ADVENTURES IN MARKETLAND: HUNTING FOR RETURN

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In the movie, "The Hustler" (Robert Rossen, director), a character stresses: "Look, you wanna hustle pool, don't you? This game isn't like football. Nobody pays you for yardage. When you hustle you keep score real simple. The end of the game you count up your money. That's how you find out who's best. That's the only way."

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CONCLUSION

During the era of sustained global yield repression engineered by America's trusty Federal Reserve Board and its central banking comrades, "investors" and other traders generally have engaged in enthusiastic hunts for adequate return ("yield") in assorted financial fields. These territories include United States and other stocks, US corporate bonds, lower-grade foreign dollar-denominated sovereign debt, and commodities "in general".

Convergence and divergence (lead/lag) relationships between realms such as the S+P 500, American corporate debt, and the petroleum complex are a matter of subjective perspective. The connections and patterns are complex and not necessarily precise; they can shift or even transform. Nevertheless, within this accommodative policy yield environment, often involving monumental money printing (quantitative easing) strategies and other generous monetary schemes, price trends in the S+P 500 and these other marketplaces frequently have been similar. Prices in these benchmark stock indices, lower-grade interest rate instruments, and commodities often have risen (or fallen) at roughly the same time They have climbed in bull markets (and fallen in bear markets) "together". For example, the magnificent bull moves for US stocks and these "related" financial areas peaked in early to mid-first quarter 2020. Their subsequent bloody bear crashes intertwined, ending at around the same time. The ensuing price rallies in these assorted key districts generally embarked around late March 2020, and their subsequent bullish patterns thereafter interrelated. The S+P 500's attained its record high on 9/2/20 at 3588.

"Marketplace Maneuvers: Searching for Yield, Running for Cover" (9/7/20) concluded: "various phenomena indicate that these marketplaces are at or near important price highs and probably have started to or soon will decline together." Noteworthy interconnected price falls followed the S+P 500's September 2020 summit. Even if Congress answers widespread fervent prayers and enacts another large deficit spending (stimulus) package, the S+P 500's 9/2/20 peak probably will not be broken by much, if at all.

What bearish factors did "Marketplace Maneuvers" identify? They include the probability of a feeble global recovery (the recovery will not be V-shaped), the persistence of the coronavirus problem for at least the next several months, and lofty American stock marketplace valuations (and the substantial risk of disappointing late 2020 and calendar 2021 corporate earnings). The Democrats probably will triumph in the 11/3/20 American national election, which portends a reversal of the corporate tax "reform" legislation as well as the enactment of increased taxes on high-earning individuals and the passage of capital gains taxes. Also on the US national political scene, fears are growing of a political crisis if President Trump disputes the November voting outcome.

Other warning signals of notable price falls in the S+P 500 and various related marketplaces are vulnerable US (and other) households (reduced consumer spending) and endangered small businesses, massive and rising government debt, a greater risk of rising US interest rates (at least in the corporate and low-quality sovereign landscapes) than many believe (even with ongoing Fed yield repression), and the weakness in the US dollar.

FORTUNE HUNTING: STOCKS, LOWER-QUALITY DEBT, AND COMMODITIES

A prospector declares in "The Treasure of the Sierra Madre" (John Huston, director): "I know what gold does to men's souls."

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Around the time of the S+P 500's first quarter 2020 marketplace bottom, concerned about economic collapse and massive unemployment, the Federal Reserve and other central banks unleashed wide-ranging monetary programs and frantic politicians legislated mammoth deficit spending campaigns. Yield (return)-seeking investors (owners; buyers) and their Wall Street friends in banks, investment banks, and the financial media praised these weapons. Main Street likewise generally supported these remedies.

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The following table summarizes various marketplace price lows achieved around late March 2020 and the subsequent recent highs (and lows) to date. Note the similar overall directional trends and calendar timing parallels (linkages) across stock marketplaces, lower grade corporate debt securities, dollar-denominated emerging marketplace government bonds, and commodities "in general". Thus a sustained fall in the S+P 500 probably connects with declines in the prices of these other asset sectors.

