals the inclination and ability of the Fed to stop S+P 500 price declines at around twenty percent or less. Of course such past central bank success does not guarantee similar future performance. In stock playgrounds, many define a "correction" as a ten percent drop from a key high. A bear move is a fall of twenty percent or more from a pinnacle.

This Fed policy scheme and the S+P 500's pattern over roughly the past eleven years has encouraged deep and widespread faith in the reasonableness (wisdom; prudence) of the "buy the dip" rule (in US stock benchmarks such as the S+P 500). Renewed S+P 500 price rallies and moves to new highs of course tend to discourage and act as a warning to actual and potential stock bears.

Sustained low US Treasury interest rates in America (and negative yields in many other jurisdictions) create an especially alluring environment to spark and justify inclinations by "investors" (and others) to buy and hold American stocks. Many ask when interest rates are low, "Where do I put my money?"

This interrelated historical pattern over the past eleven years, of vigorous Federal Reserve action and modest price declines in the S+P 500, likely has created significant faith in two entangled guidelines (rules of thumb; principles). What are these cultural attitudes? The Fed has tremendous power (capability) and inclination to arrest "significant" and sustained US stock declines. Second, most people believe that price declines in the S+P 500 very probably (at least anytime soon) will not near or exceed twenty percent (or at least not exceed 20 percent by much for very long).

Of course only history will show whether the Fed (and other phenomena) will continue to contain American stock slumps to around 20 percent or less. Nevertheless, widespread faith in this pair of principles indicates significant complacency regarding stock ownership. The long period of generally happy times (rising US stocks; American GDP growth) has inspired greater concentration by many wealth and financial security seekers on the potential reward (upside) of owning stocks than on the potential risk (downside) of holding them.

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The rock band Pearl Jam proudly sings in "Do the Evolution": I'm the man. Buying stocks on the day of the crash."

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Here are nine noteworthy price falls in the S+P 500 from the March 2009 bottom through December 2018. Recall the Fed's quantitative easing (money printing) and yield repression. Let's define a correction as being "around" ten percent, with a bear trend as being twenty percent or more.

1. From 6/11/09's high at 956 to 7/8/09 at 869, the decline was 9.1 percent. It ran about one month.
2. The wounding fall from 4/26/10's 1220 to 7/1/10 at 1011 was 17.1pc and ran about two months and a week.
3. The deadly bear collapse from 5/2/11's 1371 to 10/4/11's 1075 equaled 21.6pc over five months.
4. The fairly fast decline from 4/2/12's 1422 to 1267 on 6/4/12 was 10.9pc and two months.
5. Recall the slump from 9/14/12's 1474 to 11/16/12's 1343: 8.9pc and two months.
6. Note the drop from 9/9/14 at 2019 to 10/15/14 at 1821. This retreat totaled 9.8 percent and endured for only one month and one week.

7. The percentage fall from 5/20/15 at 2135 to 2/11/16 at 1810 (1812 on 1/20/16) was 15.2 percent and lasted eight months and three weeks. The two stages of decline within this overall retreat are 5/20/15's drop from 2135 to 8/24/15's 1867 (12.6pc) and 11/3/15's dive from 2116 to 2/11/16's 1810 (14.5pc).

Over the next two years, from the February 2016 low up until the retreat following the 1/26/18 interim top, the S+P 500 had no dip approaching a correction. There were only a couple of minor falls. See the dip from 6/8/16's 2121 down to 1992 on 6/27/16 (6.1pc; about three weeks) and the stumble from 8/15/16's 2194 to 11/4/16's 2084 (about 5.0pc; two months and three weeks).

8. See the S+P 500's scary nosedive from 1/26/18's interim high at 2873. However, the 11.8 percent correction to 2/9/18's low at 2533 lasted only two weeks.

9. The rather rapid stock decline which began in autumn 2018 captured the Fed's attention. In its injurious bear move from 2941 (9/21/18)/2940 (10/3/18) to 12/26/18's 2347, the S+P 500's 20.2 percent tumble stopped at almost exactly the bear move yardstick. The terrible ordeal lasted about three months and one week before finishing.

