DOLLAR DEPRECIATION AND THE AMERICAN DREAM

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In the film "Wall Street" (Oliver Stone, director), Gordon Gekko claims: "It's all about bucks, the rest is conversation."

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DOLLAR DEPRECIATION DANGERS

For many decades, the United States dollar has led the foreign exchange field as the key currency for global trade as well as financial reserves. Over that time span, the greenback's predominance to a significant extent encouraged, sustained, and reflected widespread (although not unlimited) American and global faith in the wisdom and goodness of American cultural values and the persuasive and practical ability of the nation to be a (and sometimes the) critical guiding force in international affairs. Although the dollar obviously has had numerous extended periods of appreciation and depreciation since the free market currency dealing regime began in the early 1970s, the dollar's crucial role in the increasingly intertwined global economic system has seldom been significantly questioned or challenged for over an extended period of time. For almost ten years, from its major bottom in July 2011 until April 2020, the overall trend of the dollar in general was bullish.

Therefore few gurus fear a significant depreciation in the US dollar from its relatively lofty April 2020 high. However, the probability of a noteworthy dollar slump is much greater than most believe.

An underlying factor promoting a dollar tumble is the gradually declining share of America as a percentage of world GDP. Also, both political parties, not just the current US Administration, and especially in the coronavirus era, probably want the dollar to weaken from its recent summit. The great majority of the country's politicians preach their allegiance to a strong dollar, but they also endorse economic growth.

Two additional phenomena make the dollar particularly vulnerable nowadays. First, although many leading nations have increased their government debt burdens in recent years, America's situation probably has worsened significantly more than most others in recent months. Moreover, America already faced widening federal budget deficits encouraged by the tax "reform" enacted at end 2017. Plus don't overlook the ongoing ominous long run debt burden, looming from factors such as an aging population. How easily will America service its debt situation? And America's corporate and individual indebtedness also is substantial.

Second, the intensity and breadth of America's cultural divisions has increased in recent times, especially during the Trump era. American confidence in the nation's overall direction has slumped in recent months. As US citizen faith in the country's situation declines, so probably likewise will (or has) that of foreigners in regard to America.

Declining faith in American assets (and its cultural institutions and leadership) can inspire shifts away from such assets. American marketplaces will not be completely avoided given their importance, but players can diversify away from them to some extent. Not only Americans but also foreigners own massive sums of dollar-denominated assets (debt instruments, stock in public and private companies, real estate; dollar deposits). Such portfolio changes (especially given

America's slowly declining importance in the global economy) will tend to make the dollar feeble.

Suppose nations and corporations increasingly elect, whether for commercial or political reasons, to avoid using the dollar as the currency via which they transact business. That will injure the dollar.

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A five percent fall in the "overall" dollar level from its April 2020 high may not make much difference in the near term for US stocks and debt securities. However, a roughly five percent dollar drop is a warning sign for them, and especially for stocks. All else equal, a weaker dollar tends to boost the nominal price of dollar-denominated assets such as stocks and commodities. But history shows that this relationship is not inevitable. Phenomena other than dollar depreciation influence US securities trends. Keep in view the considerations described above undermining the dollar, and thus the desire to hold dollar-denominated instruments.

Admittedly, strong American corporate earnings encourage buying (and holding) of US stocks. But the coronavirus situation and responses to it have devastated calendar 2020 earnings. Suppose that contrary to widespread hopes and predictions, calendar 2021 corporate earnings do not rebound significantly (sufficiently) from dismal 2020 depths. What if the prayed-for V-shaped economic recovery does not emerge? If corporate earnings remain relatively modest (or slide) going forward, and if the dollar continues to weaken from its April 2020 height, dollar depreciation probably will intertwine with an equity slump.

A sustained dollar tumble approaching ten percent (and especially a fall greater than ten percent) probably will help to push the S+P 500 and related stock prices quite a bit lower. Many equate strong (high; rising) United States stocks over the long run as a signal or proof of the triumphant progress of the American Dream's economic, political, and social principles. Therefore a linked and sustained decline in both the dollar and American stocks probably would damage to some extent the persuasive rhetoric of the current version American Dream itself.

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Even if US government debt yields in this scenario initially slump from around current low levels due to a renewed "flight to quality", and even if the Federal Reserve and its central banking teammates maintain their quantitative easing and yield repression schemes, inflationary forces (encouraged by money printing; see the huge increase in America's money supply) and heated demand for credit eventually can push government (and corporate) interest rates upward. On the US interest rate front, suppose foreigners become smaller buyers, or even net sellers, of US Treasury securities. Such overseas action would not be an endorsement of America. Due to yield repression, UST real returns currently are negative.

