AMERICAN INFLATION AND INTEREST RATES: PAINTING PICTURES

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"We hope you will enjoy the show", sing The Beatles in "Sgt. Pepper's Lonely Hearts Club Band

CONCLUSION

"Inflation" (deflation; stable prices) can appear in various diverse economic arenas. The United States consumer price index measure of course covers somewhat different ground from producer price yardsticks, and both of these weathervanes differ from asset price realms such as the S+P 500 and homes. However, these assorted inflation domains and phenomena influencing them in various ways are not entirely separate.

Despite its enthusiastic claims of surveying assorted inflation indicators and marketplaces, the beloved Federal Reserve Board focuses primarily on consumer-level inflation, as measured by indices such as personal consumption expenditure prices.

The US obviously is not an independent island in the interconnected global economy, though it plays a critical part. However, American "inflation" in the general sense of the term (and even if one excludes the asset price territory of the S+P 500 and homes) is more widespread and less well-anchored than the Fed and armies of its devoted followers (especially the investment fraternity and the financial advisors and media who assist it) believe. The ongoing long run trend for rising US Treasury yields (see the UST 10 year note rate) evidences this trend of sustained and increasing US inflation. Inflation will force the Fed to weaken its longstanding tenacious yield repression program.

Demand for credit relative to its supply of course affects US Treasury and other interest rate levels and trends. America's federal debt situation of enormous budget deficits (massive spending) probably will continue to propel both inflation and UST yields higher.

BACKGROUND SKETCHES

Since economics (and politics) are cultural realms, the Fed's perspectives, definitions, propositions, arguments, analytical methods, and conclusions are entirely subjective (matters of opinion). Economics is not a science (objective), in contrast to Natural sciences such as biology, chemistry, physics, mathematics, and mechanical engineering. Thus Federal Reserve definitions of terms such as "stable prices" and "inflation" and its viewpoints and forecasts regarding them are rhetorical (cultural).

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In today's complex and intertwined global economic and political (and social) scene, the Federal Reserve Board's power over economic (and other cultural) variables and outcomes is limited. The Fed of course does not act alone. In addition, stock, interest rate, currency, commodity, real estate, and other marketplace participants, as well as big businesses and Main Street, intertwine with central banking and other economic (and political and social) phenomena in assorted and frequently changing fashions. The Fed and other central bankers (and politicians) obviously do not solve scientific problems, such as the coronavirus pandemic, which have financial consequences.

However, given the Federal Reserve's success in recent years with its yield repression strategy (as well as its quantitative easing/money printing scheme and other programs), many observers have great faith in the central bank's astuteness and its talent for creating and managing "good" United States (and global) economic outcomes. These desirable results include not only adequate US economic growth, but also bullish stock marketplace (use the S+P 500 as the benchmark) moves.

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Pursuant to its legislative mandate, the Federal Reserve Board should "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates" (Federal Reserve Act, Section 2A). The Fed's currently defines "stable prices" as two percent over the "longer run". At present, to achieve this long run objective (since "inflation" had run "persistently below this longer-run goal" for some time), this economic guardian nowadays intends to "achieve inflation moderately above 2 percent for some time". The Fed wants longer run inflation expectations to "remain well anchored at 2 percent". See, for example, the FOMC's 4/28/21 statement. Fed Chairman Jerome Powell declared that the Fed will not allow a substantial overshoot of the two percent target (Reuters website, 4/20/21; citing a 4/8/21 letter to Senator Rick Scott).

Although the illuminated Fed claims to take into account "inflation pressures and inflation expectations", personal consumption expenditure ("PCE") remains its favored benchmark for its assessment of "stable prices" ("inflation"). The key US Treasury note yield is beneath two percent.

Not only the Fed's past achievements, but also its current economic projections and steadfast adherence to maintaining its yield repression structure via the Federal Funds rate (and ravenous debt securities acquisition), encourage its faith and that of the great majority of Fed watchers to believe the Fed will achieve its praiseworthy goal of "stable prices". Thus inflation will not climb "too high" or go "out of control". Similarly, benchmark US Treasury interest rates also will not increase "too much" ("too far").

