GLOBAL ECONOMIC TROUBLES AND MARKETPLACE TURNS: BEING THERE

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A dialogue from a movie about 40 years ago, "Being There" (1979; Hal Ashby, director):
*US President "Bobby": "Mr. Gardner…do you think that we can stimulate growth through temporary incentives?"
*Chance the Gardener [a well-meaning yet rather simple-minded and uneducated fellow who nevertheless gains a respected position in elevated Washington circles]: "As long as the roots are not severed, all is well. And all will be well in the garden…In the garden, growth has its seasons. First comes spring and summer, but then we have fall and winter. And then we get spring and summer again."
*Benjamin Rand: "I think what our insightful young friend is saying is that we welcome the inevitable seasons of nature, but we're upset by the seasons of our economy."

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PRELUDE

Over a decade ago in late winter, the beloved former Federal Reserve Chairman Ben Bernanke earnestly proclaimed, following various monetary easing measures and shortly after what turned out to be a major stock marketplace bottom (S+P 500 low on 3/6/09 at 667): "And I think as those green shoots begin to appear in different markets and as some confidence begins to come back that will begin the positive dynamic that brings our economy back….I do see green shoots." (60 Minutes, CBS, 3/15/09).

Everyone knows that the American and international economy thereafter recovered from the eviscerating global financial disaster of 2007-09. Stock investors and their allies (including central banks) admired, applauded, and promoted the S+P 500's heavenly ascent from its March 2009 depth to its February 2020 peak (2/19/20 at 3394), an era during which its price soared over five times its March 2009 elevation.

CONCLUSION

Economic domains, including Wall Street financial fields, are cultural phenomena, not Natural ones. However, the Fed Chairman's inspiring springtime-related "green shoots" metaphor implies a seasonal opposite. It suggests that the United States and other nations can reveal signs of an oncoming autumn (and even an impending winter) in their economic (financial, commercial, business) territories. In any case, central bankers and politicians have not abolished slowdowns (or recessions) or bear moves in American stock marketplaces.

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Not long before the S+P 500's majestic 3394 high on 2/19/20, the essay "Critical Conditions and Economic Turning Points" (2/5/20) concluded: "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." "Critical Conditions and Economic Turning Points" summarized and analyzed an extensive list of these danger signals. Please refer to it for details.

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"Critical Conditions" underlined: "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"."

"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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"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)."

ECONOMIC ADVENTURES: MARKETPLACES AND CENTRAL BANKS

The Federal Reserve's accommodative monetary policy which emerged during the 2007-09 worldwide economic disaster has intertwined with easy money programs of other central banks and has been long-running. The Fed's policy prescriptions in practice relate to more than the achievement of stable prices (sufficient inflation; around two percent) and maximum sustainable employment. "Critical Conditions" emphasized: "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 interrelating with price drops (bull moves) in other important equity pastures. Significant trends in overseas stock playgrounds likewise can entangle with and thus substantially influence moves in American equity arenas. In many countries, including America, a towering stock marketplace price climb or eye-catching 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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The Federal Reserve 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?

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

The Fed missionary listens to widespread and sustained fervent prayers and pleas by endangered investors (owners) of US equities (and from those notable entities and individuals who serve and benefit from the existence of such stock investors). As a relatively recent example, recall the agitated scene around end-calendar 2018 and thereafter. The Fed unleashed its monetary "patience" doctrine for United States policy interest rates around end-2018 because of economic slowdown fears (including risks from trade war conflicts), sharp declines in the S+P 500 and other critical global equity landmarks, and heated criticism from President Trump. It cut the Federal Funds rate three times during calendar 2019. Central banking comrades such as the European Central Bank enhanced or maintained their existing highly accommodative monetary policy regimens.

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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 weathervanes such as the S+P 500). Renewed S+P 500 price rallies and ascents to new highs of course tend to discourage and act as a threat to actual and potential stock bears.

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What defines a "dip" or the "long run" for the S+P 500 (and any other marketplace) is debatable, a matter of subjective perspective (opinion; not objective).

For the S+P 500, and to its assorted congregations of investors and their Wall Street, political, and financial media friends and allies, how substantial a drop from some apparently key elevation justifies buying? What purchasing level is "reasonable" (rational, logical, intelligent, prudent, appropriate, natural) and "good"? Is it one percent, five percent, ten percent, or twenty percent or greater? Is the misty long run one year, five years, or ten or more?