These nine notable falls include five corrections (9.1 percent, 10.9pc, 8.9pc, 9.8pc, 11.8pc). Yet over more than ten years, there were only two near bear moves (17.1 percent and 15.2pc) and merely two bear moves (21.6 percent and 20.2pc) or near bear) moves. Not only were there only two bear moves, but also the penetration of the magic 20 percent barrier was slight and did not endure for long. In addition, most of the corrections, near-bear, and bear drops were brief in time. The longest downturns from the time angle (eight months and three weeks, about five months) were not extraordinary in duration from the long run perspective of S+P 500 down moves.

This pattern of relatively few and brief noteworthy S+P 500 price downturns likely bred complacency among stock marketplace bulls and their allies. They generally believe that price declines from a noteworthy top, even if violent, will seldom reach ten percent and only rarely will exceed twenty percent. Moreover, faith grew that such downturns probably would not last long. Also, even after the declines to the 1Q16 and end year 2018 bottoms, those troughs stood far above the March 2009 major low.

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In addition, in the aftermath of the important S+P 500 bottom at 2347 on 12/26/18, bottom, there have not even been any corrections. And the four modest slips prior to the fall from 1/22/20's height were all brief in time. Moreover, since the S+P 500's end year 2018 trough, retracements became increasingly small in percentage terms.

High at 5/1/19 at 2954 to 6/3/19's 2729 low:	7.6 percent fall	About 33 days
7/26/19 at 3028 to 8/5/19 at 2822:	6.9pc drop	Nine days
9/19/19 at 3022 to 10/3/19 at 2856:	5.5pc descent	Fourteen days
11/27/19 at 3154 to 12/3/19 at 3070:	2.7pc slide	Six days

The deterioration from 1/22/20's 3338 to the subsequent low to date, 1/31/20's 3215, was about 3.7 percent and lasted nine days.

This pattern for the S+P 500 over the past year or so probably has reflected (and likely exacerbated) ongoing ("underlying") enthusiasm to buy dips and to doubt the potential for notable "corrections" (declines around ten percent), near-bear moves (declines approaching twenty percent), and (especially for) bear moves (slumps of twenty percent or more).

Do Wall Street, Main Street, and the financial media talk often about fourth quarters 2018's twenty percent collapse in the S+P 500? How often do marketplace historians or prophets reminisce about or consider the present-day relevance of the "ancient history" of massive bear moves which commenced in 2007, 2000, or earlier? Are we living in a new and blessed Goldilocks Era, a time of "rational exuberance"? Are purchases of benchmarks such as the S+P 500 always "investments" (or "good" investments), or can such stock ownership ever be sufficiently risky to be labeled as "speculation" or "gambling"?

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A five percent dip from 3338 equals 3171, a mournful ten percent correction 3004, with 15pc 2837. A lamentable twenty percent fall (an official bear move!) reaches 2670. A 25 percent decline gives about 2504, with 33pc 2223.

The Federal Reserve probably will spout heartwarming rhetoric to rally stock prices if the S+P 500 falls around ten percent. Odds of the Fed medicine men and women undertaking actual easing action increase if the S+P 500 crashes roughly twenty percent or more. They do not want a global slowdown (or recession), whether one is encouraged by a virus or some other precipitating "causes". In any case, one of the greatest risks nowadays arguably is widespread and virtually unyielding faith that the Federal Reserve (aided by other key central banks) definitely (or at least very probably) can ensure sufficient US economic growth and arrest substantial stock marketplace declines.

A one percent step over 3338 equals 3371, a five percent move gives 3505.

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Many "significant" financial marketplace bull (bear) price trends which have lasted around a year either halt (consolidate) and move sideways, or reverse and head a notable distance in the opposite direction. The S+P 500's explosive 38.8 percent flight from 2347 on 12/26/18 to the high to date, 1/22/20's 3338 (2/5/20 matched this level), is a one year diagonal time move. The towering rally from the first quarter 2016 bottom to first quarter 2020 is a four year diagonal bull move. The monumental bull climb from March 2009's 667 to 1Q20 represents an astonishing diagonal time move.