The Federal Reserve Board's respected "Economic Projections" (3/17/21) proclaims the central tendency for "longer run" personal consumption expenditure ("PCE") inflation is two percent. Its central tendency for calendar 2021 is between 2.2 percent and 2.4pc. The predicted 2022 range is 1.8percent to 2.1pc, with 2023's 2.0pc-2.2pc. The International Monetary Fund (World Economic Outlook, April 2021; Tables 1.1 and A5) projects American consumer prices at 2.3 percent in 2021, 2.4pc in 2022, with the distant future of 2026 at 2.2pc. The Fed declares in its March 2021 Projections that the central tendency for the Federal Funds level in 2021 is merely .1 percent, with 2022's only .1pc to .4pc, and even 2023's .1pc to .9pc.

<u>US INFLATION PICTURES</u>

American inflation has risen notably recently, and it appears that the Fed's current policies will find it challenging to contain it. The Federal Funds rate and UST yields (including those on the shorter end of the yield curve) probably will have to increase faster and further than the Fed currently wants and predicts.

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March 2021's United States Personal Consumption Expenditure Price Index ("PCE") rose .5 percent versus the prior month and 2.3 percent year-on-year (Bureau of Economic Analysis; 4/30/21). This increase by itself probably does not ignite widespread inflation fears for the American (or international) economy. However, March 2021 hops up significantly from February 2021's 1.5 percent and January 2021's 1.4pc year-on-year gains.

One should scan beyond the PCE to assess America's inflation (stable price) situation, both at the consumer level and elsewhere.

The US Consumer Price Index for all urban consumers (all items) increased .6 percent in March 2021 (seasonally adjusted; Bureau of Labor Statistics, 4/13/21), the largest one-month increase since August 2012. Over the last 12 months, the all items index increased 2.6 percent before seasonal adjustment; compare the 1.7 percent rise for the period ending in February 2021.

The Federal Reserve Bank of New York's "Underlying Inflation Gauge" ("UIG") for March 2021 estimates that America's "trend CPI inflation" stands in the 2.2 percent to 2.6pc range (April 2021 release). Underline the significant acceleration from January 2021's 1.5 percent to 2.1pc range.

March 2021's PCE, CPI, and UIG inflation yardsticks are "moderately" above the Fed's two percent long run "inflation" objective and close to the PCE's central tendency for calendar 2021 of between 2.2 percent and 2.4pc percent. Thus by themselves, they do not show "excessive inflation" ("unstable prices"). Besides, they're only one month, right? However, the March 2021 climb probably warns of greater impending (emerging) inflation than many (including the Fed and its apostles) believe.

According to the Financial Times (4/20/21, p2), global consumers have several trillion dollars of additional savings compared with the 2019 spending pattern. See also the NYTimes (4/30/21, pp A1, 14), which reports United States consumers had $4.1 trillion in savings at the end of first quarter 2021. US annualized 1Q21 growth of 6.4 percent (Bureau of Economic Analysis, 4/29/21) manifests substantial expansion. Thus US consumers in general apparently have substantial extra money to spend, which if they do will tend to bid up prices for goods and services.

Producer prices and wages likewise warn that American inflation rates are growing at a noteworthy speed. US producer prices in March 2021 climbed 4.2 percent over the 12 months ending in March (Bureau of Labor Statistics; 4/9/21). This arguably portends increases in the PCE and similar measures. On the wage front, the Employment Cost Index for civilian workers rose 2.6 percent over the twelve month period ending March 2021 (Bureau of Labor Statistics, 4/30/21).

A recent Financial Times headline declares: "Global brands prepare to hit customers with higher prices (5/1-2/21, p10). The Fed's "Beige Book", which comments on current economic conditions (4/14/21), points to price increases in various sectors, as well as some pressure for higher wages. The Institute for Supply Management's Manufacturing Report (5/3/21) speaks of "increasing rates of demand", parts and material shortages, and rising commodities prices. The NYTimes (5/4/21, pp A1, 18) reports that commodity shortages are eliciting price increases in many businesses. Warren Buffett, the leader of Berkshire Hathaway, heralded that "We're seeing very substantial inflation" (cited in the Financial Times, 5/3/21, p6).