DOLLAR TURNING DOWNHILL: KEEPING IT REAL

Cross rates such as the US dollar versus the Chinese renminbi fascinate politicians, the Wall Street community (especially its currency wizards), congregations of corporations, the financial media, and some Main Street pilgrims. However, broad real trade-weighted (effective exchange rate) indices such as those of the Federal Reserve Board and the Bank for International Settlements better indicate the level, strength (weakness) and trends of a country's currency. For example, the Federal Reserve releases a real Broad Dollar Index (H.10; monthly average; includes goods and services; January 2006=100; "TWD"; 8/3/20).

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The real Broad Dollar Index started a major bull appreciation from July 2011's bottom at 83.9. It established an interim peak in December 2016 at 110.0.

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 domains around the globe, even negative).

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) around end December 2018/early 2019. Recall the association (linkage) beginning around end December 2018/early 2019 between a relatively strong US dollar, the S+P 500 rally (S+P 500 bottom 12/26/18 at 2347), and other upwardly moving asset prices, particularly dollar-denominated ones. The TWD made an interim low at 105.9 in January and February 2019, which stood above the valley of 100.2 in February 2018. The TWD's January/February 2019 remained the low for calendar 2019.

The S+P 500 probably was the leader in this asset price climb. Thus there was a "strong US dollar, strong US stocks" relationship. However, also highlight interrelated 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 (generally dollar-denominated on the international scene) joined the constellation of bull moves in dollar-priced assets.

The epic yield (return)-seeking quest in various asset classes probably helped to maintain US dollar strength throughout calendar 2019 and into early 2020. Although the real Broad Dollar Index's initial high was September 2019's 108.6, it inched only slightly lower thereafter, to 106.4 in January 2020 (107.7 in February 2020). The S+P 500's peak was 2/19/20 at 3394. American stock marketplace strength arguably encouraged faith that America and the dollar (and dollar-denominated assets) were good places to place one's funds.

From February 2020's minor low at 107.7, as the coronavirus spread and the related worldwide economic downturn took place, the TWD soared to 111.7 in March 2020 and April 2020's high at 113.4. The S+P 500 rapidly crashed 35.4 percent to 3/23/20's bottom at 2192. This stronger dollar, weak stocks relationship over these months in part reflected a scramble for dollars (dollar debtors found dollars in relatively short supply for a while) as the global economy slumped and the corporate earnings outlook cratered. As the Fed made dollars more readily available, bids to acquire them became less frantic, thereby easing upward pressure on the dollar.

Since then, the TWD's low is July 2020's 109.3, a 3.6 percent fall from April 2020's summit. Slipping beneath December 2016's interim top at 110.0 warns of further falls. A five percent decline from 113.4 gives 107.7. A ten percent dive equals 102.1, an important support level adjacent to March 2009's worldwide economic disaster pinnacle at 101.5. A 15 percent retreat equals 96.4, with a 20pc crash 90.7.

The Fed's nominal Broad Dollar Index has daily data, though the release date occurs weekly. As the S+P 500 and related stock marketplaces suffered their bloody retreat, note the sharp 8.2 percent rally from 3/6/20's 116.9 to 3/23/20's 126.5. Compare the timing of the nominal Dollar Index high with the S+P 500's bottom). Since then, the nominal TWD has fallen about 7.3 percent. As of 8/5/20, it stood at 117.3, not much above its end first week March 2020 height.

RECENT US DOLLAR CROSS RATES

Mr. Roberts, in the movie “Body and Soul” (Robert Rossen, director): “You know the way the betting [on a boxing match] is, Charlie. The numbers are in. Everything is addition or subtraction. The rest is conversation.”

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Several dollar cross rates nevertheless influence stock, debt, commodity, and other financial marketplaces and related rhetoric significantly. Individual cross rates against the dollar have somewhat different stories. Various nations have different trade weights within the Fed’s real Broad Dollar Index. So for another angle on dollar trends, survey important cross rates such as the Euro FX against the dollar and the US dollar against the Chinese renminbi.

The seven currencies in the table below add up to 75.8 percent of the Broad Dollar Index. From the cross rate perspective for these benchmark relationships, the dollar’s decline in the past several months is widespread. Given the Chinese renminbi’s notable share in the Dollar Index and its relatively modest rally since late May 2020, a sharp rally in it against the dollar probably would magnify general concerns about impending overall dollar weakness. The S+P 500 bottom was 3/23/20 at 2192, alongside many of these cross rate lows against the dollar.