For the S+P 500 and other economic variables, meanings of "low" ("too low"), high (too high), reasonable/rational/normal/average/fair (true) value/equilibrium, and overshooting/overvalued (undershooting/overvalued) reflect subjective perspectives.

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"Critical Conditions and Economic Turning Points" summarized nine noteworthy price falls in the S+P 500 over the past decade or so, from the March 2009 bottom through December 2018. It defined a correction as being around ten percent, with a bear trend as twenty percent or more. See that essay for details on those declines.

"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). 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."

And: "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 any case, this interrelated historical pattern over the past eleven years, of vigorous Federal Reserve action and modest price declines in the S+P 500, likely created significant trust in two interconnected guidelines (rules of thumb; principles). What are these cultural convictions? The Fed has tremendous power (capability) and an 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).

Widespread faith in this pair of principles indicates significant complacency regarding stock ownership. According to "Critical Conditions", "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."

This faith currently is being tested. And only history will show whether the Fed (and other phenomena) will continue to contain American stock descents to around 20 percent or less.

S+P 500: HEIGHTS OF ANXIETY, HOPES (AND PRAYERS) FOR SUPPORT

In the Vietnam War film "Apocalypse Now" (Francis Ford Coppola, director), Colonel Kurtz remarks: "I've seen horrors…horrors that you've seen."

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The Fed likes to watch. It indeed monitors and assesses "data" (evidence, facts, information).

"Critical Conditions" stated: "The Federal Reserve probably will spout heartwarming rhetoric to rally stock prices if the S+P 500 falls around ten percent." Also: "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'."

The S+P 500's injurious 15.9 percent slump from 2/19/20's 3394 summit to its 2856 low on 2/28/20 was sufficient to generate Federal Reserve talk. Not only the distance traveled by the decline, but also its speed and violence, surely trouble the Fed. This situation warns that the Fed may take action, not just rhetoric, to support the S+P 500 (the economy in general) relatively soon. If United States stocks tumble around twenty percent or more, decisive action becomes more likely. On 2/28/20, Fed Chairman Powell trumpeted: "The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity. The

Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy."

The next Fed meeting is 3/17-18/20, followed by 4/28-29/20's. If sufficiently fearful, the Fed may elect to act outside of its scheduled gatherings. Depending on trends for the US and global economy and the extent of the S+P 500's decline from its peak, Fed actions may include rate cuts, supportive "forward guidance" language (promises), and money printing (renewed quantitative easing). Other central banks may join the Fed, especially if central banks generally believe international conditions call for them to do "whatever it takes".

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President Trump, undoubtedly worried about the ramifications of stock price declines (and related economic weakness) on his 2020 election chances, declared on 2/28/20 that he hoped the Fed "gets involved soon" and cuts rates (NYTimes, 2/29/20, pB1; see his additional comments on the NYTimes website, 3/1/20).

Earlier that week, the President stated the American stock market was "starting to look very good to me!" A top economic advisor at the White House, Larry Kudlow, recommended that investors "should seriously consider buying these dips." (Financial Times, 2/26/20, p17). Regarding Trump, the NYTimes headlined (2/27/20) "Taking Credit When Stocks Rise. Blaming Others When They Slip." On 2/29/20, Trump asserted (NYTimes, 3/2/20, pA23): "The [stock] market will all come back…The markets are very strong. The consumer is unbelievably strong."

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Over the past several years, sustained low US Treasury interest rates in America (and negative yields in many other jurisdictions) created an especially alluring environment to spark and justify inclinations by "investors" (and others) to buy and hold American stocks and other assets. Many ask when interest rates are low (or even negative, as in government yields for several leading nations), "Where do I put my money (so I get an adequate return/yield)?"

However, the recent extensive falls in the S+P 500 and other key global equity barometers has encouraged a "run for the exits", and a related noteworthy "flight to quality" into American and other government safe haven locales.

On 2/6/20, the US Treasury 10 year note's yield high was about 1.69 percent. On 2/19/20, the day of the S+P 500's top, the UST 10 year closed around 1.57 percent. Its yield thereafter raced downhill. The 2/25/20 high was 1.42pc. The US Treasury ten year note yield low to date, attained on 3/2/20 around 1.03 percent, pierced its triple bottom at 1.38 percent (7/25/12), 1.32pc (7/6/16), and 1.43pc (9/3/19). A sixty-six percent yield retreat from 10/9/18's 3.26 percent peak equals 1.09pc. An eighty percent fall from the Goldilocks Era major high on 6/13/07 is about 1.06pc.

