GAMES PEOPLE PLAY: FINANCIAL ARENAS

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"The Great Game: the Story of Wall Street….An original two-hour documentary event that spans the 200-year history of American capitalism." NYTimes (over 20 years ago; 5/28/00; p13) regarding a CNBC television program broadcast 5/29/00

CONCLUSION

Financial marketplace investors, speculators, traders, hedgers, analysts, risk managers, and media have enjoyed, endured, or suffered an adventurous 2020! Substantial ongoing political and other cultural divisions and associated conflicts in the United States and elsewhere intertwined with and often enhanced the marketplace circuses. The coronavirus pandemic and the feverish economic (political) responses to its actual and potential ravages of course magnified agitation within marketplace playgrounds.

What are several key existing marketplace patterns worth watching by marketplace players as 2020's finish line nears and calendar 2021's competitions beckon?

First, prices in the S+P 500 and other benchmark US and global stock indices, lower-grade interest rate instruments within corporate fields (and low-quality foreign dollar-denominated sovereign debt), and commodities "in general" often have risen (or fallen) at roughly the same time. They generally have climbed in significant bull ascents (and fallen in noteworthy bear retreats) "together". These entangled domains thus have alternatively reflected joyous bullish enthusiasm as "investors" and other traders hunted for adequate return ("yield"), and scary bearish scenes as they scrambled frantically for safety. Whether the existing bull trend for American stocks in general (use the S+P 500 as a benchmark) persists is especially important for these connected landscapes.

Despite strenuous yield repression by the Federal Reserve Board and its central bank teammates, United States Treasury yields, using the UST 10 year note as a signpost, probably have commenced a long run increase. Despite widespread global desires for a sufficiently feeble home currency to promote economic recovery and growth, and the related willingness to engage in competitive depreciation to accomplish this, spring 2020 unveiled the onset of substantial US dollar weakness. Although the US dollar (using the Fed's "Broad Dollar Index" as the yardstick) already has dived about ten percent from its peak, its long run pattern probably will remain down.

PLACING BETS: THE US AND GLOBAL STOCK GAME

"Ragz to riches or so they say Ya gotta keep pushin' for the fortune and fame It's all a gamble when it's just a game." "Paradise City", a song by Guns N' Roses

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The magnificent bull trend in American and other global stock marketplaces which started in late March 2020 for American stocks thus far remains in place. Investors and other owners of stocks are inspired by continued low interest rates (even negative in some realms), yield repression (and hence search for "yield/return" elsewhere) and by ongoing quantitative money printing (quantitative easing). They also have deep faith that heroic rescue efforts by the Federal Reserve Board and perhaps other central banks will appear if stocks drop "too far". The Fed referee probably will not intervene except via soothing rhetoric if equities tumble around ten percent (a "correction"). However, for stocks, a conventional definition of a bear trend is a fall of twenty percent or more from a peak, and the Fed probably will assist stock investors (and the economy) if stocks slump around twenty percent (or more). Cheerleaders still promote the "buy the dip" proverb. In addition, stock bulls hope for further economic stimulus plans (deficit spending by political players). They are optimistic regarding the emergence of an adequate sustained recovery. Development of coronavirus vaccines offers hope for a V-shaped recovery.

Other considerations underpin the S+P 500 rally. The "free supply" of US stocks perhaps has declined over the past several years; picture not only the "buy and hold for the long run" strategy (as well as increased passive investing by marketplace participants), but also the substantial share buybacks and the significant number of mergers and acquisitions. Also, given that stocks recently achieved new highs, year-end buying by money managers eager to show sufficient stocks on the books may appear.

Nevertheless, US stock valuations appear rather lofty by historical standards. Over the past several months, many Wall Street stock oddsmakers and all-star researchers allied to the stock investment (buying) community have forecast robust earnings recovery for calendar 2021, with such optimism continuing into 2022. Thus figuratively speaking, US stock prices around current levels probably have "built in" a substantial amount of predicted earnings growth. Despite avid cheerleading by Wall Street and its comrades, equity prices thus are vulnerable to disappointing earnings. The widely-promoted global recovery probably will not be V-shaped, and may be relatively feeble, despite the S+P 500's rally up to now. The coronavirus problem appears to be worsening and its burden on economic output and employment levels probably will continue for the next several months. It probably will take at least several months to vaccinate a substantial share of the global population, including within the United States and other advance nations.