.	Percentage Weight	Recent Low (date)	Recent High (date)	Percentage Rally Versus Dollar
Euro FX	18.9	1.064 (3/23/20)	1.192 (8/6/20)	12.0pc
British Pound	5.3	1.141 (3/20/20)	1.319 (8/6/20)	15.6
Chinese Renminbi	15.8	7.177 (5/27/20)	6.934 (8/6/20)	3.4
Canadian Dollar	13.4	1.467 (3/19/20)	1.323 (8/5/20) 1.331 (6/10/20)	9.8
Mexican Peso	13.5	25.78 (4/6/20)	21.46 (6/9/20); 21.85 (7/29/20)	16.8
Japanese Yen	6.3	112.2 (2/20/20); 111.7 (3/24/20)	104.2 (7/31/20)	7.1
Swiss Franc	2.6	.990 (3/23/20)	.905 (8/5/20)	8.6

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Everyone knows that assorted variables influence “money” (“currency-like” or currency substitute) yardsticks such as gold and cryptocurrencies. However, to the extent confidence diminishes in currencies in general and America’s dollar in particular (given its role in the global economy), price trends in gold and cryptocurrencies such as Bitcoin at times can indicate (confirm) weakness in the dollar (and perhaps also in the American economic and political system in general). In any case, the timing of recent lows in gold and Bitcoin resembles those in the seven currencies above against the dollar.

Gold	1452 (3/6/20)	2063 (8/6/20)	42.1pc rally
Bitcoin	3926 (3/13/20)	12085 (8/10/20)	207.8pc

But if the S+P 500 commences a significant decline, and even if the dollar's depreciation continues, will gold and Bitcoin start trading less like a currency and more like an asset and thus decline alongside American stocks?

US GOVERNMENT DEBT IN GLOBAL CONTEXT

America of course was not the only noteworthy nation with substantial government (and other) debt on the eve of the coronavirus disaster. The World Bank warned at end 2019: "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).

However, America's government debt load had been increasing significantly since the 2007-09 global financial crisis. And budget deficits and debt relative to GDP percentages had climbed following the national tax "reform" legislation enacted at end 2017. In recent months, America's general government debt situation (general government debt includes both national as well as state/local obligations) has deteriorated relative to the world as a whole and the "advanced economies" category in general. That pattern, all else equal, probably will weaken the US dollar.

America's overall fiscal deficit as a percent of GDP will increase from -6.3 percent in 2019 to a gigantic -23.8pc in 2020 (17.5 points), with 2021 still a sky-high -12.4pc. Gross debt as a percent of GDP expands from 108.7 percent in 2019 to 141.4pc in 2020 (by 32.7 percentage points in total) and 146.1pc in 2021. See the International Monetary Fund's "World Economic Outlook", Annex Table 1; 6/24/20).

The world fiscal deficit widens ten points from calendar 2019's -3.9pc of GDP to 2020's -13.9pc (2021 estimated deficit -8.2pc of GDP), a smaller amount than America's. America's growth in its general government deficits exceeds those of advanced economies as well. The advanced economy fiscal balance in calendar 2019 was -3.3pc; it will increase 13.3 points to calendar 2020's -16.6pc of GDP (2021 forecast -8.3pc). What about gross debt as a percentage of GDP? For the world as a whole, it grows form 82.8 percent in 2019 to 101.5 in 2020; this 18.7 point increase is much less than America's. The IMF forecasts that world debt as a pc of GDP inches up 1.7 points to 103.2pc in 2021. As for advanced economies, 2019's 105.2pc widens twenty-six points to 131.2pc in calendar 2020, less than the American situation. Advanced nation debt edges up to 132.3pc in 2021.

These IMF figures of course do not include any additional rounds of deficit spending stimulus after late June 2020. However, those currently being discussed in Washington by the Republicans and Democrats, if enacted, probably will be at least ("only") one trillion dollars. Such a package would enhance the current trend of relative weakness in the US fiscal position relative to those of other nations in general.

According to the Congressional Budget Office (7/8/20), the US federal budget deficit was $2.7 trillion in the first nine months of fiscal year 2020, two trillion dollars more than the deficit recorded during the same period in fiscal 2019.

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 many Democrats, even if tax "reform" is cut back (and capital gains increased), have a substantial likelihood of continuing rather than curing the existing entrenched deficit problem and trend.

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Many experts believe a sustained public debt level in excess of one hundred percent of GDP is dangerous to economic growth and financial stability. Perhaps America will be an exception to the rule, given the wealth owned by its citizens (as a whole) and domestic corporations. But maybe not. Some pundits nowadays also promote the wonders of national money printing capacity (see increasingly popular Modern Monetary Theory wordplay) and an ability to manage debts. Others not worried about the substantial US general government debt stress that Japan's level has exceeded 200 percent for quite some time, with 2019's at 238.0 percent and 2020's estimated at 268.0pc. But whereas most of Japan's government debt is owned by Japanese, foreigners own a substantial share of America's US Treasury securities. Fitch, a leading rating agency, recently revised the US sovereign rating outlook from stable to negative (7/31/20).

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Of course the Federal Reserve generously may keep up its money printing (quantitative easing) festival and acquire more mountains of UST (and other debt) securities. But the Fed is not the only key player in the US Treasury marketplace.

