MARKETPLACE ROLLING AND TUMBLING: US DOLLAR DEPRECIATION

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

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CONCLUSION

The United States dollar commenced a bear trend in spring 2020. Its depreciation probably will continue over the long run.

"Dollar Depreciation and the American Dream" (8/11/20) warned of and analyzed various reasons for a significant depreciation in the real Broad Dollar Index (Federal Reserve Board, H.10) from its lofty April 2020 high at 113.7. These factors generally remain in place. "American Inflation and Interest Rates: Painting Pictures" (5/4/21) stated: "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."

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January 2021's real Broad Dollar Index at 103.3 approached a critical support level, March 2009's 101.6 peak during the 2007-09 worldwide economic disaster (May 2021's height is 104.1). A sustained break beneath March 2009's elevation probably will be important for numerous economic playgrounds. Why? That dollar depreciation likely will occur alongside rising American inflation indicators and the major expansion of American federal indebtedness of recent years (with further national spending extravagance looming). This situation probably will increase pressure on the Fed to significantly reduce (taper) its quantitative easing (money printing) program as well as to boost the Federal Funds rate and thereby US Treasury yields. Climbing UST interest rates accompanied by a tumbling dollar probably will reduce the avid "search for yield/return" in the S+P 500, dollar-denominated debt securities (such as US corporate bonds) and other dollar-priced assets (including many commodities). These developments probably will trigger and sustain slumps in the S+P 500 and "related" asset arenas.

REASONS FOR THE DOLLAR'S DOLOROUS RETREAT

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

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What underlying and interrelated factors have promoted the dollar's tumble since April 2020 (using the Fed's real Broad Dollar Index as the yardstick) and probably will continue to do so?

A key long run variable weakening the dollar is America's gradually declining percentage share of world GDP.

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United States stocks and the dollar are not merely financial instruments. Both the US stock marketplace and the dollar are rhetorical symbols of (metaphors for) America. For the United States, strong (high; rising) American stock prices (are good) reflect a strong (good) country and its good (strong; reasonable, rational; persuasive) American Dream ideology! A robust (or at least a fairly powerful, strong) US dollar tends to support similar opinions regarding American strength and its American Dream doctrine. American Dream support for a strong dollar nevertheless is not as clear or vociferous as that for high and rising American stocks. After all, for example, the nation's importers and exporters have somewhat competing interests. Americans prefer a strong dollar (but not one that is "too strong") to a weak one, and do not want a dollar that is "too weak".

However, both political parties, not just the current US Administration, and especially in the coronavirus era (despite the progress in vaccination rates) and despite the economic recovery in recent months, probably want the dollar to weaken further from its lofty spring 2020 summit. The great majority of the country's politicians preach their allegiance to a strong dollar, but they also love economic growth.

America's long-running substantial trade deficit in goods promotes this American political perspective and rhetoric ("fair trade"; "make America great again") related to the dollar. Many politicians connect the concept of a slashed US trade deficit in goods with an expanded output of domestically-produced American manufactured and other goods. The US goods deficit was about $85.2 billion in April 2021 and a record $92.0 billion in March 2021 (US Census Bureau; 5/28/21). The US runs a trade surplus in services (about $17.1bb in March 2021 (Census Bureau, Exhibit 1; 5/4/21). However, the overall trade balance deficit of goods and services combined is substantial; for calendar year 2020, that deficit was $681.7 billion. On the goods side in calendar 2020, the country's top trade deficit was with China ($310.2 billion), with Mexico capturing second place ($117.4bb). According to the International Monetary Fund ("World Economic Outlook", Table A10; April 2021, the US current account balance as a percentage of GDP for 2020 deficit was -3.1 percent (about $646.4 billion), with 2021's predicted at -3.9pc ($876.4bb).

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Additional phenomena make the dollar particularly vulnerable nowadays. America's government debt load had been increasing significantly since the 2007-09 global economic disaster. Although many leading nations have enlarged their government debt burdens in recent years, America's situation probably has worsened significantly more than most others. America already faced widening federal budget deficits encouraged by the tax "reform" enacted at end 2017. Headline numbers for America's various rescue (stimulus) spending schemes enacted during the coronavirus disaster era add up to around $5.0 trillion. These sums do not include the cost of potential government infrastructure programs desired by the Biden Administration, which currently total at least $3.5 trillion. Don't overlook the country's ongoing ominous additional long run debt burden, looming from factors such as an aging population. How easily will America service its debt situation? All else equal, demand for credit tends to push interest rates higher. Current proposals involving tax increases on corporations, capital gains, and very high individual incomes, as well as improved tax collection, probably will not substantially mitigate the federal deficit troubles. And America's corporate and individual indebtedness also is sizable.