The FTSE All-World Index covers both developed and emerging market stocks. "URTH" is an iShares (BlackRock) MSCI stock ETF which includes a "broad range of developed market companies around the world". "SXXP" is the STOXX Europe 600 Stocks Index. "EEM" is the iShares MSCI Emerging Stock Markets ETF.

"Baa" designates Moody's seasoned corporate bond index (in yield terms) for that credit rating (see St. Louis Fed; all industries, but not only industrial bonds). Baa bonds are of minimum investment grade. The average maturity in that index is 30 years, the minimum maturity 20 years. "HYG" is the iShares iBoxx US dollar-denominated high yield corporate bond ETF (in price terms). "EMB" labels the iShares J.P. Morgan emerging markets US dollar-denominated government bond ETF (price terms).

On the commodities range, gold, silver, and ICE Brent/North Sea crude oil are nearest futures continuation. The broad S&P GSCI commodities index is heavily petroleum weighted. "LMEX" is the London Metal Exchange's base metals index.

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As always, in the context of these various marketplaces, money-seekers should monitor US Treasury and other high-quality government debt yield levels and trends as well as US dollar and other currency patterns.

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I. STOCK MARKETPLACE BENCHMARKS

.	First Quarter 2020 Low (date)	Recent High (date)	Percentage Rally from 1Q20 Low	Recent Low (date)
S+P 500	2192 (3/23/20)	3588 (9/2/20)	63.7 percent	3209 (9/24/20)

[United States stock marketplace history stretching back more than a century prior to calendar 2020 revealed no major bear trends in equity benchmarks (such as the S+P 500 and Dow Jones Industrial Average) which finished in around one month. However, the murderous February to March 2020 price dive broke the pattern, lasting about a month. The S+P 500 peaked on 2/19/20 at 3394, collapsing 35.4 percent to its 3/23/20 valley. Marketplace manipulation by central bank gamekeepers such as the Fed (accompanied by massive deficit spending) thus made this time different.

The S+P 500 (and especially "technology" stocks; see the Nasdaq Composite Index) probably has been the bull leader for the various asset classes "as a whole" since its 3/23/20 bottom at 2192.

In percentage terms, the recent high exceeded the prior 2/19/20 peak at 3394 modestly, by 5.7 percent. A 100 percent rally from 2/11/16's major bottom at 1810 equals 3620 (compare 9/2/20's 3588 elevation) and thus is a major price barrier. A five percent fall from 9/2/20's 3588 gives 3409, close to the February 2020 crest. Sinking ten percent from 3588 reaches 3229. A twenty percent retreat gives 2870, a notable arithmetic distance from the summit.

The S+P 500's 9/24/20 low at 3209 is a 10.6 percent retreat. A conventional definition of a stock marketplace "correction" is a drop around ten percent; numerous equity wizards label a bear move as a decline of twenty percent or more. For the S+P 500, significant price bounces following a tumble of ten percent (or after a dive of 20pc) probably in part reflect the prevalence of a "buy the dip" attitude as well as dogmatic faith in the reasonableness (and eventual profitability) of buying and holding United States stocks for the "long run". The Fed's longstanding lax monetary policy and occasional rescue efforts have encouraged such viewpoints and trading patterns. The Fed may trumpet comforting songs if American stocks slide around ten percent, but it probably will not intervene actively unless the S+P 500 slumps closer to or greater than the 20 percent danger level.

The Dow Jones Industrial Average high on 2/12/20 at 29569 remains unbroken. Its dismal bottom was 3/23/20's 18214. Its high since then, 9/3/20's 29199, ascends 60.3 percent from that low and stands 1.3 percent under the prior top.]

Wilshire 5000	21956 (3/23/20)	36659 (9/2/20)	67.0 percent	32832 (9/24/20)

[The Wilshire 5000 Total Market Index "measures the performance of all U.S equity securities with readily available price data" (company website; 9/30/20). Despite its title, it contains about 3445 companies, a substantial total but well under 5000. The Wilshire index is capitalization-weighted, with the "information technology" sector constituting about 27.0 percent of its weight.