What other bearish factors exist for the S+P 500 and various related marketplaces (other stock signposts, US corporate bonds, lower-grade foreign dollar-denominated sovereign debt, and many commodities)? The probable eventual notable climb in US interest rate yields is a crucial factor, especially as it likely will connect with a weaker US dollar. The Fed and the incoming Democratic Administration (and debtors in general) probably want higher American inflation (including higher wages). Massive and rising US (and global) government debt is an important warning sign. Many corporations and small businesses remain under pressure. American household debt is huge in arithmetic terms, and thus will be burdensome to the nation as a whole if the economic recovery is not robust.

Marketplaces and the relative importance (and interrelations) of their variables obviously can and do change over time. However, cultural history can influence "current" marketplace perceptions and decisions, especially when cultural (economic, political, social) conditions are at least significantly similar. Though numerous phenomena were involved in the stock marketplace crashes of 1929 and 2007-09, both occurred in an era of significant debt and leverage. That debt and leverage situation arguably fits the global situation nowadays as well.

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In any case, what's the bottom line for the S+P 500's future trend? Although it is a difficult call, the S+P 500 probably will start a significant correction, and perhaps even a bear trend, in the near future.

The S+P 500's high to date, 12/1/20's 3678, has exceeded its important 9/2/20 interim top at 3588 by only 2.5 percent (its 12/1/20 elevation surpasses its February 2020 pinnacle by about

8.4pc). A five percent move in the S+P 500 over 3588 gives 3767, and it probably will be difficult to breach that level by much, if at all.

The Nasdaq Composite Index's 12/1/20 high at 12406 hovers 2.7 percent over its 9/2/20 interim top. The Dow Jones Industrial Average's high to date, 11/24/20's 30117, pierces 2/12/20's 29569 peak by merely 1.9pc.

The EEM (an emerging marketplace stock ETF) remains beneath 1/26/18's 52.08 peak. Its current height also rests under 10/31/07's 55.83 Goldilocks Era zenith, attained shortly before the horrifying 2007-09 international economic disaster.

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Any substantial reversal of the President Trump era corporate tax "reform" law as well as the enactment of increased taxes on high-earning individuals and the passage of capital gains taxes will be bearish for US stocks. However, this outcome is uncertain at present. It partly depends on upcoming political events and negotiations. Although Biden defeated Trump in the 11/3/20 American national election, the Democrats have only a narrow advantage in the House of Representatives and still do not have a Senate majority. If the Democrats capture the fiercely contested two Georgia Senate seats up for grabs on 1/5/21, they effectively will control the Senate. But although a razor-thin Democratic Congressional margin may enable some modest tax increases, it will not necessarily translate into dramatic tax boosts.

Another US economic stimulus package likely will be enacted in upcoming months. Yet if the Republicans retain control of the Senate, pleas by much of the general public and Wall Street stock bulls for another massive stimulus package probably will be disappointed.

Also, although fears that an American political crisis will emerge due to President Trump's ongoing untrue claims of vote rigging and fraud during the November 2020 Presidential election outcome diminished, they have not evaporated. Plus even after the 12/14/20 electoral vote and Biden's 1/20/21 inauguration, Trump likely will remain an influential disruptive player in the political ballgame.

STOCK TRACK RECORDS: THE 2020 BULL RACE

Over two decades ago, and a few days after a major peak occurred in the Dow Jones Industrial Average (on 1/14/00 at 11750), the NYTimes noted "investing in the stock market has become the [US] national pastime." (1/19/00, Section 3, p1)

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In the following table, 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". "EEM" is the iShares MSCI Emerging Stock Markets ETF.