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Rising inflation expectations can assist yield rises in US Treasury instruments, as well as in corporate debt yields. Such rising inflation expectations also can ignite or further encourage price rises for various goods and services.

The St. Louis Fed's five-year, five-year forward inflation expectation rate "measure of expected inflation (on average) over the five year period that begins five years from today" provides further insight. Its bottom during the 2007-09 global economic disaster was .43 percent on 12/29/08. Compare 3/19/20's trough at .86pc. The 1Q20 collapse toward 2008's depth probably sparked Fed memories of the global economic disaster and deflationary dangers, and hence the Fed savior's extraordinary 2020 easy money responses (and its willingness to maintain yield repression and money printing).

Since March 2020's bottom, this five-year, five-year forward inflation expectation indicator escalated. From an interim low at 1.52 percent on 7/16/20, it expanded to 4/29/21's 2.28 percent. This neighbors 2/2/18's 2.35 percent key resistance high. Compare these inflation expectations with current UST yield levels (such as the UST 10 year note's around 1.60 percent).

Prior to that 1Q2018 crest, history extending back to 2003 unveils assorted highs in the five-year, five year forward measure around three percent. Recall 2013's 2.98 percent (1/14/13 and 2/12/13) and 2011's 3.02pc (4/19/11). During the waning moments of the glorious Goldilocks Era, the five year, five year forward inflation expectation rate established an initial high at 2.57 percent on 9/20/07. As the global economic disaster emerged and worsened, it made a subsequent interim top at 2.76pc on 3/10/08, peaking at 3.05pc on 11/12/08.

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According to the Fed's Economic Projections, the longer run central tendency for America's unemployment rate is between 3.8 percent and 4.3 percent. Place the issue as to how best to define unemployment and the appropriate way to account for labor force participation to the side. As of March 2021, the headline figure for US unemployment stood at six percent. The Fed's commitment to its easy money policies (money printing; yield repression) as means to the 3.8pc-4.3pc jobless objective probably will help to propel inflation higher than March 2021's levels in the PCE, CPI, and UIG. As part of this process, current wage inflation and inflation expectations probably will climb too.

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In its 4/28/21 monetary policy statement, the Fed announced not only that it will keep the target range for the Federal Funds rate at the ground floor level of zero to one-quarter of one percent, but also that it will continue to increase its holdings of Treasury securities by at least $80 billion per month and agency mortgage-backed securities by at least $40 billion/month "until substantial further progress has been made toward the Committee's maximum employment and price stability goals." $120 billion per month for 12 months gives $1.44 trillion per year. The Fed's generous money printing (quantitative easing) surely has played an important part in substantial monetary expansion in recent times.

Economic experts debate the extent to which and circumstances under which inflation is a monetary phenomenon. All else equal, as a rough guideline, the more "money" around, the more nominal price levels in general (including the price for labor) tend to rise. Some Federal Reserve statistics (H.6; 4/27/21) indicate that monetary considerations currently are helping to propel consumer level prices (such as the Consumer Price Index, Personal Consumption Expenditure Price Index, and Underlying Inflation Gauge) prices upward, and arguably warn of more inflation on the horizon than many expect.

According to the Fed, monetary base equals currency in circulation plus reserve balances (balances held by depository institutions in master accounts and excess balance accounts at Federal Reserve Banks). The monetary base (not seasonally adjusted) in March 2021 (following massive Fed money printing and major league federal deficit spending over many preceding months) skyrocketed 50.4 (yes, fifty) percent since March 2020. Currency in circulation by itself jumped 15.2 percent. The definition of M2 changed in May 2020, but March 2021's M2 (seasonally adjusted) grew 11.2 percent relative to May 2020. Compare these figures with the Fed's two percent "stable prices" concept.

"ASSET" PRICE INFLATION

The Fed repeatedly expresses its dedication to achieving its definition of maximum employment. And regarding the stable prices parameter of the Fed's mandate, history reveals that inflation in stock and housing realms in general worries the Fed watchdog considerably less than inflation in traditional variables such as the PCE and CPI.