The Wilshire 5000's 9/2/20 top surpassed 2/19/20's 34617 apex by 5.9 percent. It broke down 36.6pc from its February 2020 top. Double 2/11/16's 18462 bottom equals 36924; compare the 9/2/20 high. The decline since 9/2/20 equaled a 10.4pc correction.]

.	First Quarter 2020 Low (date)	Recent High (date)	Percentage Rally from 1Q20 Low	Recent Low (date)
Nasdaq Composite Index	6631 (3/23/20)	12074 (9/2/20)	82.1 percent	10519 (9/21/20)

[Note the significantly greater percentage bullish price advance since 3/23/20 in the Nasdaq Composite in comparison to the S+P 500 and Wilshire 5000. The Nasdaq's 2/19/20 peak was 9838. The Nasdaq Composite's 9/2/20 pinnacle blasted above this by 22.7 percent. The S+P 500 and Wilshire 5000's percentage piercing of their February 2020 tops were much smaller. This further indicates the crucial relative role of "technology" in uplifting overall (broad; signpost) stock indices such as the S+P 500 and Wilshire 5000. Since the "technology" sector has played a critical role in leading the S+P 500 and thus other benchmarks since around end first quarter 2020, survey its trends closely.

The Nasdaq attained its 1Q20 trough and 9/2/20 zenith on the same days as the S+P 500's and the Wilshire 5000's. Compare the timing of the late September 2020 lows in these three battlegrounds.

The Nasdaq Composite's recent descent was a 12.9 percent drop from 9/2/20's summit, around the guideline for a correction.

The 2/11/16 major bottom was 4210; three times this equals 12630. The major trough on 12/24/18 was 6190. A 100 percent rally from December 2018's bottom is 12380, about 2.5pc over 9/2/20's height.

Marketplace history of course does not necessarily repeat itself. However, in regard to the calendar timing of recent US stock marketplace highs (S+P 500, Wilshire 5000, and Nasdaq on 9/2/20; Dow Jones Industrial Average on 9/3/20 at 29199), recall the ancient 9/3/29 pinnacle in the Dow Jones Industrial Average at 386.1. The S+P 500's memorable 8/25/87 summit at 338 occurred around that 1929 calendar month date. The S+P 500 established an important interim high on 9/21/18 at 2941. During the global economic crisis of 2007-09, the S+P 500 peaked on 10/11/07 at 1576.]

FTSE All-World	250.4 (3/23/20)	392.0 (9/3/20)	56.6 percent	359.6 (9/24/20)

[The FTSE All-World's first quarter 2020 high, 2/12/20 at 383.4, occurred close in time to that in the S+P 500. The early September 2020 high surpassed the February 2020 one by merely 2.2 percent. Did a double top form? The decline to 9/24/20 is 8.3pc, fairly close to a correction.]

URTH	66.38 (3/23/20)	105.13 (9/2/20)	58.4pc	95.79 (9/24/20)

[URTH's 2/19/20's pinnacle was 102.28, which 9/2/20's high exceeded by only 2.8 percent. The decline since 9/2/20 is 8.9 percent.]

EEM	30.10 (3/23/20)	45.56 (8/28/20)	51.4pc	42.29 (9/25/20)

[The EEM remains under its 1/13/20 top at 46.32. It lurks far beneath 1/26/18's pinnacle at 52.08. It diminished about 7.2 percent from its late August 2020 top.]

.	First Quarter 2020 Low (date)	Recent High (date)	Percentage Rally from 1Q20 Low	Recent Low (date)
SXXP	268.6 (3/16/20)	380.3 (7/21/20); 375.9 (9/3/20)	41.6 percent	351.2 (9/24/20)

[The SXXP's 433.9 high attained on 2/19/20 remains unbroken; with late July 2020's top 12.4 percent under February 2020's crown. SXXP has slid 7.7pc following its summer 2020 high.]

FTSE (UK)	4899 (3/16/20)	6512 (6/8/20)	32.9pc	5771 (9/25/20)

[The FTSE's mid-2020 top preceded those in many other stock marketplaces. It melted about 11.4pc to its late September low.]