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.	**First Quarter 2020 Low (date)**	**Late Summer High (date)**	**Recent Low (date)**	**Subsequent High (to date)**
S+P 500	2192 (3/23/20)	3588 (9/2/20)	3209 (9/24/20) 3234 (10/30/20)	3678 (12/1/20)

.	First Quarter 2020 Low (date)	Late Summer High (date)	Recent Low (date)	Subsequent High (to date)
Nasdaq Composite Index	6631 (3/23/20)	12074 (9/2/20)	10520 (9/21/20) 10822 (10/30/20)	12406 (12/1/20)
Dow Jones Industrial Avg	18214 (3/23/20)	29199 (9/3/20)	26537 (9/24/20) 26144 (10/30/20)	30117 (11/24/20)
FTSE All-World	250.4 (3/23/20)	392.0 (9/3/20)	359.6 (9/24/20) 360.6 (10/30/20)	413.2 (12/1/20)
URTH	66.38 (3/23/20)	105.13 (9/2/20)	95.79 (9/24/20) 95.64 (10/30/20)	110.4 (12/1/20)
EEM	30.10 (3/23/20)	45.56 (8/28/20)	42.29 (9/25/20) 44.41 (10/30/20)	50.17 (11/27/20)

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[The S+P 500 peaked on 2/19/20 at 3394, viciously collapsing 35.4 percent in only one month to its 3/23/20 bottom.

The S+P 500 (and especially "technology" stocks; see the Nasdaq Composite Index) probably has been the bull leader for the various "search for yield" asset classes "as a whole" since its 3/23/20 bottom at 2192. The Nasdaq Composite Index's 2/19/20 peak was 9838. The Nasdaq Composite's 9/2/20 pinnacle blasted above this by 22.7 percent; its 12/1/20 high soars 26.1pc over February 2020's summit.]

BOX SCORE: LOWER-GRADE DOLLAR-DENOMINATED DEBT INSTRUMENTS

Bob Dylan says in "When You Gonna Wake Up": "They tell you, 'Time is money' as if your life was worth its weight in gold."

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In the table below, "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. The Baa data is daily (11/30/20 most recent). "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).

.	First Quarter 2020 Low (date)	Summer 2020 High (date)	Recent Low (date)	High (to date) Thereafter
Baa	5.15pc (3/20/20)	3.12pc (8/6/20)	3.52pc (10/5/20)	3.13pc (11/30/20)

[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.]

Credit Spread:				
Baa less UST 10 Year	431 basis points (3/23/20)	255 bp (8/12/20)	276bp (9/28/20)	229bp (11/30/20)

[The 431 basis point "low" for the Baa less UST spread in this table equals the "widest" (greatest) spread differential. 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.]

.	**First Quarter 2020 <u>Low (date)</u>**	**Summer 2020 <u>High (date)</u>**	**Recent <u>Low (date)</u>**	**High (to date) <u>Thereafter</u>**
HYG	67.52 (3/23/20)	85.40 (8/6/20) 85.39 (9/2/20)	82.56 (9/24/20) 83.27 (10/29/20)	8690 (11/9/20) 8652 (11/24/20)
EMB	85.00 (3/18/20)	114.65 (8/11/20) 114.56 (9/3/20)	109.20 (9/24/20) 109.75 (11/2/20)	114.58 (11/27/20)

[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. 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.]

<u>A COMMODITY SCORECARD</u>

Curtis Jadwin, a speculator in Frank Norris's novel "The Pit", says: "the trouble is, not that I don't want to speculate, but that I *do*—too much…It isn't so much the money as the fun of playing the game."

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Note the roughly similar timing of the end October 2020 bottom in the S+P 500 (and other key stock game rooms) and those around then in the HYG, EMB, S+P GSCI, and Brent/North Sea crude oil (nearest futures continuation contract).

.	**First Quarter 2020 <u>Low (date)</u>**	**Summer 2020 <u>High (date)</u>**	**Recent <u>Low (date)</u>**	**High (to date) <u>Thereafter</u>**
S+P GSCI	218.0 (4/21/20)	363.1 (8/31/20)	332.7 (9/8/20) 334.4 (10/2/20) 333.1 (11/2/20)	389.5 (11/25/20)
Brent/NSea Crude Oil	1598 (4/22/20)	4653 (8/31/20)	3574 (11/2/20)	4909 (11/26/20)

US INTEREST RATE HISTORY: WAGERING ON THE PAST

Marketplace connections and patterns, including convergence and divergence (lead/lag) relationships between financial realms, are complex and not necessarily precise. They can shift or even transform sometimes dramatically. Marketplace history is not marketplace destiny; history does not necessarily repeat itself, either entirely or even partly.