Foreigners hold a very large amount of US Treasury securities. How eager will they be to finance the growing American federal budget deficits? Recent data suggests they are not rushing to do so. Scan major foreign holders of UST trends (7/16/20; May 2020 statistics are the most recent ones. Foreigners as of May 2020 own about $6.86 trillion in UST (Japan $1.26tr, Mainland China $1.08tr). May 2020 exceeds the year ago period of May 2019 by a moderate sum, $320 billion. However, May 2020's total declines from February 2020's $7.08tr.

In nominal terms, UST have a positive yield, whereas high-quality government debt elsewhere (as in Germany) has negative yields. Nevertheless, the real rate of return on US Treasury securities relative to inflation is negative, which makes holding UST unappealing. According to the Federal Reserve Bank of New York's "Underlying Inflation Gauge" (7/14/20), "trend CPI inflation is estimated to be in the 1.1% to 2.0% range" for June 2020. The current three month US Treasury Bill yield is about .10 (way under one percent). The recent trough in the UST 10 year note was .50pc on 8/4/20, with 6/5/20's interim high .95pc.Compare 3/9/20's low at .36pc, and even 3/19/20's 1.28pc top (during the rush to acquire dollars).

This probably displeases many foreign owners (as well as numerous American ones). If that situation persists, they will not want to own UST (unless regulations require holding such high-rated securities), though admittedly real rates of return via government interest rate obligations are worse in some other jurisdictions.

If the dollar declines, this displeases foreign holders of UST, and especially when nominal interest rates are lower and the real return negative. If foreigners start to become substantial net liquidators of their UST positions, this will help to push the dollar lower.

US INTEREST RATES, STOCKS, AND THE DOLLAR

Willie Gingrich, an attorney in the movie "The Fortune Cookie" (Billy Wilder, director), declares: "Well, when it comes to investing, the big trick is diversification. You put a little money into uranium stocks, a few oil wells in Montana, some real estate in downtown Phoenix."

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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."

But as "History on Stage" states, the precipitating arithmetical change has not always been big. For example, the yield increase in the UST 10 year note associated with 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). What about in relation to the 2/19/20 S+P 500 summit at 3394? The 2019 percentage yield escalation from 9/3/19's 1.43pc to 11/17/19's 197 basis points was 37.8pc (54/143 basis points), dramatically larger than that of 1927-29, though a 54 basis point rise in the UST 10 year note is modest from the arithmetical vantage point.

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. The UST yield rose 87 basis points from 1.64pc on 1/30/15 to a high of 2.50pc on 6/11/15.

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Perhaps as in the past, yield increases in the UST 10 year note will precede major highs in the S+P 500. Eventually UST yields may increase, particularly if more inflation emerges and looks like persisting, the US finds it challenging to finance its debt, the dollar depreciates very substantially, and/or confidence in America (both within the country and in overseas opinions) falls sharply.

According to the Fed, M2 money supply rose at an annual rate of 22.9 percent from June 2019 to June 2020 (seasonally adjusted; H.6; 8/6/20). This recent rate of increase for M2 substantially exceeds high gains close to 15.0 percent year-on-year achieved during America's 1970s inflation era, as well as some yearly increase highs of around ten percent reached during parts of the nation's quantitative easing epoch. (See the Financial Times, 8/10/20, p6; Refinitiv graph). During the three months from March 2020 to June 2020, M2 skyrocketed at a 54.5pc annual rate.

The UST 10 year note yield has held above not only 3/9/20's low at .36pc, but also above .50pc (.51pc on 4/21/20; .50 on 8/4/20). However, its yield still remains beneath 6/5/20's .95pc interim top and 3/19/20's 1.28pc.

The Federal Reserve Board and its central banking allies are very determined to maintain yield repression and quantitative easing (including UST buying) programs. US unemployment remains substantial, far above what central bankers, politicians, and the general public view as reasonable (see the pre-coronavirus era). Despite a highly accommodative monetary policy and awesome growth in the money supply, US inflation indicators such as the Consumer Price Index and personal consumption expenditures at present remain beneath the Fed's beloved two percent target, though soaring American stock signposts such as the S+P 500 and Nasdaq Composite definitely display exuberance.

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Recall that history reveals that major bear trends in US stock marketplace benchmarks such as the S+P 500 and Dow Jones Industrial Average, prior to the one which commenced on 2/19/20, did not finish in around one month. However, the most recent one apparently did; 2/19/20 to 3/23/20. Central bank marketplace manipulation (assisted by massive deficit spending) thus made this time different.

In this somewhat new world, therefore, perhaps significant UST interest rate increases (at least initially) may not precede (lead to) a notable US stock marketplace decline. Nevertheless, further US dollar deterioration (a decline approaching ten percent from its peak), if accompanied by widespread concerns regarding US indebtedness, disappointing prospects for a strong (V-shaped) American recovery and thus for US corporate earnings (especially 4Q20 and calendar 2021), and substantial American political divisions may unite to help to precipitate an equity decline.