DAX (Germany)	8256 (3/16/20)	13460 (9/3/20)	63.0pc	12342 (9/25/20)

[The DAX's 9/25/20 low at 12342 dips 8.3percent from the early September 2020 top.]

Nikkei (Japan)	16378 (3/17/20)	23581 (9/3/20)	44.0pc	22879 (9/9/20)

[The timing of the Nikkei's high on 1/17/20 at 24116 neighbored the peak in emerging stock marketplaces in general (EEM). The Nikkei's high since its March 2020 low is 2.2 percent beneath January 2020's crest. Its decline since early September is a modest 3.0pc.]

Shanghai Composite	2647 (3/19/20)	7/13/20 (3459); 8/18/20 (3457)	30.7 percent	3202 (9/30/20)

[China's Shanghai Composite Index still has not pierced 1/29/18's 3587 peak. The Shanghai Composite established a lower high than 4/8/19's 3288 on 1/14/20 at 3127. Though January 2020's top preceded the S+P 500's 1Q20 high, it occurred close in time to summits in the EEM (emerging marketplace stocks "overall") and the S+P GSCI (commodities "in general").

The price plunged 8.2 percent after 7/13/20 to 7/27/20's 3175, which 9/30/20's 3202 borders.]

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II. LOWER-GRADE DOLLAR-DENOMINATED DEBT INSTRUMENTS

Baa	5.15pc (3/20/20)	3.12 (8/6/20)	39.4pc	3.46pc (10/2/20)

[The price low (yield high) for the Baa yardstick occurred 3/20/20. Since Baa yields slumped from end 1Q20, by definition Baa prices increased from their 3/20/20 valley up to the early August 2020 yield low. The yield move (narrowing spread) in basis points from March to August 2020 was about 39.4 percent (203/515). Data history is through 10/2/20.]

Credit Spread: Baa less UST 10 Year	431 basis points (3/23/20)	255 basis points (8/12/20)	40.8pc	276bp (9/28/20)

[Regardless of whether the US Treasury 10 year yield rises or falls, substantially widening credit spread yields between corporate notes (especially low-quality debt) and the UST 10 year note can lead to (confirm) stock marketplace declines and herald economic weakness.

The Moody's Baa index less the 10 year US Treasury note yield spread achieved important lows at 196 basis points on 12/19/19 and 12/27/19. The key final spread trough was 2/14/20's 204bp; compare the timing of the S+P 500's 2/19/20's 3394 high.

Note that the narrowing Baa/UST spread in basis points which started in March 2020 occurred alongside the rally in American and other global stocks. The change in basis point terms from March to August 2020 was 40.8 percent (176/431).

The spread high since 8/12/20 is 276 basis points on 9/28/20. This credit spread widening, although rather small, has developed alongside an increase in Baa yields (since 8/6/20's 3.12 percent). This weathervane thus tends to warn of (confirm) a price drop in the S+P 500 (9/2/20 high 3588). Also, 8/12/20's 255bp credit spread low does not come very close to 2/14/20's 204bp level.

Like this credit spread, the St. Louis Fed's Financial Stress Index remain above its August 2020 low.

During the global economic disaster of 2007-09, the Baa/UST 10 year credit spread peaked at 616 basis points on 12/4/08. Note the rapid upward march from 290 basis points on 6/12/08. Recall the 187bp low on 10/12/07, adjacent in time to the S+P 500's major high on 10/11/07 at 1576.]

.	**First Quarter 2020 Low (date)**	**Recent High (date)**	**Percentage Rally from 1Q20 Low**	**Recent Low (date)**
HYG	67.52 (3/23/20)	85.40 (8/6/20) 85.39 (9/2/20)	26.5 percent	82.56 (9/24/20)

[When did the HYG ETF reach its 1Q20 apex? On 1/15/20 at 88.53 and 2/14/20 at 88.49, close in time to the S+P 500's 2/19/20 high.

HYG's decline from 8/6/20 to 9/24/20 is 3.3 percent.]