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The United States dollar will remain essential for a long time as a global trading and reserve currency. American marketplaces will not be completely avoided given their size and importance. Yet declining faith in American assets (and its cultural institutions and leadership) can inspire shifts away from the dollar and dollar-denominated assets. Suppose corporations and foreign governments increasingly elect, whether for commercial or political reasons, to avoid using the dollar as the currency via which they transact business. Money-hunting financial pilgrims (investors and traders) can diversify away from the dollar and dollar-denominated assets to some extent. Such emerging patterns will injure the dollar.

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US inflation in recent months has accelerated, and not just in measures such as the S+P 500 and home prices. The US Consumer Price Index for all urban consumers (CPI-U, all items) increased .8 percent in April 2021 (seasonally adjusted; Bureau of Labor Statistics, 5/12/21), up 4.2 percent over the last 12 months (before seasonal adjustment). The Fed's favorite inflation signpost, the personal consumption expenditures price index ("PCE") jumped 3.6 percent year-on-year in April 2021 (Bureau of Economic Analysis, 5/28/21). The NY Times stresses that this rate of increase is the fastest in 13 years (5/29/21, pB5). According to the Federal Reserve Bank of New York's "Underlying Inflation Gauge" (5/12/21), estimates April 2021's trend CPI inflation in the 2.7 percent to 2.9pc range.

The Federal Reserve watchdog asserts that these (high) inflation increases probably will be transitory (even though the Fed also proclaims it wants inflation to overshoot their beloved two percent target), and it dutifully barks that it remains vigilant. Nevertheless, the Fed remains wedded to its yield repression scheme. Thus across the US yield curve, the real rate of return on US Treasury securities relative to inflation is negative, which makes US Treasuries (which obviously are dollar-denominated) less desirable to own. The UST 10 year note yield currently hovers around 1.60 percent. The longer the Fed maintains its highly accommodative monetary policy (including both yield repression and money printing/quantitative easing) in an increasingly inflationary environment and its negative return arrangement for UST, the more vulnerable the US dollar becomes.

Not only Americans but also foreigners own massive sums of dollar-denominated assets (debt instruments, stock in public and private companies, real estate; dollar deposits). Such portfolio changes (especially given America's slowly declining importance in the global economy) will tend to make the dollar feeble.

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Foreigners hold a very large amount of US Treasury securities. How eager will they be to finance the growing American federal budget deficits? Recent data suggests they are not rushing to do so. Scan major foreign holders of UST trends (5/17/21; March 2021 statistics are the most recent). Foreigners as of March 2021 possess about $7.03 trillion in UST (Japan $1.24tr, Mainland China $1.18tr). March 2021 surpasses the year ago period of March 2020 by only a small amount, $79 billion. The high holding total over that one year span is January 2021's $7.12tr. This meager net addition to foreign holdings occurred despite the marvelous opportunity to take advantage of the mind-boggling total of new UST issuance due to colossal government deficit spending. Thank goodness for the Federal Reserve's UST acquisition (money printing) strategy that gobbled up much of the incremental new UST supply!

Assume the Fed continues to refuse to permit a real return on US Treasuries relative to current American inflation levels. All else equal, that makes UST holding by Americans and foreigners less desirable, which tends to increase pressure to propel US interest rates upward. Capital losses due to higher yields obviously will displease both domestic and overseas UST holders. What if American federal debt issuance remains lofty? That keeps credit demand high, which helps to push UST yields higher.

Suppose Americans and (especially) foreigners, due to the absence of a real return after inflation, decide to reduce their dollar-denominated holdings. All else equal, that scenario tends to weaken the dollar. If foreigners become substantial net liquidators of their UST positions, this can accelerate the dollar's bear move.

What if the Fed wizard slows or ceases (tapers) its beloved quantitative easing scheme yet does not boost the Fed Funds rate significantly (or at all) to compensate for current inflation heights? Tapering its ravenous UST purchasing program will make it more difficult for the US government to finance its towering budget deficits. This will assist the existing major trend of higher UST yields.

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America always has had some cultural divisions and conflicts, despite widespread faith in a version of the American Dream. However, the intensity and breadth of America's cultural splits and battles across various parameters increased in recent years, especially during the Trump era, and remain fervent and wide-ranging. These include "political" ideology (such as left wing versus moderates versus right wing; various species of "radicals"; liberal/progressive versus conservative/traditional; globalist versus nationalist). Think also of divergent "economic" principles (and "haves" versus "have-nots" as well as "capitalists" versus "socialists"), plus divisions according to age, sex/gender, region, urban/rural, racial/ethnic background, and religion.

Ferocious partisan politics (which partly reflect these cultural wars) likely will persist on media and legislative stages and elsewhere at least through the 2022 US national election cycle, and probably through the 2024 Presidential election period. Populist agitation from diverse directions will continue. So will passionate efforts by various elites (the establishment) to preserve or enhance their privileges (forms of entitlement).

American confidence in the nation's overall direction, even if it has improved some in recent months, probably remains fragile. As US citizen faith in the country's situation is not robust, so probably is that of many foreigners in regard to America. This situation can discourage dollar ownership and thus help to undermine the dollar.