In any case, substantially rising US stock marketplace and home prices in recent months thus far have not troubled the Federal Reserve. The Fed probably indeed has designed and encouraged the "search for yield (return)" in stocks (and homes, corporate debt securities, commodities, and elsewhere) via its yield repression program. Moreover, the Fed likely wishes to bolster and applaud signs of economic recovery in such areas, especially following the dreadful coronavirus pandemic (and the related economic downturn and stock marketplace crash) which appeared during first quarter 2020. Higher stock and home prices can help to boost consumer confidence and thus spending. Stocks and housing of course have their "own" supply/demand and inventory considerations which stand somewhat apart from inflationary indicators "elsewhere".

Stock investors and home owners of course view price rallies in and high prices for these assets as excellent news. But do the bull moves necessarily (and currently) represent signs of "stable prices"? Keep in mind the recent jumps in March 2021 for the PCE, CPI, and UIG inflation measures. The recent leap in the S+P 500 and American home prices arguably hint at inflationary pressures in the "overall" economy, and thus for further boosts in the PCE, CPI, and UIG inflation rates. So does the sharp rally in prices for the commodities sector "in general".

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What equals "overvaluation" (undervaluation; fair value) or high (too high; reasonable, rational; low, too low) for prices in the S+P 500 and other marketplaces is cultural (subjective), a matter of opinion. Corporate earnings and expectations for them of course influence stock levels and trends. United States CPI and similar consumer-type inflation weathervanes will not rise anywhere near the moves in the S+P 500 in percentage terms. However, relative to upward moves thus far over similar time horizons in the United States CPI and similar inflation indicators, the bull moves in the S+P 500 and home prices arguably appears "inflationary" (signals looming inflation in the CPI).

The record high in the S+P 500 to date is 4/29/21's 4219. This soars 92.5 percent from 3/23/20's dismal 2192 bottom. It spikes 30.5 percent above 10/30/20's important interim trough at 3234. Moreover, 4/29/21's elevation surpasses the pre-coronavirus pinnacle, 2/19/20's 3394, by 24.3 percent.

As for the home front, according to the National Association of Realtors (4/22/21), the median existing-home sales price in March 2021 rose by a record-breaking annual (year-on-year) pace of 17.2 percent to a historic high. The S&P CoreLogic Case-Shiller US National Home Price Index in February 2021 had an annual gain of 12.0 percent (4/27/21). February 2021's Index exceeds the 2006 price peak by 29.4 percent.

Many pundits label commodities as an asset class. In the hunt for adequate return era of the past few years (as well as previously), price and time trends for commodities in general often have interrelated closely with those in stocks and low-quality debt elsewhere. For commodities "in general", let's enlist the S&P broad GSCI index, although it is heavily petroleum-weighted.

The broad GSCI's in its bull move since 4/21/20's major bottom at 218.0 is 5/4/21's 517.7, a stratospheric 137.5 percent flight. Even if one adjusts the start date to 7/1/20's 328.7 (to mitigate the consequences of the petroleum price collapse ending in late April 2021, and particularly the negative prices for front month NYMEX crude oil around then), the bull move runs about 57.5pc. Underscore also the sharp rally from 11/2/20's (compare the timing of the S+P 500's autumn 2020 upward charge) take-off point at 333.1.The broad GSCI's recent elevation high surpasses 1/8/20's 453.2 pinnacle preceding the coronavirus disaster by 14.2 percent. As a sign of inflationary attitudes within the commodities world, see the Financial Times headline (5/4/21, p8): "Rising prices fuel talk of raw materials 'supercycle'".

CREDIT DEMAND: US FEDERAL DEBT

Over the long run for the United States, the combination of sustained higher inflation and rising government debt probably points to higher US Treasury yields than many wizards anticipate.

America's recent federal budget deficits and debt as a percentage of GDP are gigantic. So are the prospective ones. Federal Reserve Board money printing (consider its current $80 billion per month in UST purchases) assists the financing of (monetizes) such borrowing. Given government spending on goods and services, the Fed's quantitative easing tends to support rising inflation rates.