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"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."

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The US Treasury 10 year note yield motored upward from 1.43 percent on 9/3/19 to 1.97pc on 11/17/19 (1.95pc on 12/19/19), not long before the S+P 500's 2/19/20 high at 3394. As the S+P 500 crashed, the UST 10 year yield plummeted with it. From 2/20/20's 1.59 percent drop-off point, the UST yield cratered to around .36pc on 3/9/20, not much above zero.

Although the UST 10 year yield briefly spiked to 1.28 percent on 3/19/20, it rapidly subsided, reaching .51pc on 4/21/20. It made a second yield trough at .50pc on 8/4/20. The UST 10 year note yield gradually danced upward, reaching .98pc on 11/11/20 and thus breaking over 6/5/20's .95pc minor high. The UST 10 year yield climbs relative to the.36 percent level and the two lows around .50pc are modest, and they still leave the UST beneath 3/19/20's barrier. But when one interprets these three lows together and views them in the context of long run Fed policy seeking to achieve higher inflation and large American government debt levels and substantial future financing needs, the overall scene indicates that a secular rise in UST yields is underway.

These rising UST rates warn of upcoming declines in the S+P 500. Keep in view not only the UST 10 year's 3/19/20 yield high at 1.28pc 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.

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The Federal Reserve Board still remains married to its yield repression strategy and its colossal quantitative easing/money printing program (substantially via its ravenous buying of UST). Yet although the Fed's monumental UST acquisition scheme helps to depress UST yields, the money printing result tends to increase risks of future higher interest rates (not only in UST, but also in the corporate sector).

Fed propaganda pitches also shout its desire for higher inflation, and assert that the Fed will allow inflation to exceed its venerated two percent target for a while. Such rhetoric probably indicates that this beloved economic manager will support rising UST rates (via/in response to sustained higher inflation). If there is not a contradiction between the Fed's competing policy aims of yield repression and higher inflation, at minimum the agendas stand in significant tension.

The Federal Reserve Bank of New York's "Underlying Inflation Gauge" for October 2020 estimates that America's "trend CPI inflation" stands in the 1.3 percent to 2.1pc range. Compare UST yields across the yield curve. For example, the 10 year UST nowadays offers a negative real return. At around 1.57pc (12/1/20 close), the UST 30 year offers little if any return relative to inflation. According to the Fed's latest Economic Projections (9/16/20), the "longer run" central tendency for the Federal Funds rate is between 2.3 percent and 2.5pc.

Over time, given the Fed's gargantuan money printing, America's current inflation rate (and the goal of the Biden Administration of higher wages), the Fed's ultimate quest for higher inflation, the Fed's own Economic Projections for the long run Fed Funds rate, UST interest rate yields should rise.

The Fed meets 12/15-16/20 and 1/26-27/21.

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The Fed's yield repression plan not only displeases many UST holders (relative to inflation rates, it cheats the savers) in general. It also tends to discourage new UST purchasing by Americans and foreigners. The Fed thus has motivated many "investors" (investors generally do not perceive themselves as "speculators" or "gamblers") to seek and bet on higher (good, adequate, sufficient) return in stocks and other higher risk "asset" classes.

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All else equal, and especially in a world in which interest rate levels do not offer an acceptable real return relative to inflation, enormous credit demand (including high outstanding debt burdens) tend to push interest rate yields higher.

The International Monetary Fund's "Fiscal Monitor" (10/14/20) displays the soaring government borrowing and debt levels as a percent of GDP in recent years. For example, average general government gross debt (which includes obligations on regional and local levels in addition to the national one) for advanced economies was a lofty 102.6 percent of GDP in 2011 and 105.3pc in 2019. The coronavirus pandemic encouraged huge deficit spending (stimulus) action; rocketing gross debt up to 125.5pc in 2020 (Table A7). These figures tower above that at the starting gate of the 2007-09 global financial crisis, 2007's 71.7 percent of GDP ("Fiscal Monitor", October 2016, Table A7). America's general government gross debt was 99.8 percent in 2011 and 108.7pc in 2019. The IMF forecasts US debt will balloon to 131.2pc of GDP in 2020; contrast 2007's 64.0pc. For advanced nations in general and the US in particular, gross debt as a percentage of GDP remains very elevated through 2025.

