THE FEAR FACTOR: FINANCIAL BATTLEFIELDS

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"But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions such as they have in Japan over the past decade?" Alan Greenspan, Chairman of the United States Federal Reserve Board, Speech to the American Enterprise Institute for Public Policy Research, "The Challenge of Central Banking in a Democratic Society" (12/5/96)

Voltaire's 18th century novel, "Candide, or Optimism", depicts a character who believes that all is for the best in the allegedly best of all possible worlds.

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OVERVIEW AND CONCLUSION

In recent times, prices in the S+P 500 and other benchmark United States 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 therefore have alternatively reflected joyous bullish enthusiasm as "investors" and other traders avidly hunted for adequate return ("yield"), and terrifying bearish scenes as they raced fearfully 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 realms connected with the S+P 500.

Actions by and rhetoric from the Federal Reserve Board and its central banking allies around the globe since the calamitous price crashes during first quarter 2020 restored investor (buying) confidence and generated price rallies in the S+P 500 and related marketplace playgrounds. In response to the economic (and political) challenges of the ravaging coronavirus era, gargantuan deficit spending by the United States and its foreign comrades also assisted these bullish price moves. Based on this as well as past experience (especially in regard to the merciful Fed), marketplace captains and their troops dealing in the S+P 500 and intertwined provinces once again have great faith that these marketplaces will not fall "too far", or for "very long". Bullish financial media fight especially hard to promote, justify, and sustain stock marketplace investment and price rallies in particular. In regard to equities in particular, propaganda speaking of "buy and hold for the long run" and "buy the dip" inspired entrenched investors and often sparked new buying. Thus, and despite occasional worries, significant complacency gradually has developed over the past several months in assorted stock marketplaces and "asset classes" tied to them.

Complacency regarding US Treasury yield trends has bolstered the relative calm and bullish optimism in the S+P 500. Strenuous yield repression (and money printing/quantitative easing) by the Federal Reserve Board and its central bank teammates not only assisted the S+P 500 rally, but also boosted belief that US Treasury yields will not shift much higher (and definitely will not rise "too high") over the next couple of years.

Moreover, (for many months) easygoing stock bulls have had happy visions of recovering corporate earnings for calendar 2021 and rather robust ones thereafter. Numerous S+P 500 bull advocates do not worry much about or downplay risks of historically "high" valuations. "This time is different", right? Most of these sunny forecasters generally see possibilities for further significant economic stimulus plans (deficit spending) during the upcoming Biden Administration. Encouraged by the development of coronavirus vaccines, they are optimistic regarding the eventual emergence of a V-shaped recovery, or at least an adequate one.

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This relative complacency through end-year 2020 in the S+P 500 and many other Wall Street marketplace territories (as the upward price trends evidence) contrasts with the ongoing economic agitation in the wider ("real"; Main Street) arena. Picture, for example, issues of economic inequality and the sharp divide between the "haves" and "have-nots". Also, underline in America and elsewhere assorted and widespread political splits and heated wordplay. This rhetoric is not merely in regard to establishment/elites versus an array of left (liberal; progressive; keep in mind accusatory weapons such as the labels "socialist", "communist", and "Marxist") and right wing (conservative; reactionary) populist (or "radical" or "fringe") movements. In the United States, concepts of "identity politics" link to cultural wars involving assorted factors such as race/ethnicity, sex/gender/sexuality, age, religion, and geographic region/urban/suburban/rural. Diverse patriots brawl over the relative merits of nationalism and globalization, capitalism and socialism, and so forth. Though in stock and other fields bulls and bears always battle to some extent, the relative peace and tranquility in many Wall Street marketplaces contrasts with the turmoil and hostility permeating the wider cultural vista.

The dangers of weaker than forecast corporate earnings and lofty valuations for American stocks "in general" probably are significantly greater than the "consensus" wisdom promulgated by stock marketplace bulls. Figuratively speaking, US stock prices around current levels probably have "built in" a substantial amount of predicted earnings growth for calendar 2021 and 2022. Many corporations and small businesses remain under pressure. Year-end 2020 buying of stocks to have further equities on the books by definition is finished. The relatively slow implementation of the coronavirus vaccine is one consideration weighing on the recovery, corporate earnings, and valuation. It likely will take at least several months to vaccinate a substantial share of the global population, including within the United States and other advance nations. Besides, the coronavirus problem is bad and may be worsening. So its burden on economic output and employment levels probably will continue for the next several months

Moreover, despite the complacency regarding United States Treasury yield levels and trends, using the UST 10 year note as a signpost, UST yields 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) has withered about ten percent from its peak, its long run pattern probably will remain down.