Even if the Fed lowers the Federal Funds rate in the near future, given its interpretation of its policy mandate, it arguably does not want the UST 10 year yield to sustain levels beneath one percent for an extended period (if at all). What if that UST rate headed toward zero? Is there a legal bar to US interest rates becoming negative?

In any case, in the current economic climate, thus one method by which the Fed can help assure a UST 10 year yield (over the long run) above one percent is for it to stop and reverse an S+P 500 decline approaching twenty percent.

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The Fed probably also does not want equity price falls to encourage and intertwine with a price slump in the real estate realm.

If credit spreads (such as between UST and lower-grade corporate debt) widened substantially, that too will help to encourage Fed and other central bank action.

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Perhaps decisive global fiscal action by the US and others, if taken, can help to mitigate S+P 500 price declines and economic weakness.

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To what extent will the coronavirus situation reduce GDP growth, consumer confidence, and corporate earnings, whether in America or elsewhere?

How will OPEC respond to lower oil prices and falling petroleum demand? It meets 3/5-6/20.

For those inclined to dig into coronavirus statistics, see the news and Situation Reports from the World Health Organization.
https://www.who.int/emergencies/diseases/novel-coronavirus-2019

ON THE S+P 500 WATCHTOWER

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

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From the S+P 500's 2/19/20 pinnacle at 3394, a five percent dip gives 3224. The S+P 500's end year 2019 closing price was 3231.

A mournful ten percent "correction" from 2/19/20's high equals 3055. In this regard to this level, remember the marketplace breakout over the summertime 2019 interim tops on 7/26/18 (3028) and 9/19/18 (3022).

The autumn 2018 highs around 2940 represent an important signpost (9/21/18 at 2941, 10/3/18 at 2940) because a bloody 20.2 percent decline ensued (see also 5/1/19's 2954 interim high).

A lamentable fifteen percent deterioration equals 2885 (the 2856 low on 2/28/20 is a 15.9 percent slump). The S+P accelerated upward from 10/3/19's key trough at 2856. Recall that the S+P 500 made an important interim top within its major bull move on 1/26/18 at 2873.

A devastating twenty percent bear retreat gives 2715 (3/8/19 interim low 2722; 6/3/19 minor low2729). A dreadful 25 percent nosedive equals 2546 (12/26/18's crucial trough 2347), a terrible 33pc cratering 2260 (2135 was 5/20/15's important interim plateau).

A hellish fifty percent crash gives 1697 (the 2/11/16 major bottom was 1810; 1/20/16 trough 1812).

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On the timing front in regard to the 2/19/20 high, compare the calendar month (first quarter) timing of the 2/11/16 (and the 667 bottom on 3/6/09; 1/26/18 interim high at 2873) with 2/19/20's high. Recall the first quarter 2000 peak as well, 3/24/00's 1553 (this 2000 height neighbored the Goldilocks Era summit, 10/11/07's 1576).

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In general, do the majority of US stock investors, politicians, or even the Federal Reserve worry much about the S+P 500 being "too (unreasonably) high", "overvalued", or "irrationally exuberant"? All such marketplace viewpoints reflect opinions, which of course can and do change over time. Anyway, five times 3/6/09's major bottom in the S+P 500 at 667 gives 3335. The 2/19/20 high at 3394 borders this. For another vantage point regarding whether the February 2020 elevation seems "rather (or very) high" the February 2020's S+P 500 plateau is about ten times 8/25/87's 338 peak.

With the recent fall in the S+P 500 and other stock battlegrounds, much marketplace talk has focused on the big bear market collapse of 2007-09. Yet long run American stock marketplace history displays other substantial declines in the S+P 500 (and the Dow Jones Industrial Average).

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In addition to "Critical Conditions and Economic Turning Points" (2/5/20), see other essays such as "Ringing in the New Year: US and Other Government Note Trends" (1/6/20); "Emerging Markets, Commodities, Bitcoin, and the S+P 500: Travels and Signs" (12/3/19); "Trade Wars and Currency Trends in the Trump Era" (11/7/19).

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