Let's focus on United States federal debt.

According to the Congressional Budget Office's "Monthly Budget Review: Summary for Fiscal Year 2020" (11/9/20), the fiscal year 2020 US federal budget deficit leaped to a tremendous $3.1 trillion, more than triple fiscal 2019's huge $984 billion deficit. The 2020 deficit will be 14.9 percent of GDP, the largest since 1945. Debt held by the public at the end of fiscal 2020 will reach about 100.1 percent of GDP. Compare 79.2 percent in 2019, as well as 2007's 35pc at the advent of 2007-09's worldwide global disaster. The CBO ("An Update to the Budget Outlook: 2020 to 2030"; see "At a Glance", Table 1, and Figure 1; 9/2/20) estimates a $1.8 trillion deficit for fiscal 2021 (8.6pc of GDP), with outstanding public debt vaulting over GDP that year (104.4pc of GDP).

The coronavirus pandemic and related economic and political responses obviously played a critical role in the huge expansion of America's 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 country'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 a stratospheric 195 percent. This sustained demand for credit, all else equal, will tend to push US government interest rates higher.

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 tactics, higher UST rates may create further budget stress.

Most American central bankers, other financial players, politicians, and think-tanks nowadays eagerly promote further deficit spending, with some praying for fiscal discipline (deficit reduction) at some misty future point.

Perhaps Congress will enact another stimulus plan sometime after the November 2020 election, thereby increasing the debt burden.

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Major foreign holders of US Treasury securities as of September 2020 owned a grand total of about $7.07 trillion, with foreign official institutions holding about $4.20 trillion (59.4 percent) of these (US Department of the Treasury, 11/17/20). These amounts are about even with September 2019 levels ($6.92tr and $4.15tr, respectively), and down from the modestly higher elevations in February 2020 at the dawn of the global coronavirus spread ($7.23tr; $4.26tr).

Consequently foreigners in general for quite some time have shown little desire to boost their ownership of America's highly-rated UST array. Underscore ongoing rising US federal budget deficits, especially during 2020's coronavirus spread (note the massive and growing deficit spending/stimulus packages). Thanks to the Fed for its herculean UST purchasing, right?

This reluctance by foreign holders to add UST to their portfolio probably portends eventually rising American UST yields, especially given the Fed's plan to overshoot its two percent inflation target to make up for an extended period of very low yields. Admittedly, the Fed's yield repression scheme and its quantitative easing/money printing strategy remain intact for the near term. Conceivably, American domestic appetite for UST may gobble substantial portions of new and growing US debt, although this scenario currently looks unlikely. How much capital loss will current UST (and other dollar-denominated debt) owners (whether the holders are overseas or American) willingly absorb if UST interest rates increase significantly?

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The world is swamped with debt. Not only is government debt noteworthy. Corporate and household debt levels also are substantial.

If widespread economic weakness resumes, pressure on many corporations will grow, and thus encourage yield spikes for many corporate debt instruments. Watch credit spread relationships between UST and low-grade corporate debt; sharply widening spreads will signal economic feebleness (and tend to confirm downturns in stock marketplace theaters).

Consumers represent about two-thirds of United States GDP. Consumer debt, earnings, and employment prospects obviously influence consumer spending levels and patterns.

US household debt jumped by $87 billion (.6 percent) in 3Q20, reaching $14.4 trillion (yes trillion). The current debt balance is almost $1.7 trillion (in nominal terms) above the previous peak of $12.7tr (3Q08, financial crisis era) and 28.7pc above 2Q12's trough (Federal Reserve Bank of New York; 11/17/20). If the country's economic weakness persists or grows, the current arithmetic level will burden American consumers.

Even if debt burdens for consumers in general in many places (including the US) currently appear manageable, an extended sharp recession may encourage rate hikes in some consumer borrowing sectors as well.