EMB	85.00 (3/18/20)	114.65 (8/11/20) 114.56 (9/3/20)	34.9pc	109.20 (9/24/20)

[Note the timing of the EMB's first quarter 2020 price peak: 2/21/20 at 117.20, also around the time of the S+P 500's mid-February 2020 top. The EMB fell 4.8pc from its 8/11/20 level.]

Despite their impressive rallies since their March 2020 bottoms, the failure of the HYG and EMB to venture close to their first quarter 2020 price highs may foreshadow stock marketplace and economic weakness.]

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III. COMMODITIES

"And you know I'm only in it for the gold." "Loser", a Grateful Dead song

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The S+P GSCI and petroleum complex lows, though in late April 2020, occurred sufficiently close in time to the late March 2020 price bottoms in stocks and lower-grade dollar-denominated debt instruments to reflect (confirm) interrelationships. Similarly, the August 2020 highs in gold and silver were relatively close in time to the S+P 500's 9/2/20 pinnacle.

.	**March/April 2020 Low (date)**	**Recent High (date)**	**Percentage Rally from 1Q20 Low**	**Recent Low (date)**
S+P GSCI	218.0 (4/21/20)	363.1 (8/31/20)	66.6 percent	332.7 (9/8/20)

[The broad GSCI is heavily petroleum-weighted. Compare the timing of its 1/8/20 peak at 453.2 with that in emerging stock marketplaces (EEM high 1/13/20 at 46.32). The GSCI's fall from 8/31/20 to 9/8/20 is 8.4percent. The low on 10/2/20, 334.4, is close to 9/8/20's height.]

Gold	1452 (3/6/20)	2063 (8/6/20)	42.1pc	1852 (9/24/20)
Silver	1174 (3/18/20)	2953 (8/7/20)	151.5pc	21.96 (9/24/20)

[Gold's recent low at 1852 on 9/24/20 represents a 10.2 percent correction relative to its sky-high 8/6/20 summit. Silver's vicious slump from early August 2020 was 25.6pc.]

LMEX (base metals)	2232 (3/23/20)	3037 (9/1/20) 3046 (9/18/20)	36.5pc	2873 (10/1/20)

[The 10/1/20 LMEX low descended 5.7pc beneath 9/18/20's plateau.]

Brent/NSea Crude Oil	1598 (4/22/20)	4653 (8/31/20)	191.2pc	3879 (10/2/20)

[Brent/North Sea declined 16.6 percent since 8/31/20.

The NYMEX crude oil price went negative at -4032 (4/20/20). The timing of its recent high, 8/26/20's 4378, neighbored Brent's. Its 9/8/20 low at 3613 has not been broken, but it is under assault (3663 low 10/2/20).]

Bitcoin	3926 (3/13/20)	12485 (8/17/20)	218.0 percent	9820 (9/9/20)

[Bitcoin's recent trough is 9/9/20's 9820, a dramatic 21.3pc retreat.]

ANOTHER PLAYGROUND: THE US DOLLAR

"That's what I can't get used to. Everything keeps changing." The movie "The Misfits" (John Huston, director)

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The United States dollar's links with other financial marketplaces of are complicated, and history reveals that these relationships can change significantly. Let's review some recent US dollar trends. The EuroFX versus US dollar is a popular currency cross rate relationship.

The Federal Reserve (H.10) releases a real as well as a nominal "Broad Dollar Index" (includes goods and services). The real "Broad Dollar Index" is a monthly average (January 2006=100;

10/1/20). The Fed's nominal Broad Dollar Index release provides daily data (10/2/20 is the most recent data point).

The major bull appreciation in the real "Broad Dollar Index" which began from July 2011's bottom at 83.9 probably has ended. See "Dollar Depreciation and the American Dream" (8/11/20).

.	**First Quarter 2020 <u>Key Level (date)</u>**	**Recent <u>Level (date)</u>**	**Percentage Move <u>from 1Q20 Level</u>**
EuroFX (cross)	1.064 (3/23/20)	1.201 (9/1/20)	EuroFX rose 12.9pc
Nominal Broad Dollar Index	126.5 (3/23/20)	115.9 (9/1/20) 115.6 (9/18/20)	Nominal Dollar Index fell 8.6pc

Arguably a weakening United States dollar since around late March 2020 helped lead to the S+P 500's early September 2020 peak at 3588. Thus many marketplace generals and their troops promote a "weak (weakening) US dollar equals strong (strengthening) US stocks" relationship (and its reverse, "strong dollar equals weak stocks").