Investigation and analysis of global (and American) supply and demand for credit (governmental, corporate, and household), its role in influencing US (and international) sovereign and corporate interest rate trends, and the financing and interest rate links to numerous economic and other cultural variables keep marketplace gurus busy. Some believe that increasing government spending levels will tend to push inflation rates higher, especially during an economic recovery with strong consumer spending.

In any case, all else equal, however, growing credit demands relative to supply tends to boost interest rate levels. Thus the mammoth recent (and current) and likely future United States federal government demand for credit probably will continue to help increase US Treasury yields.

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Foreign holders of US Treasury securities have added very little to their holdings over the past year. Major foreign holders UST (4/15/21) in February 2021 owned a grand total of $7.1 trillion, about unchanged since July 2020, and less than February 2020's $7.2tr (and not much above April 2020s' $6.9tr low). This pattern warns of potential difficulties for the America's debt financing. Suppose foreign holders became net UST sellers.

A great deal of the US government yield curve offers a negative real return relative to current PCE, CPI, and UIG-type inflation measures. The two year UST note yields a paltry .15 percent or so, the 10 year UST only about 1.60pc. US government interest rates probably need to increase substantially to motivate substantial new buying within the UST playground.

People compete to acquire credit (borrow money). For the global scene as a whole, note the overall trend toward higher government indebtedness. See the International Monetary Fund's "Fiscal Monitor" (April 2021). Moreover, many nations confront significant corporate debt challenges. Don't overlook household debt. For example, America's household debt is very substantial in arithmetic terms.

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America's federal deficit spending has propelled the national debt to arguably dangerous levels. In recent times, think not only of the coronavirus stimulus (rescue measures). Recall the tax "reform" legislation enacted in December 2017. And underlying long run financing difficulties facing the country (picture obligations to an aging population) preceded these monumental budget deficits. Further huge debt increases pursuant to the current Administration's infrastructure plans loom.

Survey the continuing climb in the US federal debt held by the public as a percentage of nominal GDP. According to the Congressional Budget Office, it touches 102.3 percent by end 2021 (compare around 79 percent at end 2019). Though federal debt as a percent of GDP dips slightly in subsequent years (2026 at 100.9pc of GDP, it then expands. By 2031, debt as a percent of GDP grows to 107.2 percent of GDP, the highest in US history. The previous peak, in 1946, followed sizable World War II deficits. The CBO warns in "The 2021 Long-Term Budget Outlook" (3/4/21; Table 1) that by 2051 federal debt as a percent of GDP will reach a celestial 202 percent.

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These CBO's budget projections included the effects of federal legislation enacted through 1/12/21. These CBO prophecies therefore did not include the federal stimulus/rescue package (deficit spending) of around $1.9 trillion enacted in March 2021. Thus the budget deficits and debt held by the public probably have increased quite a bit relative to the CBO's forecast, even though incremental economic expansion also will result. Moreover, the risk of an American federal fiscal crisis probably has grown, although competing pundits will debate how much as well as when it might emerge.

Combine the headline numbers for America's various rescue (stimulus) spending schemes enacted during the coronavirus pandemic era. March 2020's CARES legislation totals about $2.2 trillion). End December 2020's program equals $900 billion. March 2021's American Rescue Plan added $1.9 trillion. Though the ultimate US federal budget deficit total arising from these various measures may vary somewhat from these figures, they add up to $5.0 trillion dollars. The tremendous spending (borrowing) total of $5.0 trillion represents a massive 23.9 percent of America's calendar 2020 nominal GDP of $20.9 trillion (GDP from the Bureau of Economic Analysis, 3/25/21, Table 3).

Moreover, the CBO's current baseline budget projections do not incorporate the cost of much-desired but not yet legislated government infrastructure projects suggested by the Biden Administration, which together surmount $4.0 trillion. One infrastructure plan may cost $2.3 trillion (including traditional, basic infrastructure, but much else), with $1.8 trillion in expenditures for a second proposal (focusing on so-called human infrastructure; "American Families Plan").