In this theater, UST 10 year yields may decline alongside stocks, as they did for a couple of weeks in the 1Q20 S+P 500 downturn. UST minor yield highs occurred on 2/6/20 at 1.69 percent and 2/20/20 (one day after the S+P 500 top) at 1.59pc, racing down to 3/9/20's .36pc valley (which the vault up to 1.28pc on 3/19/20 followed). But with the UST yield still at depressed levels, and the current Fed leadership currently resistant to negative nominal interest rates, a significant UST yield decline alongside equities may be difficult to achieve.

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However, regardless of whether the UST 10 year yield rises or falls, widening credit spread yields between the UST 10 year note and corporate notes (especially low-quality debt) can lead to (confirm) stock marketplace declines.

US STOCKS: CORPORATE EARNINGS AND VALUATIONS

The recent S+P 500 high is 3381 (8/11/20), a monumental 54.2 percent rally from the 3/23/20 trough at 2192. It is less than one percent beneath 2/19/20's peak at 3394. Maybe a double top is forming in the S+P 500. The Nasdaq Composite Index set a new record shortly before the 8/11/20 S+P 500 elevation, on 8/7/20 at 11126. This Nasdaq Composite record is well above (by 13.1 percent) its 2/19/20 interim top at 9838 and up a towering 67.8pc from 3/23/20's 6631 bottom.

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. In many countries, real interest rates are negative. Many ask when interest rates are low and a notable need for sufficient (adequate) yield (return) exists, "Where do I put my money?" Suppose also that the "free supply" of equities is relatively low. Plus many believe "there's a lot of cash around looking for a home." And "don't miss the train." The venerable rhetoric regarding the reasonableness of buying and holding United States stocks for the "long run" has not disappeared. A bullish American stock playground situation thus can continue for quite some time.

The generous assorted Fed (and other central banker) economic rescue packages (such as renewed money printing) rolled out in late 1Q20/early 2Q20 (which thus included additional waves of liquidity) and American (and other) massive deficit spending stimulus programs resurrected buying enthusiasm for the S+P 500, Nasdaq Composite Index, and other stock marketplaces.

This recent central banking and political action probably renewed willingness to buy the S+P 500 on 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). Though not much time has passed since 3/23/20's 2192 bottom, the largest recent declines were relatively minor and short-lived. The slump from 2641 on 3/31/20 to 4/1/20 was 7.3 percent. That from 4/29/20's 2955 to 5/14/20's 2767 was only 6.4pc. The decline from 3233 on 6/8/20 to 6/15/20's 2966, though 8.3pc, did not last long. The slide from 6/19/20's 3156 high to 6/29/20's 3000 was 4.9pc. Plus even if corrections or bear moves develop, won't the trusty Fed and its comrades rush in and save the day?

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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In the post-financial crisis era of 2007-09, the Fed generally has aimed to support (and often to rally) American stocks and real estate prices. However, this beloved guardian also becomes less inclined to rescue the S+P 500 when it attains "high" prices (especially new record highs) or apparently "overvalued" levels. Thus at or around current (or higher) S+P 500 elevations, the Fed probably will not seek to save stocks from a decline.

American corporate earnings and valuation measures remain relevant to S+P 500 (and even Nasdaq Composite Index) levels and trends. Of course marketplace wizards review other variables such as the Fed's highly accommodative policies. Investors also can decide to look past the bad times (such as dismal calendar 2020 year-on-year earnings) and see happy times ahead (a big earnings bounce in calendar 2021, with further gains in 2022).

FactSet places S&P 500 corporate earnings for calendar year 2020 down -19.0 percent year-on-year ("Earnings Insight", 8/7/20/20), with calendar 2021's soaring 28.6pc versus 2020. The forward 12 month price/earnings ratio is 22.3, well above the 17.0 five year average and the 15.3 ten year average. History of course shows that stock valuation measures can remain "high" for some time, and even move upward further.

According to Refinitiv ("S&P 500 Earnings Scorecard", 8/11/20), analysts estimate calendar 2019 earnings as up less than one percent from 2018. Though 2020's crash 20.4 percent, 2021's fly up 28.3pc. Refinitiv projects calendar 2022's will increase about 3.1pc year-on-year. The estimated four quarter forward price/earnings ratio is 23.1.

But suppose corporate earnings hopes dim. What if the widely-promoted and desired V-shaped economic recovery does not emerge, whether because of the coronavirus problem or for other reasons? What if the Democrats sweep to victory in America's November 2020 election, capturing not only the Presidency and House of Representatives, but also the Senate? Then much of the corporate tax reform legislation (which boosted earnings substantially) probably will be reversed, and Congress also may boost taxes on high incomes as well as capital gains.

US STOCKS AND THE DOLLAR: PATTERNS

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

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Given the "high" level of current American (S+P 500) stock valuations (in relation to recent and probable future 2020 corporate earnings, as well as those anticipated for 2021), and the significant risk of earnings disappointments relative to expectations for calendar 2021 and thereafter, stock and other marketplace fortune-seekers hunters should explore the relationship between the US dollar and the S+P 500.