The Paycheck Protection Program (hundreds of billions of dollars in loans and grants) ended in August 2020. The $600 weekly supplement to state jobless benefits also is finished (though modest replacement exists by Trump executive order). No additional $1,200 checks to taxpayers are scheduled. Several Federal Reserve assistance programs appear likely to cease around year end. These include facilities used to buy corporate bonds, or to loan money to medium-sized businesses as well as to state and local governments. See a CNBC article (12/1/20; website): "Treasury Secretary Mnuchin faces harsh criticism from Democratic senators over ending Fed programs". Note as well one in the NYTimes (website, 11/19/20), "Mnuchin to End Key Fed Emergency Programs, Limiting Biden". Suppose also that evictions of renters become widespread.

PLAYING A CHESS GAME: THE US DOLLAR

The Federal Reserve (H.10) releases a real as well as a nominal "Broad Dollar Index" (including both goods and services). The real "Broad Dollar Index" is a monthly average (January 2006=100; 12/1/20 latest release). The Fed's nominal Broad Dollar Index release provides daily data (11/30/20 most recent release, 11/25/20 most current data point).

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

.	**First Quarter 2020 Key High (date)**	**Recent Low Level (date)**	**Percentage Fall from 1Q20 High**
Nominal Broad Dollar Index	126.5 (3/23/20)	113.5 (11/25/20)	Nominal Dollar Index depreciation 10.3pc

The nominal Broad Dollar Index made initial lows at 115.9 (9/1/20), 115.6 (9/18/20), and 115.3 (10/21/20). Arguably a weakening United States dollar since around late March 2020 helped lead to the S+P 500's 9/2/20 high at 3588, and also supported its rebound from 9/24/20's 3209 trough back up to a second (and lower) top on 10/12/20 at 3550. The dollar has continued to depreciate in recent weeks, and the S+P 500 has rallied sharply since 10/30/20's 3234 low. Thus many marketplace coaches and their players promote a "weak (weakening) US dollar equals strong (strengthening) US stocks" relationship (and its reverse, "strong dollar equals weak stocks").

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. But if the US dollar continues to remain feeble, and especially if it weakens further, watch for the emergence of a "weak US dollar equals weak US stocks" scenario. Why? Additional (or ongoing) US dollar feebleness finally 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 probably up until at least late October 2020) and thus encourage eventual weakness in the S+P 500 and related stock and low-quality dollar-denominated debt marketplaces. Thus an ongoing US dollar decline eventually can help to "lead" US equities downhill.

What does US dollar weakness mean in practice in the current marketplace context? A sustained slump of ten percent or more in the nominal Broad Dollar Index relative to 3/23/20's 126.5 is a danger signal for US stocks. Or, consider a decline in the real Broad Dollar Index toward (or greater than) ten percent (or more) from its spring 2020 top.

The November 2020 low in the real Broad Dollar Index at 105.8 falls 6.7 percent from April 2020's 113.4 top. Compare the October 2020 elevation with December 2016's 110.1 high. Slipping beneath December 2016's interim top at 110.1 warns of further dollar erosion. A five percent decline in the real Broad Dollar Index from 113.4 is 107.7. A ten percent dive equals 102.1, a critical support level adjacent to March 2009's worldwide economic disaster pinnacle at 101.6.

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.

United States dollar deterioration may help to precipitate (encourage) a notable stock marketplace decline, especially if the dollar weakness is linked with increasing UST and other interest rate yields, widespread concerns regarding US indebtedness, disappointing prospects for a strong (V-shaped) American (and worldwide) recovery and thus for US corporate earnings (especially 4Q20 and calendar 2021), and substantial American political divisions (and related conflicts).

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Competitive currency depreciation as a policy weapon has not disappeared from national arsenals. Nevertheless, ongoing noteworthy near-term yield repression by the Federal Reserve (especially keeping the Fed Funds and US Treasury rates beneath key inflation benchmarks), may encourage weakness in the US dollar relative to several of its key trading partners, particularly if US inflation begins to ascend from current levels. Why hold on to or purchase something which has a negative real return?