Don't forget the calendar timing of a couple of first quarter summits. The S+P 500 made an important interim top within its major bull move on 1/26/18 at 2873. A major bear move began in first quarter 2000. The S+P 500's peak was 3/24/00 at 1553 (Nasdaq Composite Index pinnacle 3/10/00 at 5133), but the Dow Jones Industrial Average pinnacle occurred earlier, on 1/18/00 at 11,910.

US STOCK TRENDS: POLITICS, VOLATILITY, AND STRESS

The band Humble Pie shouts in Ashford/Simpson/Armstead's song "I Don't Need No Doctor":
"I don't need no doctor
'Cause I know what's ailing me"

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The S+P 500 attained a gloomy bottom on 2/11/16 at 1810, long before Donald Trump's victory in the 11/8/16 United States Presidential election. US economic expansion long preceded Trump's advent. So did highly accommodative monetary policy from the Federal Reserve and its central bank allies.

The S+P 500 closed at 2140 on 11/8/16. The rally up to the January 2020 high has been 56.0 percent. Many people, not just President Trump himself, give Trump a significant amount of credit for the tremendous post-2016 election bull move in American stock prices. Although numerous intertwined variables influence American and global equity prices, various gurus identify (link) Trump's triumph and policies (including tax "reform") as being a notable factor in assisting economic expansion, corporate profits, and the booming ascent of the S+P 500. Consequently, if Trump's defeat happens to appear increasingly probable as the 2020 election nears (and of course if he actually loses), that factor probably will help to weaken the S+P 500.

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Related to such considerations, many believe that (all else equal) a strong economy and a happy (generally confident) consumer tend to help incumbent American presidents win reelection. US consumer and small business confidence accelerated around and in the aftermath of the post-2016 election. These indicators have remained relatively strong thereafter.

Sharp falls in consumer confidence at times have coincided (are associated) with economic slowdowns (recessions) and notable falls in American stock barometers such as the S+P 500. For example, the US Consumer Confidence Index (Conference Board; 1985=100; "CCI") peaked in January (and May) 2000 at 144.7 (S+P 500 peak on 3/24/00 at 1553; Dow Jones Industrial Average high 1/18/00 at 11,910). The CCI bottomed at 61.4 in March 2003, alongside the final low in the S+P 500, 3/12/03's 789. In the Goldilocks Era, consumer confidence crested with July 2007's 111.9. The S+P 500's initial top was 7/16/07's 1556, with its zenith 10/11/07's 1576. The confidence indicator crashed alongside stocks, reaching a basement-level 25.3 in February 2009; the S+P 500 major bottom was 3/6/09's 667.

Look at the CCI's movements during the Trump Era. It was 100.8 in October 2016, shortly before the election. It rose sharply to 109.4 in November 2016 and 113.3 in December 2016. This indicator has stayed relatively strong thereafter. Its high since then is October 2018's 137.9 (over a year ago); this occurred near in time to the 9/21/18 (2941)/10/3/18 (2940) interim high in the S+P 500. Although consumer confidence retreated, it ascended from January 2019's low at 121.7 (near in time to the S+P 500's 12/26/18 low at 2347) to July 2019's 135.8. The CCI was 128.2 in December 2019. It edged up to 131.6 in January 2020.

The NFIB's "Small Business Economic Trends" (December 2019; 1986=100) made a low at 92.6 in March 2016 alongside the S+P 500's 1Q16 bottom. It meandered sideways through October 2016 (94.9). As the 2016 election season continued, it rose to 98.4 in November 2016. With Trump's triumph, December 2016 saw a jump to 105.8. During his administration, this indicator has remained relatively strong. Its high since then is August 2018's 108.8, with the low January 2019's 101.2. It remains fairly lofty, although it dipped from 105.0 in May 2019 (104.7 in November 2019) to December 2019's 102.7.

Therefore if confidence measures (especially consumer confidence ones) begin to slump significantly, that probably will coincide with (or warn of) S+P 500 price declines. A fall in consumer confidence from around January 2020's elevation probably would indicate an important top in the S+P 500. In that scenario, substantial weakening consumer confidence would signal (confirm) a growing likelihood (but of course not a certainty) of Trump's defeat in the November 2020 election.