The EuroFX's recent low, 9/25/20's 1.161, burrowed 3.9 percent under its 9/1/20 high (S+P 500 high 9/2/20). Note the time of the S+P 500's related trough, 9/24/20's 3209. The nominal Broad Dollar Index's initial low (9/1/20) was around the time of the EuroFX cross high at 1.201. The following nominal Broad Dollar Index high was 9/25/18's 118.3 (2.3 percent rally in the dollar). Perhaps the slightly stronger dollar assisted the decline in the S+P 500.

All else equal, a weaker US dollar tends to boost dollar-denominated asset prices, including US stocks. But this theoretical rule of thumb is not necessarily or always realized in marketplace practice (history).

"Looking forward, in general, over the longer run", the real Broad Dollar Index probably will continue to depreciate relative to its April 2020 summit at 113.4. So if the US dollar continues to weaken significantly, watch for the emergence of a "weak US dollar equals weak US stocks" scenario. Why? Further (additional) ongoing US dollar feebleness can become significant enough to inspire a shift from a "weak dollar equals strong stocks relationship" (which existed during the 3/23/20 to 9/2/20 time span) and thus probably will encourage eventual (renewed) weakness in the S+P 500 and related stock and low-quality dollar-denominated debt marketplaces.

What does this additional US dollar weakness mean in practice in this context? Picture the EuroFX's 9/1/20 high being decisively broken. Imagine a slump in the nominal Broad Dollar Index of greater than ten percent relative to 3/23/20's 126.5. Or, consider a decline in the real Broad Dollar Index of around ten percent (or more) from its spring 2020 top.

The September 2020 low in the real Broad Dollar Index at 107.9 is a 4.9 percent fall from April 2020's 113.4 top. Compare the September 2020 elevation with December 2016's 110.0 high. Slipping beneath December 2016's interim top at 110.0 warns of further dollar erosion. A five percent decline in the real Broad Dollar Index 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.

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". It has remained significantly above March 2009's global financial crisis peak of 101.5 for quite some time. Picture nowadays not only the desire of American politicians and many US corporations to boost the US economy via dollar depreciation. Spotlight as well the financial exposure of emerging marketplace foreign borrowers (whether corporations or sovereigns) with substantial dollar debt obligations and inadequate revenues.

US dollar deterioration, especially 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 (and related conflicts) may unite to help precipitate an equity decline.

<u>BEWARE OF TRAPS: US INTEREST RATE HISTORY AND DEBT LEVELS</u>

"History on Stage: Marketplace Scenes" (8/9/17) emphasized: "Marketplace history need not repeat itself, either entirely or even partly. Yet 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."

The UST 10 year yield approached zero in early March 2020, halting at .36 percent on 3/9/20. Although its yield spiked to 1.28pc on 3/19/20, it subsided to about half of one percent (.51pc on 4/21/20). After inching up to .95pc on 6/5/20, the UST 10 year yield sauntered down to .50pc on 8/4/20. A hop to around one percent, and especially a jump toward or over resistance at 1.25pc/1.45pc, probably will lead to declines in the S+P 500 and related marketplaces. See not only the UST 10 year's 3/19/20 yield high and 9/3/19's 1.43 percent low, but also the major bottoms in yield at 1.32pc on 7/6/16 and 1.38 pc on 7/25/12.

Significant stock marketplace price declines are not necessarily (inevitably) accompanied by a substantial "flight to quality" (into a nation's government securities sufficient to drive the yields in those debt instruments lower). "History on Stage: Marketplace Scenes" notes: "Sometimes the yield advance has extended past the time of the stock pinnacle." Also, recall troubles in emerging marketplaces. In any case, a falling S+P 500 alongside rising UST yields is not impossible.