In addition to monitoring the US dollar from the Broad Dollar context, focus on key currency cross rates against the US dollar. Those involving the Japanese Yen and Chinese renminbi are two important candidates. From the UST marketplace perspective, Japan and China are enormous creditors of America.

Overseas holders of US Treasury instruments may elect to “bring their money home” or otherwise reduce their dollar exposure. They may become smaller net buyers, or even net sellers of UST. If prices of other dollar-denominated assets (such as US stocks) begin to decline notably in price, overseas holders of them (and American owners as well) probably (increasingly) will become net sellers (or less significant buyers) of them. Thus in the current marketplace situation, persistent US dollar weakness could intertwine with both climbing UST (and corporate) yields (even if intermittent buying “flights to quality” into the UST occur) and bloody falls in US and other stock marketplace prices.

AT ANOTHER POKER TABLE: RECENT US DOLLAR CROSS RATES

Everlast sings in “Money (dollar bill)” of “Dollar dollar bills Deutch, marks, franks, yens, and pounds” and his desires. Though the artist does not burden himself with words of investment, he intertwines cash with stocks and bonds (and much else). “I want cash and checks I want diamond rings I want jewels on my neck And mad fly things I want a stack of fat chips so I can take long trips I want to sail the Bahamas On my own cruise ships I want acres of land I want papers in hand I want stocks and bonds”.

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Several dollar cross rates influence stock, debt, commodity, and other financial marketplaces 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. The S+P 500’s calendar 2020 bottom was 3/23/20’s 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)	1.208 (12/1/20)	13.5pc
British Pound	5.3	1.141 (3/20/20)	1.348 (9/1/20) 1.344 (12/1/20)	18.1
Chinese Renminbi	15.8	7.177 (5/27/20)	6.538 (11/18/20)	8.9
Canadian Dollar	13.4	1.467 (3/19/20)	1.292 (11/30/20)	11.9

Mexican Peso	13.5	25.78 (4/6/20)	19.94 (11/26/20)	22.7
.	**Percentage Weight**	**Recent Low (date)**	**Recent High (date)**	**Percentage Rally Versus Dollar**
Japanese Yen	6.3	112.2 (2/20/20); 111.7 (3/24/20)	103.2 (11/6/20)	8.0
Swiss Franc	2.6	.990 (3/23/20)	.898 (11/6/20)	9.3pc

PLAYING GAMES: THE CONFIDENCE FACTOR

The Grateful Dead sing in "Uncle John's Band": "'Cause when life looks like easy street, there is danger at your door".

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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"; 8/28/20 latest release) 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 11910). 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 (about two years ago); this occurred around the time of the S+P 500's 9/21/18 (2941)/10/3/18 (2940) interim top. 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. The S+P 500 fell more or less alongside the CCI for a while, and established its bottom on 3/23/20 at 2192.

Although US consumer confidence rose to 98.3 in June 2020, it slumped to 91.7 in July 2020. August 2020's further slide to 86.3 pushed it near the 85.7 April 2020 valley. Though the CCI trotted up to 101.4 in October 2020, it tripped lower to 96.1 in November 2020. Further falls in the CCI, and especially stumbling beneath April 2020's support, would be a bearish sign for the S+P 500.

Whereas the S+P 500 has raced above its 2/19/20 peak at 3394 by about 8.4 percent (and edged over 9/2/20's 3588 interim top as well), the CCI's November 2020 level sits 19.1 percent under March 2020's 118.8 and 27.5pc beneath February 2020's 132.6 top. This divergence between the S+P 500 and US consumer trends manifests the devastation endured in recent months by much of the US consumer sector (and much of the small business universe). It probably shows that the economic recovery in recent months is relatively fragile and may not persist. The divergence also arguably points to the relative economic power and opportunities of Wall Street and many leading economic "haves" (US "haves" tend to own significant amounts of publicly traded stock) in comparison with Main Street. Many on Main Street are, at least relatively speaking, "have nots", and in any case its inhabitants directly hold comparatively little stock relative to the "haves".

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For detailed further discussion of stock, interest rate, currency, and commodity marketplaces and the political scene, see essays such as "Born to Be Wild: American Economic and Political Battlefields" (11/2/20); "Adventures in Marketland: Hunting for Return" (10/6/20); "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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