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All else equal, a weaker dollar tends to boost dollar-denominated asset prices, including stocks. However, this theoretical rule of thumb is not necessarily or always realized in marketplace practice (history). Numerous other intertwined and changing variables influence marketplace levels and patterns, including convergence and divergence (lead/lag) ones.

In any case, maybe a bit of weakening in the US real Broad Dollar Index since early spring 2020 has helped US stocks to ascend since then. Recall the TWD's April 2020 high at 113.4 (monthly average). The nominal Broad Dollar Index peak was 3/23/20's 126.5, the same day as the S+P 500's 2192 bottom.

And as there have been times of "strong dollar equals (alongside) weak US stocks", so there can be a "weaker dollar promotes stronger US stock prices" one. During the global economic disaster of 2007-09, recall that the TWD bottomed in April 2008 at 86.8, close in time to the S+P 500's final top on 5/19/08 at 1440 (peak 10/11/07 at 1576). The real Broad Dollar Index rallied as the S+P 500 crashed. The S+P 500 bottom was 3/6/09 at 667; the TWD's pinnacle was March 2009 at 101.5. Since around spring 2008 to March 2009, the dominant US dollar/stocks pattern was a "strong dollar, weak stocks" one.

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But let's review additional US dollar history in the context of the S+P 500. First, the real Broad Dollar Index ("TWD") started a major bull appreciation from July 2011's bottom at 83.9. The TWD rally preceded but roughly coincided with a crucial bottom in the S+P 500, 10/4/11's 1075. Thus over a rather long run of nearly ten years, there has tended to be a "strong US dollar equals strong S+P 500" relationship. Of course other considerations mattered; also, that dollar/stocks relationship was (and is) not "perfect" (and can change, and is a matter of subjective perspective). Yet remember as well the connection beginning around end December 2018/early 2019 between a relatively strong US dollar (TWD low at 105.9 in January and February 2019) and the S+P 500 rally (S+P 500 bottom 12/26/18 at 2347).

Given this durable "strong dollar, strong American stocks" relationship, and since the US dollar has weakened since late March 2020/April 2020, we should ask what consequences a notably weaker US dollar eventually will have for equities. As a guideline, a reversal of the past linkage warns that at some point a sufficiently weak US dollar will link ("lead") to declines in US equities ("feeble dollar equals weak stocks" would be the guideline chant). The likelihood of this weak dollar/weak stocks pattern developing probably increases if US corporate earnings become disappointing relative to current expectations or the anticipated recovery is not a strong one (or especially if a recession exists), or if domestic and international confidence in America (including not only its political system/situation, but also its assets such as stocks and the dollar) declines sharply.

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Of course ongoing convergence and divergence patterns can change, sometimes dramatically. In addition, and particularly in an era of trade wars, competitive depreciation can limit dollar declines.

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Yet relevant to the current international economic situation and the future relationship of the dollar to stocks, the dollar can remain "too strong for too long". Picture not only the desire of American politicians and many of its corporations to boost the US economy via dollar depreciation. Spotlight the financial exposure of emerging marketplace foreign borrowers (whether corporations or sovereigns) with substantial dollar debt obligations and inadequate revenues as well.

Despite the TWD's moderate decline since April 2020's 113.4, the dollar probably remains "too strong". It has remained significantly above March 2009's global financial crisis peak of 101.5. It moved above December 2016's 110.0 interim top in March 2020, but July 109.3 neighbors this. Prior to the significant worsening of the coronavirus pandemic in March 2020, February 2020's TWD level was 107.7, which borders an important interim high prior to the December 2016 one, January 2016's 107.6. A five percent fall under 113.4 gives 107.7. Suppose a "weak dollar implies weak stocks" relationship is emerging. Then a move by the real Broad Dollar Index under around 107.6 probably will warn of (or confirm) a notable S+P 500 decline. A fall in the S+P 500 probably will connect with declines in prices of lower grade corporate debt securities and many other asset sectors.

AMERICAN CULTURAL DIVISIONS: CRISES OF CONFIDENCE

"Her voice is full of money." F. Scott Fitzgerald, "The Great Gatsby" (chapter 7)

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Consumers represent about 67.8 percent of United States GDP (as of 1Q20; Federal Reserve Board: Z.1, "Financial Accounts of the United States", Table F.2; 6/11/20). Consumers obviously spend money on a diversity of goods and services for all sorts of reasons. But roughly speaking, and all else equal, they tend to spend less when there is an economic downturn or substantial fears of one. And thus widespread worries about the American economy tends not only to slow or slash consumer spending rates, but also thereby (all else equal) to reduce American corporate earnings (profitability). This in turn will tend to weaken overall US stock marketplace prices.