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In regard to significant trend changes and price moves in the S+P 500 battlefield, watch the relationship between the S+P 500 and the VIX (CBOE Volatility Index for the S+P 500). History reveals that sometimes a noteworthy tie appears between a "low" VIX level (which may need to persist for quite some time) and a subsequent substantial rally in the S+P 500 to important highs. And often "high" VIX levels (especially "very high" ones), are associated with a significant S+P 500 marketplace bottom.

Take a look at patterns in the past couple of years. For example, the VIX established lows at 8.56 (11/24/17)/8.92 (1/4/18); these preceded the interim top at 2873 (1/26/18). The VIX peaked at 50.30 on 2/6/18; compare the time of the related S+P 500 low, 2/9/18's 2533. Prior to the S+P 500's 9/21/18 (2941)/10/3/18 top, recall VIX troughs at 10.17 (8/9/18), 11.10 (9/21/18), and 11.34 (10/3/18). The S+P 500 plummeted to its bottom at 2347 on 12/26/18, the related VIX pinnacle occurred on 12/26/18 at 36.20.

The VIX then attained an important low on 4/17/19 at 11.03. Its ascent preceded the S+P 500's interim top on 5/1/19 at 2954. As the S+P 500 slipped, the VIX climbed to 23.38 on 5/9/19 (a high level, but not an extraordinary one). The 7/25/19 VIX low at 11.69 aligns with the S+P 500's 7/26/18 high at 3028. The VIX bounced up to 24.81 on 8/5/19, with the S+P 500 making an interim low on 8/5/19 at 2822.

Note the late 2019/early 2020 VIX lows 11.42 (11/26/19)/11.72 (12/26/19)/11.75 (1/17/20). Compare these with the S+P 500 high on 1/22/20 at 3338. The VIX high on 1/31/20 at 19.99 mirrored the S+P 500's low at 3215 on that day.

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The average value of the St. Louis Federal Reserve Bank's "Financial Stress Index" ("FSI") is designed to be zero. According to the St. Louis Fed, zero represents "normal financial market conditions. Values below zero suggest below-average financial market stress, while values above zero suggest above-average financial market stress." The FSI begins only in late 1993.

However, in recent years (since around summer 2010), the Financial Stress Index has been consistently negative. This probably partly reflects the easy money policies (including yield repression) of the Federal Reserve and its comrades and the related ongoing American economic recovery. Nevertheless, during the past ten years, a significant FSI top can occur at a less negative number (reflecting relatively greater economic stress); similarly, a noteworthy FSI trough can emerge at a more negative level (reflecting less economic stress).

The timing of turns in the St. Louis Federal Reserve Bank's "Financial Stress Index" (weekly data) at times, but not always, has coincided with those in the S+P 500 and VIX. Thus the Financial Stress Index established a peak at -.321 (negative) on 2/12/16. The S+P 500 made an important low on 2/11/16 at 1810 (1812 on 1/20/16); the related VIX highs were 1/20/16's 32.09 (2/11/16's 29.87). The FSI built a low on 11/24/17, at -1.497; compare the timing of the VIX's low, 11/24/17's 8.56.

Recall the S+P 500's bottom on 12/26/18 at 2347. The VIX top also was on 12/26/18 at 36.20. The peak in the Financial Stress Index neighbored these: -.475 on 12/28/18.

After the Financial Stress Index attained an important high at end year 2018, the index has fallen substantially (as the S+P 500 has risen, and as the S+P has had only modest price dips). The FSI's recent low is 1/17/20's -1.565 (-1.559 on 1/24/20). This mid-January depth is a record low for the over 25 year history of the FSI. The very low FSI level probably warns of widespread financial complacency. Maybe indeed the "financial" sector is in marvelous shape. However, American political divisions and populist strife suggest that the US "economic" arena as a whole ("the real economy)" is not in excellent condition. In any case, a notable rise in the FSI likely will accompany a significant increase in the VIX and a significant drop (at least a correction of around ten percent) in the S+P 500.

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