As "Games People Play: Financial Arenas" (12/1/20) emphasized, these interest rate and currency considerations also warn of a notable decline in the S+P 500. The probable eventual notable climb in US interest rate yields 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 in this context. American household debt is huge in arithmetic terms, and this will put pressure on much of the nation if the economic recovery is not robust.

Marketplaces, marketplace relationships, 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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Significant fear likely soon will return to the S+P 500, other stock signposts (including those in emerging marketplaces), US corporate bonds, lower-grade foreign dollar-denominated sovereign debt, and many commodities.

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. A five percent move in the S+P 500 over 3588, the important 9/2/20 interim high at 3588, gives 3767, and it probably will be difficult to breach that level by much on a sustained basis. The S+P 500's high to date, 1/4/21's 3770, exceeded the 9/2/20 top by 5.1 percent.

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For detailed further discussion of stock, interest rate, currency, and commodity marketplaces and the political scene, see essays such as "Games People Play: Financial Arenas" (12/1/20); "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).

STOCKS: THE RECENT BULL CHARGE

"'Because I want you to know that we're on our way to Las Vegas to find the American Dream.'" The novel "Fear and Loathing in Las Vegas", by Hunter S. Thompson

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In the following table, "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)	3770 (1/4/21)

[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 major bottom at 2192.

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 low. The S+P 500 skyrocketed about 72.0 percent from its March 2020 low to its high to date.

A five percent dip in the S+P 500 from 1/4/21's 3770 equals 3582, a ten percent drop ("correction") is 3393, with a twenty percent decline 3016. In stocks, a retreat of 20pc or more from a peak is a conventional definition of a bear market.

The Nasdaq Composite Index's 2/19/20 peak was 9838. It crashed to 6631 on 3/23/20. The Nasdaq Composite's 9/2/20 interim high was 12074. The Nasdaq's all-time high to date, 12/29/20's 12973, stands 7.4 percent above 9/2/20's top, and nearly doubles (is 95.6 percent over) 3/23/20's major low.]

.	**First Quarter 2020 Low (date)**	**Late Summer High (date)**	**Recent Low (date)**	**Subsequent High (to date)**
EEM	30.10 (3/23/20)	45.56 (8/28/20)	42.29 (9/25/20) 44.41 (10/30/20)	53.27 (1/5/21)

[The EEM recently slightly breached 1/26/18's 52.08 peak. Its current height rests under 10/31/07's 55.83 Goldilocks Era zenith, achieved shortly before the bloody 2007-09 international economic disaster.

ICE Brent/North Sea crude oil (nearest futures continuation) established a major bottom at 1598 on 4/22/20, fairly close in time to the major lows in the S+P 500 and EEM. Note the coincidence of timing between these stock benchmarks and Brent's 4653 high (8/31/20) and subsequent valley at 3574 (11/2/20). Brent's high thereafter is 1/5/21's 5390.]

US INTEREST RATE HISTORY: PAST AND CURRENT CAMPAIGNS

In the film "The Wages of Fear" (Henri-Georges Clouzot, director), a character declares: "When someone else is driving, I'm scared."

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Marketplace connections and patterns, including convergence and divergence (lead/lag) relationships between financial dominions, are complex and not necessarily precise. They can shift or even transform sometimes dramatically.

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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." The US Treasury marketplace has been an important yield indicator for this analysis.

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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 attained a second yield trough at .50pc on 8/4/20.

In the context of long run history, the yield climb in the UST 10 year since its .50 percent low on 8/4/20 is important (note the proximity of the 3/19/20 and 4/21/20 depths in regard to 8/4/20's elevation). Analyzing these three UST 10 year note yield lows together and in the context of long run Fed policy seeking to achieve higher inflation and massive American federal government debt levels and substantial future financing needs, the overall scene probably indicates that a secular rise in UST yields is underway. Though modest in basis point terms thus far, the rising UST rates warn of upcoming declines in the S+P 500.