Sharp falls in United States consumer confidence at times have coincided with economic slowdowns (recessions) as well as with notable declines 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 stayed relatively strong thereafter. Its high since then is October 2018's 137.9 (almost two years 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 a still-lofty 132.6 in February 2020, around the time of the S+P 500's glorious 2/19/20 pinnacle at 3394.

However, the CCI tumbled to 118.8 in March 2020, crashing to 85.7 in April 2020 (85.9 May 2020). The S+P 500 fell more or less alongside the CCI, making its bottom on 3/23/20 at 2192.

Though consumer confidence rose to 98.3 in June 2020, it fell to 92.6 in July 2020. This warns of another stock marketplace decline. Falling beneath the 85.7 April 2020 valley would be a bearish sign for the S+P 500.

Probably Wall Street and many "haves" ("big money") have benefited far more from the recent explosive rally in the S+P 500 than Main Street in general (both its individuals and small businesses).

US household debt declined by $34 billion (.2 percent) in 2Q20 (.2pc), to about $14.3 trillion (yes trillion), the first decline since 2Q14. However, the current debt balance is $1.6 trillion (in nominal terms) above the previous peak of $12.7tr (3Q08, financial crisis era) and 27.9pc above the 2Q12 trough (Federal Reserve Bank of New York; 8/6/20). If the country's economic weakness persists or grows, the current arithmetic level will burden American consumers.

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The Conference Board's Consumer Confidence Index is generally labeled as an "economic" indicator. Economic confidence nevertheless interacts with political and other cultural phenomena to some extent, and sometimes more with them at some times than others.

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The economic, political, and social parameters of American Dream culture and their application are not unchanging. America always has had some cultural divisions, despite widespread faith in the American Dream.

But cultural battles seem particularly wide-ranging and intense nowadays. Not only does America have significant internal cultural divisions across various parameters. These include "political" ideology (such as left wing versus moderates versus right wing; various species of "radicals"; liberal/progressive versus conservative/traditional; globalist versus nationalist). Think also of divergent "economic" principles (and "haves" versus "have-nots" as well as "capitalists" versus "socialists"), plus divisions according to age, sex/gender, region, urban/rural, racial/ethnic background, and religion. The ferocious partisan politics (which partly reflect these cultural divisions) likely will persist on media and national legislative stages and elsewhere 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).

Though these issues are extremely complex, long-running globalization trends and growing acceptance by many Americans of "cultural diversity" probably have eroded allegiance to the American Dream to some extent (or at least encouraged some alternative formulations of it) and also encouraged the strength of several of these divisions. In this respect, so has the declining faith in deep-seated and widely-shared (traditional) community institutions and values, which has occurred alongside growing devotion in practice to (emphasis on) the rights of the individual (and the rights of groups smaller than the "country as a whole") relative to the rights of "the national community as a whole". The rhetoric and methods of President Trump and many of his allies likely has assisted the virulence of so-called culture wars.

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RealClearPolitics ("RCP") surveys American views regarding the direction of their country. The data, which extends back to 2010, always shows a net negative number, and thus as being always on the wrong track. Consequently viewers should analyze and monitor patterns. For example, around net -55 is a very high total.

Note the recent widening of the differential, in which more and more people see the country as being on the wrong track. For the period 7/9/20 to 8/6/20, 24.3 percent viewed the country as moving in the right direction, 69.6pc in the wrong direction. Thus the current differential is -45.3 percent net moving in the wrong direction.

Compare the net low of -13.8 percent in the "Direction of Country" index on 2/18/20. Underline not only that the Consumer Confidence Index was at a still-strong 132.6 in February 2020, but also that 2/19/20 was the S+P 500's record high. In addition, see the trend in the Gallup poll on American opinion regarding the state of the nation (poll as of 7/1-23/20; 8/4/20 release). Gallup says only 13 percent of American adults are satisfied with the state of the nation, down 32 points from February 2020's 45pc, which was a fifteen-year high. The current satisfaction level has not been this low since early November 2011's 12 percent. Satisfaction now is merely six points higher than the all-time low of seven percent in October 2008, reached during the global economic disaster.

RCP's "Direction of Country" index was -15.0 on 3/17/20; compare the timing of the spread of the coronavirus and economic shutdowns). It spiked from around 6/1/20's -27.6; recall that George Floyd died 5/25/20 (-26.4 that day) and the consequential growing Black Lives Matter protest movement and the related increase in law and order concerns.

Around late July 2016, -46.8 was the net differential indicating the country was on the wrong track, close to the current 2020 attitude. It narrowed to around -31.2 in early November 2016. Such substantial dissatisfaction probably assisted the ability of Donald Trump, a Republican "outsider", in his surprising capture of the Republican nomination and the Presidency. Much can happen between now and Election Day 11/3/20. Yet current dissatisfaction levels in the RCP Direction of Country measure at around -45.3 thus are evidence that Trump probably will lose the 2020 election. According to the Gallup poll history (which goes back to 1979), the current satisfaction level rests substantially below the lowest level (33pc) at which an incumbent has won reelection in the past.