Suppose a substantial sum of these two potential infrastructure proposals become law. Even if higher taxes (corporate, capital gains, and income) and implementation of revenue acquisition methods (such as better tax enforcement) mitigate the cost of this additional deficit spending, the track record of recent years warns that the infrastructure schemes probably will further increase federal deficits and debt as a percentage of GDP.

RISING US TREASURY YIELDS: WATCHING THE 10 YEAR NOTE

The major yield increase trend in the United States Treasury marketplace (enlist the UST 10 year note as a benchmark) which commenced with 3/9/20's .31 percent low probably will continue. In the UST yield's rising arc, note its low around .50pc on 8/6/20 and the acceleration above one percent beginning around 1/28/21. The UST 10 note yield has jumped over the major bottoms in yield at 1.32pc on 7/6/16 and 1.38 pc on 7/25/12. The UST 10 year note's high to date since its March 2020 low is 1.77 percent (3/30/21).

Looking forward, even if there are occasional fearful "flights to quality" into UST instruments (and thus lower yields in them for a while), the major yield increase trend in the UST 10 year note probably will resume.

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Interest rate levels and trends of course reflect the interaction of a massive array of variables. To some extent, rising yields in key government interest benchmarks such as the United States Treasury 10 year note probably reflects past and current price increases as well as potential inflation in key consumer-related measures.

At present, the Fed's yield repression effort, keeping the Federal Funds rate and short-term UST instruments at very low levels, helps to keep the UST 10 year note at low levels relative to current indicators of consumer inflation such as the PCE, CPI, and UIG.

The 10 year UST's current yield around 1.60 percent offers a negative real return relative to the 2.3 percent midpoint of the Fed's PCE central tendency for calendar 2021 as well as March 2021's 2.6 percent year-on-year ascent in the US Consumer Price Index. The 10 year UST yield stands underneath March 2021's 2.4 percent midpoint for the UIG. The UST 10 year yield falls beneath the St. Louis Fed's recent five-year, five-year forward inflation expectations data. Even the UST 30 year bond's yield at around 2.25 percent as of 5/4/21 offers no significant return relative to these inflationary yardsticks. Over the so-called long run, interest rate investors generally want to receive a real return relative to inflationary signposts such as these.

For future rising yield trends in the UST 10 year note, don't overlook the inflationary relevance of the Fed's commitments to achieve lower unemployment levels and its willingness to overshoot its two percent inflation target by a modest amount on a sustained basis. Keep in mind past, current, and future money printing by the Fed and other central banks. Also keep in mind the influence from asset price battlegrounds (such as stocks, homes, and commodities). American federal budget deficits and debt probably also will help to encourage UST yields to rise.

A notable target for the UST 10 year is around the 3.26 percent top attained on 10/19/18. Even if over the so-called long run the UST 10 year yield does not eventually ascend to 2007's seemingly ancient high (5.32pc; 6/13/07), attaining such an elevation is considerably more probable than

most marketplace preachers proclaim. For the near term, recall the UST's 2.04pc 12/18/08 worldwide financial crisis yield low.

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According to the Fed's latest Economic Projections (3/17/21; Table 1), the "longer run" central tendency for the Federal Funds rate is between 2.3 percent and 2.5pc. Let's put yield curve shape and steepness issues aside. As a guideline, if the UST 10 year note offers a return of 50 basis points relative to a 2.5 percent Fed Funds level, its yield reaches 3.0pc.

The current UST 10 year note yield remains beneath the Fed's two percent inflation equilibrium goal. To provide a real return to savers of half a percentage point relative to two percent, the UST 10 year yield at that inflation level should climb to 2.50 percent. A one percent return carries the UST 10 year yield up to three percent. Though the Fed's view as to what constitutes acceptable inflationary overshooting of the two percent inflation goal is misty, suppose it is only 50 basis points. Giving creditors a 50 basis point return relative to 2.50pc portends a UST 10 year yield of 3.0 percent, a fair amount above the present-day elevation.