Current yields are attacking near-term resistance; see the highs on 11/11/20 and 12/4/20 at .98 percent. Many heralds probably will interpret a sustained UST advance over 1.00pc as significant. Keep in view not only the UST 10 year's 3/19/20 yield high at 1.28 percent and 9/3/19's 1.43 pc 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 feared (but nevertheless arguably fearful) 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 US Treasuries). 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).

The beloved Fed has faith that both deflation and "too low" inflation are dangerous foes that must be defeated. So Fed propaganda pitches also trumpet its quest 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 November 2020 estimates that America's "trend CPI inflation" stands in the 1.4 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 1.70 percent, the UST 30 year offers little if any return relative to inflation. According to the Fed's latest Economic Projections (12/16/20; Table 1), the "longer run" central tendency for the Federal Funds rate is between 2.3 percent and 2.5pc.

Is the United States and worldwide economy so fragile that it cannot currently withstand an increase in the UST 10 year yield to two percent or higher? How scared is the Fed? Note the Fed's indication in its Economic Projections of a .1 percent (one-tenth of one percent) central tendency for Fed Funds in both calendar 2021 and 2022, with that for 2023 having a range of merely .1 to .4pc. See also Figure 2, the dot plot for FOMC participants of appropriate monetary policy.

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 1/26-27/21 and 3/16-17/21.

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The Fed's yield repression plan not only displeases many UST holders (relative to inflation rates, it cheats 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.

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 United States, and much of the rest of the world, is buried in debt.

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 American federal debt, see the Congressional Budget Office's "Monthly Budget Review: Summary for Fiscal Year 2020" (11/9/20) and "An Update to the Budget Outlook: 2020 to 2030" ("At a Glance", Table 1, and Figure 1; 9/2/20). 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.

Not only is government debt noteworthy. Corporate and household debt levels also are substantial. The Federal Reserve Bank of New York (11/17/20) shows US household debt totals and trends. If the country's economic weakness persists or grows, the current arithmetic level will burden American consumers.

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Major foreign holders of United States Treasury securities as of October 2020 owned a grand total of about $7.07 trillion, with foreign official institutions grasping about $4.17 trillion (59.0 percent) of these (US Department of the Treasury, 12/15/20). These amounts are about even with October 2019 levels ($6.95 trillion and $4.12tr, 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 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 devour 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? How pleased are overseas holders of UST by the US dollar's depreciation over the past several months?

ANOTHER INTEREST RATE HORIZON: LOWER-GRADE US CORPORATE DEBT

In Shakespeare's "Merry Wives of Windsor" (Act II, scene II, lines 134-35), Ford remarks: "for they say, if money go before, all ways do lie open." Falstaff replies: "Money is a good soldier, sir, and will on."

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In the following table, "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.

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.	**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)	3.11pc (12/31/20)

[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	427 basis points (3/24/20)	254bp (7/28/20)	282bp (10/5/20)	218bp (12/31/20)

[The 427 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 191 basis points on 1/3/20 and 1/21/20. The key final spread trough was 2/18/20's 201bp; 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.]

If widespread economic weakness resumes, pressure on many corporations will grow, and thus propel 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).

CURRENCY WARS: THE US DOLLAR'S RETREAT

In the movie "The Harder They Fall" (Mark Robson, director), a former sportswriter says: "All I know is that if you don't have it [money, and more than enough to pay a living], you're a bum in anybody's book."

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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; 1/4/21 latest release). The Fed's nominal Broad Dollar Index release provides daily data (1/4/21 most recent release, 12/31/20 most current data point).

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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)	111.5 (12/17/20)	Nominal Dollar Index depreciation 11.9pc

The nominal Broad Dollar Index made minor 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 and thereafter. 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 for much of the time in recent months) 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 plateau is a danger signal for US stocks. Note the 11.9 percent decline thus far.

Or, consider a decline in the real Broad Dollar Index toward (or greater than) ten percent (or more) from its spring 2020 summit. The December 2020 low in the real Broad Dollar Index at

104.0 falls 8.3 percent from April 2020's 113.4 top. December 2020's elevation falls decisively beneath December 2016's 110.1 high. The sustained slide 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 101.5.

Relevant to the current international economic situation and the future relationship of the US dollar to the S+P 500 (and related stock marketplaces around the globe), 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, declining prospects for a strong (V-shaped) American (and worldwide) recovery and thus growing potential for disappointment in regard to US corporate earnings (especially calendar 2021 and 2022), and persistent 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.