If Americans increasingly view their country as heading in the wrong direction, imagine what many foreigners (including those holding dollar-denominated assets) believe about the US. Keep in mind the similar timing of the decline in US consumer confidence. These trends for the Direction of Country and consumer confidence probably are linked, and are a bearish sign for (confirmation of weakness in) the US dollar (note when the dollar began to depreciate). Given these American opinions on the country's wrong direction (and the probability of similar international attitudes), the downturn in US consumer confidence, and the recent slide in the US dollar (and other considerations discussed above such as American debt trends; the likely persistence of the coronavirus and the probable absence of a V-shaped recovery), and the increasing probability of a Democratic victory (including Senate control) on Election Day and thus the eventual reversal of corporate tax reform (and enactment of higher taxes on the wealthy and capital gains), the S+P 500 probably will begin to decline in the relatively near future.

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In the opinion of some observers inside and outside America, the nation's 2020 national election, with some allowance for colorful and figurative description, offers an unattractive choice. The following brief description of course oversimplifies the cultural issues and the players and policies involved. Anyway, let's forge ahead. On the one hand, there is an individual menace, President Trump, which includes his troubling (and arguably dangerous from the world peace, international economic and political relations, environmental, and other perspectives), impulsive, and erratic leadership. It often seems that Trump's America First (Make America Great Again) doctrine, whatever the merits of some of its specific policies, masks a Me First (Make Me Great) orientation. On the other hand, Democrats in general (especially the left-wing, overly progressive types who've gained increasing influence within the party) seem to be relatively more "socialist", less "nationalist", and more tolerant of social disorder (less law-and-order oriented).

This unappealing vision (choice) perhaps helps to undermine the dollar and United States stocks. In any event, the increasingly sharp and ongoing conflicts between the two alternatives probably decreases US consumer confidence and increases worries about the state of and direction of the country.

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Suppose that the Presidential election outcome remains unclear after Election Day 11/3/20 passes. Perhaps it will take quite some time to count all the absentee (mail-in) ballots. Perhaps lawsuits will emerge regarding the validity of many of these mail-in ballots. Maybe Trump will not accept defeat and will refuse to leave office; he has hinted he may not accept the result. The New York Times headlined (6/25/20, website) "Race Will End Nov. 3, Right? Don't Bet on It" and "Long Legal Fight May Follow Vote on Election Day" (8/9/20, website). The Financial Times (8/3/20, p15) asks: "Can America conduct a fair election?" The Financial Times offers warnings in its editorial (8/10/20, p18), "The risks of a broken American election". This lack of certainty, and especially long delays and partisan (and legal, perhaps even constitutional) conflicts, may generate a national crisis. Such events, and even a substantial threat of their occurrence, probably will be bearish for both the US dollar and American stocks.

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Stocks and the dollar are not merely financial instruments. Both the US stock marketplace and the dollar are rhetorical symbols of (metaphors for) America. From the cultural perspective, "high" US stock marketplace prices confirm to many observers (especially American ones) the economic and political strength of the United States in general and the reasonableness (rationality; persuasiveness), goodness (merit; praiseworthiness; even morality), and success of its American Dream culture as a whole. Strong stocks (are good) reflect a strong (good) country and its good (strong; persuasive) ideology! American Dream support for a strong dollar is not as clear or vociferous as that for high and rising American stocks (after all, for example, the nation's importers and exporters have somewhat competing interests). Yet in general, Americans prefer a strong dollar (but not one that is "too strong") to a weak one, and do not want a dollar that is "too weak". Thus a robust (or at least a fairly powerful, strong) US dollar tends to support similar opinions regarding American strength and its American Dream ideology.

So from America's cultural perspective, a high (and rising) S+P 500 alongside a strong US dollar represents a triumph for America and its American Dream perspectives, arguments, and values. A combination of a sustained and substantial slump in both American stocks and the US dollar consequently will damage United States and global faith in the American Dream. Since America's long run cultural success on economic, political, and other fronts has enabled it to inspire others and thus export its visionary Dream to many places and people around the globe, substantial injury to faith in the American Dream doctrine probably will have international consequences.

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For further marketplace analysis, see other essays such as "Divergence and Convergence: US Stocks and American Politics (7/11/20); "US Election 2020: Politics, Pandemic, and Marketplaces" (6/3/20); "American Consumers: the Shape We're In" (5/4/20); "Crawling from the Wreckage: US Stocks" (4/13/20); "Global Economic Troubles and Marketplace Turns: Being There" (3/2/20); "Critical Conditions and Economic Turning Points" (2/5/20); "Ringing in the New Year: US and Other Government Note Trends" (1/6/20). See also "Words on the Street: Language and the American Dream on Wall Street".