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The increase in UST 10 year yields over the past year, not only is consistent with increasing inflationary pressure in America, but also other leading nations have manifested sovereign yield increases. This bolsters the likelihood that a significant long run uptrend in yields in America (and arguably elsewhere) has emerged. For example, the German Bund established its yield low on 3/9/20 (compare the time of the UST 10 year's bottom) at -.91 percent (negative). It spiked to a high of -.14pc on 3/19/20. Though the Bund yield retreated to -.67pc on 11/4/20, it resumed its ascent, reaching -.18 on 4/29/21. Japan's JGB yield low occurred 3/9/20 at -.19 percent. Its yield crawled into positive territory on 6/15/20; 2/26/21's .18pc is its recent high (around .10pc now).

Interest rates for the dollar-denominated sovereign debt of emerging marketplace nations in general also have increased. The EMB is the iShares J.P. Morgan US Dollar Emerging Markets Sovereign Bond ETF. The EMB includes over thirty emerging marketplace countries (website, 4/29/21 and 3/31/21). Mexico represents the largest share (5.6 percent); China is eighth in size (about 3.6pc). The EMB's weighted average maturity is about 13.7 years, with BBB/BB/B grades combining for about 73.3 percent of the ETF's portfolio.

Rising prices for the EMB debt ETF indicates falling yields for the underlying debt instruments, retreating prices in the EMB reflect rising yields. The EMB price rallied from 9/24/20's 109.2 and 11/2/20's 109.8. It thereafter attained a yield bottom with 1/4/21's 116.1 price high. The current EMB level is about 110.7.

Note also that US corporate yields have increased moderately in recent months. "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. Recall the Baa's 12/31/20 yield trough at 3.11 percent. It thereafter stretched up to 3.88pc on 3/18/21. It floats around 3.60pc now.

US TREASURY YIELDS: TRUTH AND CONSEQUENCES

"Just Dropped In (To See What Condition My Condition Was In)", a Mickey Newbury song performed by Kenny Rogers

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Connections and patterns, including convergence and divergence (lead/lag) relationships between financial domains as well as those involving other marketplace variables, are complex, not necessarily precise, and can change over time.

"History on Stage: Marketplace Scenes" (8/9/17) and subsequent essays updating it (such as 3/9/21's "Truth and Consequences: Rising American Interest Rates" and "Financial Marketplaces: Convergence and Divergence Stories" (4/6/21)) 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. The 10 year UST note is a key signpost.

The UST 10 year note's impressive yield climb, which began with 3/9/20's .31 percent major bottom, probably is leading to a peak in the S+P 500.

"EEM" is the iShares MSCI Emerging Stock Markets ETF. It covers over 800 large and mid-size companies. Despite Mainland China's global economic power, most classify it as an emerging market nation from the economic perspective. It possesses a 37.8 percent portion of the EEM (see BlackRock's iShares website, 3/31/21). The S+P 500 and EEM price and time trends since around the time of their Goldilocks Era highs in 2007 have tended to converge. Arguably the EEM's decline from its 2/16/21 high at 58.29 and the increase in emerging marketplace dollar-denominated sovereign debt yields (in the EMB since early January 2021) also are assisting the creation of an important S+P 500 pinnacle.

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The noble Federal Reserve Board declares in its March 2021 Projections that the central tendency for the Federal Funds level for 2021 through 2023 is less than one percent. The clairvoyant asserts that in 2021 it is merely .1 percent, with 2022's only .1pc to .4pc, and even 2023's .1pc to .9pc.

Imagine that the visionary Fed abandoned its yield repression strategy, which involves massive buying of UST (and agency mortgage-backed securities), today. Would the Fed Funds central tendency remain under one percent? Current and prospective US economic growth appears to be at least fairly strong. Rising inflation indicators such as the PCE, CPI, UIG, ECI, and the St. Louis Fed expectation index strongly indicate that the genuine Fed Funds central tendency (without the current Fed manipulation of the Funds rate) would not be less than one percent. Again, consider also the Fed's battle to reduce unemployment, America's enormous debt challenges, and asset price inflation. For 2021 (and the subsequent two years), the Fed Funds rate (central tendency) without the Fed's yield manipulation probably is at least one percent. American inflation levels and expectations probably are considerably less well-anchored than Fed rhetoric claims.