OTHER CURRENCY BATTLEGROUNDS: US DOLLAR CROSS RATES

In the television show "Fear Factor", the narrator asks viewers to "Imagine a world where your greatest fears become reality." "Those competing for prize money must "stare fear in the eye" and complete extreme stunts which not only challenge them physically, but also mentally. Regarding the other fortune-seekers, a candidate must remember that "These are not your friends, these are your opponents."

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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.

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.	**Percentage Weight**	**Recent Low (date)**	**Recent High (date)**	**Percentage Rally Versus Dollar**
Euro FX	18.9	1.064 (3/23/20)	1.231 (12/30/20)	15.7pc
British Pound	5.3	1.141 (3/20/20)	1.370 (1/4/21)	20.1
Chinese Renminbi	15.8	7.177 (5/27/20)	6.429 (1/5/21)	10.4
Canadian Dollar	13.4	1.467 (3/19/20)	1.266 (1/5/21)	13.7
Mexican Peso	13.5	25.78 (4/6/20)	19.70 (12/9/20)	23.6
Japanese Yen	6.3	112.2 (2/20/20); 111.7 (3/24/20)	102.6 (1/5/21)	8.6
Swiss Franc	2.6	.990 (3/23/20)	.878 (1/5/21)	11.3pc

REVEILLE: MARKETPLACE CONFIDENCE AND STRESS FACTORS

In the movie "Caddyshack" (Harold Ramis, director), Judge Smails chirps: "It's easy to grin When your ship comes in And you've got the stock market beat."

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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In America, consumers represent about two-thirds of GDP. 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.

Watch the Consumer Confidence Index (Conference Board; "CCI"). The CCI was around 130 in February 2020, near the time of the S+P 500's glorious 2/19/20 pinnacle at 3394.

However, the CCI tumbled as coronavirus fears spiked, crashing into the 80s in April 2020. The S+P 500 fell more or less alongside the CCI, and established its bottom on 3/23/20 at 2192. After climbing up modestly in subsequent months, the CCI tumbled lower to 92.9 in November 2020 and 88.6 in December 2020. Further falls in the CCI, and especially stumbling beneath April 2020's support, would be a bearish sign for the S+P 500.

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Significant (even if gradual) volatility shifts for a given marketplace, particularly from historically "low" or "high" levels, sometimes can signal or roughly coincide with important trend changes in that marketplace. The CBOE's VIX volatility index for the "underlying" S+P 500 stock index is an example of this. Timing linkages between the S+P 500 and VIX volatility levels are not always precise, so scouts must be cautious in evaluating the relationship and its implications. And marketplace history is not marketplace destiny.

The VIX volatility index bottomed at almost ground level with 11/24/17's 8.56. On 1/26/18, at the time of the S+P 500's important interim top on 1/26/18 at 2873 (and at the time of notable highs in other international stock benchmarks), it was marginally higher, at 11.08. However, as the S+P 500 and other stock indices crashed and the hearts of many stock investment leaders and their followers froze, the VIX viciously spiked to 50.30 on 2/6/18 (2/9/18 S+P 500 low at 2533). The explosion in VIX volatility connected to (confirmed) the S+P 500's collapse from its 1/26/18 high.

The VIX valley since 2/6/18 is 8/9/18's 10.17 low. The next VIX top was 12/26/18's 36.20; recall the timing of the S+P 500 bottom on 12/26/18 at 2347.

The VIX deteriorated to 4/17/19's 11.03. The VIX made other bottoms at 11.42 on 11/26/19 and 13.38 on 2/14/19; it soon blasted sky-high. Remember the S+P 500's pinnacle on 2/19/20 at 3394. The S+P 500's murderous fall ceased with 3/23/20's major low at 2192; the VIX peaked on 3/18/20 at 85.47.

Though the VIX generally has travelled downhill since mid-March 2020, its lows have been higher than the preceding ones at 13.38 or less. The relatively elevated lows hint of nervousness despite the S+P 500's overall bullish march. Note the VIX troughs at 20.28 on 8/11/20 (see the S+P 500's interim lows at 3209 on 9/24/20 and 3234 on 10/30/20), 19.51 on 11/27/20, and 20.99 on 12/21/20. A sustained and substantial climb from the second half 2020 lows probably will indicate (confirm) that a noteworthy S+P 500 top has occurred. For the near term, watch the VIX's interim highs at 31.46 on 12/21/20 and 10/30/20 at 41.09.