Also, despite the Fed's devoted marriage to UST yield repression, this financial guardian confesses it still wants higher inflation to emerge. Moreover, now the Fed clearly asserts its dogged willingness to tolerate inflation benchmarks exceeding its long run two percent target goal for a while. This higher inflation policy points to higher UST (and other interest) rates in the future. In addition, monumental money printing, all else equal, tends to raise inflation levels and thus encourages interest rate boosts.

According to the Congressional Budget Office ("An Update to the Budget Outlook: 2020 to 2030"; see "At a Glance", Table 1, and Figure 1; 9/2/20), the fiscal year 2020 US federal budget deficit will soar to a colossal $3.3 trillion, more than triple fiscal 2019's monumental $984 billion deficit. The 2020 deficit will be 16.0 percent of GDP, the largest since 1945. Debt held by the public at the end of fiscal 2020 will reach about $20.3 trillion, about 98.2 percent of GDP. Compare 79 percent in 2019, as well as 2007's 35pc at the advent of 2007-09's worldwide global disaster. The CBO estimates a $1.8 trillion deficit for fiscal 2021 (8.6pc of GDP), with outstanding public debt surpassing GDP that year (104.4pc of GDP).

Admittedly the coronavirus pandemic and related economic and political responses played a critical role in the huge expansion in the development of the 2020 deficit. Even so, shortfalls exceeding one trillion dollars a year continue out to 2030. Annual deficits throughout 2021-30 fly over their 50 year average.

The nation's federal debt held by the public as a percent of GDP reaches 107 percent in 2023, the highest in US history. The previous peak, in 1946, followed the sizable World War II deficits.

The CBO warned in "The 2020 Long-Term Budget Outlook" (9/21/20) that by 2050 federal debt as a percent of GDP will reach 195 percent. This sustained demand for credit, all else equal, will tend to push US government interest rates higher.

Most American central bankers, other financial players, politicians, and think-tanks nowadays eagerly promote further deficit spending, hoping for fiscal discipline (deficit reduction) at some murky future point. Perhaps Congress will enact another stimulus plan, either before or sometime after the November 2020 election, thereby increasing the debt burden.

How easy will it be to finance this large and growing debt (demand for credit), even if the Federal Reserve engages in money-printing schemes to assist the process? Will interest rates stay at current low levels in an environment where the Fed nowadays shouts it wants more inflation over time in order to achieve its two percent target? Compare a .75 percent UST 10 year note yield (around the 10/5/20 level) with the Fed's two percent inflation measure goal. Plus won't many US Treasury bill, note, and bond owners seek a real return relative to inflation?

The CBO's "Baseline Projections" for the average interest rate on debt held by the public is 2.0 percent in 2020 ("An Update to the Budget Outlook: 2020 to 2030"; Table 2). It remains under two percent from 2021 through 2029. But if the Fed removes or can no longer successfully maintain its ongoing yield repression quest, higher UST rates may create further budget stress.

All else equal, sustained globalization probably tends to increase economic competition and thus encourages somewhat lower prices and wages than would otherwise exist. Less inflationary pressure (though it is only one variable) obviously helps to mitigate (reduce) interest rate increases. Therefore, might a legislative enactment of a vigorous national "buy American" or "America first" policy (whether under Trump or Biden), if it involved a significant pullback from globalization, encourage US inflation and thus higher interest rates?

THE AMERICAN POLITICAL PASTURE

The Badger told the Mole in Kenneth Grahame's "The Wind in the Willows": "The Wild Wood is pretty well populated by now; with all the usual lot, good, bad, and indifferent—I name no names. It takes all sorts to make a world. But I fancy you know something about them yourself by this time."

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"US Election 2020: Politics, Pandemic, and Marketplaces" (6/3/20) said that though it was a fairly close case, former Vice President Biden probably will defeat President Trump on an electoral vote basis. "Divergence and Convergence: US Stocks and American Politics" (7/11/20) stated: “over the past several weeks, Biden and the Democrats have improved their position. Relative to early June 2020, Biden now has a greater chance of capturing the Presidency, and his electoral vote margin over Trump will be greater. It appears that Biden has gained ground in battleground states. The ultimate electoral split may be substantial, even if it does not reach landslide levels. Democrats also have improved their odds of winning control of the Senate.”