US inflation patterns (and factors), especially when viewed in addition to the Fed's determined yield repression strategy, suggest the current "underlying" tendency for US Treasury yields is for them to rise (across the entire yield curve). It will be interesting to see if and when the Fed will summon up courage to taper (or eliminate) its UST and mortgage securities acquisition program. Would such tapering or threats of one cause a tantrum involving plummeting S+P 500 prices?

Would some modest increases in the Federal Funds rate (like 25 basis points every few months) from current levels induce a precipitous and sustained drop in the S+P 500?

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In relation to the Fed's legislative mandate, the great majority of the talk by the Federal Reserve itself as well as marketplace participants and the Wall Street and Main Street financial media involves only the maximum employment and price stability goals. Thus the Fed often refers to its "dual mandate".

However, for many years, the Federal Reserve Board and its members have paid little public attention to (made few statements regarding) the third goal listed in the Federal Reserve Act, the achievement of "moderate long-term interest rates". History shows that the Fed apparently has considerable latitude as to how it interprets and tries to accomplish its mandate.

The Fed probably possesses considerably more control over short-term rates than long term ones. Hence the Fed's willingness to speak of a central tendency for the Federal Funds level for 2021 through 2023, and even over the indefinite "Longer run". Keeping short-term Treasury yields beneath inflation rates not only tends to "cheat the savers", but also encourages consumption (spending, and thus helps GDP growth) and searches for yield (return) in stock marketplaces and elsewhere.

Is the moderate long-term interest rate aim somehow hidden within or eventually achievable via success for the dual mandate relating to employment and inflation (stable prices)? Perhaps over some version of the long run the benevolent Fed will define and even achieve moderate long term interest rates. And what is a long-term rate is a matter of opinion; most will say the two year UST note is not. However, the UST 10 year instrument probably is of sufficiently long duration. Because the skillful Fed has defined allegedly suitable unemployment and stable price (inflation) levels, this clairvoyant probably has the capacity to designate prudent (appropriate) targets for benchmark indicators such as the US Treasury 10 year note.

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Suppose the UST 10 year note yield became the Fed's designated indicator for the moderate long-term interest rate variable within its mandate. Suppose further that at some point in time the UST 10 year note yield was significantly beneath what the Fed deemed its central tendency, and that the Fed showed no inclination to reduce that yield range. Given the Fed's influence in financial (and political) congregations, many UST marketplace participants probably would be more inclined to sell (move out of) or not purchase longer dated UST instruments. All else equal, that situation probably would encourage UST yields to rise. Keep in mind the historic relationship that significantly increasing United States interest rates have preceded a noteworthy peak in key stock marketplaces like the S+P 500. Therefore one reason the Fed has been unwilling in recent years to focus on the moderate long-term interest rate topic probably derives from its effort to avoid risking substantial damage to asset price marketplaces such as United States stocks (and perhaps thereby to overall consumer confidence and the economy in general) following noteworthy increases in benchmark UST 10 year note yields.

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Suppose United States inflation in assorted key indicators such as the Consumer Price Index continues to climb, and that America's federal budget deficit and debt situation remains very dangerous. Suppose the Federal Reserve remained unwilling to tighten its current highly accommodative policies. Though much depends on other variables, including the economic and political situation in and prospects for other important countries around the globe, this scenario

probably will tend to weaken the US dollar. Watch the Federal Reserve's real and nominal Broad Dollar Indices (H.10 statistics).

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For detailed further discussion of stock, interest rate, currency, and commodity marketplaces and the political scene, see essays such as " Financial Marketplaces: Convergence and Divergence Stories" (4/6/21); "Truth and Consequences: Rising American Interest Rates" (3/9/21); "GameStop and Game Spots: Marketplace and Other Cultural Backgrounds" (2/13/21); "The Fear Factor: Financial Battlefields" (1/5/21); "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).

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