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The St. Louis Fed's Financial Stress Index ("FSI"; weekly data) contains 18 measures of financial stress: seven interest rates, six yield spreads, and five other indicators. The FSI was -.72 (negative) on 2/14/20, around the time of the S+P 500's 2/19/20 peak at 3394. Note the leap in the FSI as coronavirus pandemic fears grew, the US and global economy nosedived, and the S+P 500 and related marketplaces cratered. The FSI accelerated up to a high of positive 5.43 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 a positive .11 on 10/30/30 (compare the S+P 500's interim trough at 3234 on 10/30/20). The stress index has calmed down from that modest elevation, reaching -.83 on 11/13/20, with -.58 the most recent (12/25/20) level. A substantial rise in the FSI probably will parallel (confirm) notable falls in the S+P 500 and related stock (and many other "search for yield") marketplaces.

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 .73 on 5/23/08 (important S+P 500 interim top 5/19/08 at 1440). The FSI was 1.81 on 9/12/08. It thereafter raced to its positive 9.14 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.

POLITICAL (AND ECONOMIC) FOOTNOTES

"War is the last refuge of the capitalist." "Journey into Fear", a 1943 film (Norman Foster and Orson Welles, directors)

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The dangers of weaker than forecast United States corporate earnings and lofty valuations probably are significantly greater than the viewpoints promulgated by the majority of stock marketplace bulls. The relatively slow implementation of the coronavirus vaccine is one consideration weighing on the recovery, corporate earnings, and valuation.

Various US cultural divisions, as reflected in fierce political battles, and Congress's recent end-year enactment of another stimulus rescue, probably will make it difficult for Congress to create a major (very large) stimulus package over the next few months.

The Democrats hold a slight edge in the House of Representatives. Though the Georgia Senate races on 1/5/21 are toss-ups, suppose the Democrats capture both seats (some may wonder if the Georgia Senate contests will have recounts). If the Democrats triumph in Georgia's two Senate battles, that victory will give Democrats control of the Senate via the Vice Presidential tie-breaker vote. Such a Democratic Congressional majority in turn makes it more likely (though still difficult given the narrow majority) that eventually some of the Trump era tax "reform" law which launched corporate earnings dramatically upward (and benefited high net worth individuals) will be reversed. Democratic control of both Houses of Congress also may result in capital gain tax increases.

Fears that an American political crisis will emerge due to President Trump's ongoing untrue claims of vote-rigging and fraud during the 11/3/20 Presidential election have not vanished. Congress counts the votes of the Electoral College on 1/6/21. What will happen during that 1/6/21 proceeding and its aftermath? Though President Trump soon will depart the White House (Inauguration Day is 1/20/21), he is and probably will remain a disruptive political and economic force for some time.

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William McChesney Martin, Jr., a former Chairman of the Federal Reserve Board, stated about 65 years ago: "In the field of monetary and credit policy, precautionary action to prevent inflationary excesses is bound to have some onerous effects- if it did not it would be ineffective and futile. Those who have the task of making such policy don't expect you to applaud. The Federal Reserve, as one writer put it, after the recent increase in the discount rate, is in the position of the chaperone who has ordered the punch bowl removed just when the party was really warming up." (Speech to the New York Group of the Investment Bankers Association of America, 10/19/55).

At present, to what extent are S+P 500 and other stock marketplace bulls intoxicated by the massive stock rally and their winnings?

Though the 1955 speech by the Federal Reserve Chairman speaks of inflation risks, the current Fed (and politicians) nowadays create and encourage inflationary risks in general (think of consumer prices and similar yardsticks), not just in stocks. The Fed of course loyally fights to achieve its interpretation of its legislative mandate. The present-day Fed regime continues to fear high unemployment and seeks to encourage sustained economic growth (recovery). However, America's dovish central bank (like many other establishment leaders) probably also worries about strong and widespread US (and global) populism.

In any case, although in marketplaces "overvaluation", "undervaluation", "fair value", "reasonableness", "high", "low", "average" and related concepts are subjective (cultural; matters of opinion), does the current Fed guardian worry at all about asset price bubbles in stocks? Numerous phenomena of course influence economic and political outcomes and relationships. But as a result of the Federal Reserve's partisan policies, have Wall Street and other financial "haves" received the great majority of the resulting economic champagne, whereas (relatively speaking) most of Main Street only has gotten some beer?

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