Relative to summer 2020, Biden and the Democrats probably have improved their election position. With less than 30 days prior to Election Day (11/3/20), Trump will find it extremely difficult to improve his electoral vote standing sufficiently to capture the Presidency. His recent coronavirus diagnosis and hospitalization magnifies his challenge.

RealClearPolitics (“RCP”) and FiveThirtyEight (“538”) gather and present polling data from various sources regarding America’s 11/3/20 Presidential election as well as the Senate and House contests. On their websites, RCP and 538 offer conclusions (summaries of the differentials) derived from compiling the assorted polls.

According to RCP’s website (10/6/20; around 300pm), national polling data shows that Biden leads Trump by 9.0 percent (the polls cover the 9/22 to 10/5/20 period). The first debate between the candidates was the evening of 9/29/20. Thus Biden’s lead has widened from 9/29/20’s +6.1pc. Compare his 9/17/20 advantage of +5.8pc, 9/1/20’s +6.0pc, and 8/7/20’s +6.4pc. The lowest Biden lead for the past several months occurred around 5/9/20’s +4.4pc. According to 538, Biden’s advantage as of 10/6/20 is 8.7 percentage points. According to RCP, Biden currently holds a 4.3 percent lead over Trump in the top battleground states.

RCP reports the smallest Biden advantage versus Trump during calendar 2020 was +4.0 percent in January 2020 (1/13/20 and 1/23/20). A slightly higher low occurred 2/23/20 at +4.3pc, very close in time to the S+P 500’s 2/19/20 peak at 3394. These lower poll advantages for Biden during January and February 2020 preceded the wide spread of the coronavirus across America.

Financial marketplaces probably will have to endure notable and agitating American political fights and uncertainty for at least several more weeks. Even if Biden defeats Trump decisively in the electoral vote contest, it may take several days or more to determine this given the need to count mailed ballots. Also, Trump may roar that the election was rigged or fraudulent. He may refuse to accept the outcome.

MARKETPLACE STRESS

“Yesterday’s weirdness is tomorrow’s reason why”: Hunter S. Thompson and Ralph Steadman, “The Curse of Lono”

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The St. Louis Fed’s Financial Stress Index (“FSI”) was -.73 (negative) on 2/14/20 (weekly data), around the time of the S+P 500’s 2/19/20 peak at 3394. Note the spike in the FSI as coronavirus pandemic fears grew, the US and global economy weakened, and the S+P 500 and related marketplaces cratered. The FSI skyrocketed to a high of positive 5.39 on 3/20/20; compare the timing of the S+P 500 and related stock marketplace lows.

Following 8/28/20’s -.47 trough (close to the date of the S+P 500’s 3588 summit, 9/2/20), the FSI crawled upward to flat (zero; 9/25/20, the most recent data point released on 10/1/20). Though the stress index has calmed down, a big rise in it will parallel (confirm) weakness in the S+P 500 and elsewhere.

Like credit spreads such as the Baa versus UST 10 year relationship, the Financial Stress Index can shift substantially in a relatively brief time span. The 2020 experience is not the only example. During the 2007-09 worldwide economic disaster, note the FSI's eventual explosive increase. The FSI was .37 (positive) on 10/12/07 (S+P 500 peak 10/11/07 at 1576). It floated at .72 on 5/23/08 (important S+P 500 interim top 5/19/08 at 1440). The FSI was 1.80 on 9/12/08. It thereafter raced to its positive 9.08 pinnacle on 10/10/08; note the 33.6 percent collapse in the S+P 500 in less than a month, from 9/19/08's 1265 (1313 on 8/11/08) to 10/10/08's interim low at 840.

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For detailed further discussion of stock, interest rate, currency, and commodity marketplaces and the political scene, see essays such as "Marketplace Maneuvers: Searching for Yield, Running for Cover" (9/7/20); "Dollar Depreciation and the American Dream" (8/11/20); "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).

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