THE US DOLLAR'S SLUMP SINCE SPRING 2020

"Well, I rolled and I tumbled, cried the whole night long
Well, I woke up this mornin', didn't know right from wrong". Muddy Waters, "Rollin' and Tumblin'"

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Cross rates such as the US dollar versus the Chinese renminbi fascinate politicians, the Wall Street community (especially its currency devotees), congregations of corporations, the financial media, and numerous Main Street parishioners. Broad real trade-weighted (effective exchange rate) indices such as those of the Federal Reserve Board and the Bank for International Settlements better indicate the level, strength (weakness), and trends of a country's currency.

The Federal Reserve (H.10) releases a real as well as a nominal "Broad Dollar Index" (including both goods and services). The US real "Broad Dollar Index" is a monthly average (January 2006=100; 6/1/21 latest release). The Fed's nominal Broad Dollar Index release provides daily data (6/1/21 latest release, 5/28/21 most recent data point).

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The real Broad Dollar Index started a major bull appreciation from July 2011's 83.9 bottom. The real Broad Dollar Index established an important interim high at 110.1 in December 2016. After its decline to 100.3 in February 2018, its bull move resumed. The real Broad Dollar Index ("BDI") travelled above the December 2016 high from February 2020's 107.9 to March 2020's 112.0, with April 2020's peak 113.7. Thus the real BDI bull charge of 35.5 percent lasted about 10 years. This substantial percentage distance bull move over a very long time span arguably is an omen that the US dollar bear trend which commenced in spring 2020 (and has run ten percent and slightly more than one year) probably will continue.

The coronavirus pandemic probably was not the only bearish variable assisting the vicious first quarter 2020 price drops in the S+P 500 and emerging marketplace stocks. The US dollar appreciation and its level by sometime in early 2020 became "too strong" for many emerging marketplace sovereign (and perhaps also emerging marketplace corporate) dollar-denominated debtors needing to repay their dollar obligations. Also, UST yields had increased during late 2019. The UST 10 year note yield climbed from 9/3/19's 1.43 percent to 11/17/19's 1.97pc (12/19/19's 1.95pc). History shows that significantly increasing United States interest rates have preceded a noteworthy pinnacle in key stock marketplace benchmarks such as the S+P 500.

The "very high" US dollar thus helped lead to (and encouraged by other variables such as rising UST yields, as well as by the coronavirus pandemic) the first quarter 2020 stock decline. Price erosion in emerging marketplace dollar-denominated debt intertwined with falls in emerging marketplace stocks, which thereby helped to induce (interrelated with) the crash in the S+P 500 (and other advanced nation) stocks and an array of marketplaces in which investors had ravenously searched for yield (adequate return).

A five percent decline in the real Broad Dollar Index from April 2020's 113.7 summit gives 108.0. A ten percent dive in the real BDI from April 2020's peak equals 102.3, an important support level. The real BDI tumbled 9.1 percent to 103.3 in January 2021. January 2021's real BDI depth at 103.3 also approached a critical support level, March 2009's 101.6 pinnacle, achieved during the 2007-09 worldwide economic disaster. Although January 2021's trough remains the low for the bear move, May 2021's real BDI level at 104.1 borders it. A 15 percent retreat equals 96.7, with a 20pc crash 91.0. Even if the real BDI no longer is "too strong", it probably still remains "high" (and thus vulnerable to further declines) since it has not fallen under 101.6 and stands far above July 2011's major bottom.

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Let's review the nominal Broad Dollar Index.

.	First Quarter 2020 Key High (date)	Subsequent Low Level (date)	Percentage Fall from 1Q20 High
Nominal Broad Dollar Index	126.5 (3/23/20)	111.1 (1/6/21); 111.0 (5/28/21)	Nominal Dollar Index depreciation 12.2pc

Note the timing of the nominal Broad Dollar Index's peak on 3/23/20 in relation to (alongside) the major price bottoms in the S+P 500 (3/23/20 at 2192), emerging marketplace stocks, lower-grade US corporate debt and dollar-denominated sovereign debt securities, and commodities in general.

Although ongoing Federal Reserve yield repression massive money printing alongside enormous US deficit spending probably aided the S+P 500's subsequent glorious bull ascent, the US Broad Dollar Index's depreciation since its 3/23/20 bottom probably helped that rally in American stocks (and related "search for yield" type assets. The S+P 500's high to date is 5/7/21's 4238.

Underline that 5/28/21's nominal Broad Dollar Index low slips slightly beneath that of January 2021, a bearish sign.

US DOLLAR CROSS RATES: TRENDS AND ENTANGLEMENTS

In the movie "Casablanca", Signor Ferrari asks the proprietor of Rick's Café Americain: "My dear Rick, when will you realize that in this world today isolationism is no longer a practical policy?" (Michael Curtiz, director)

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Most people around the globe avidly seek cash and other forms of money. The US dollar of course remains appealing and necessary from several perspectives. However, in the past year or so, many marketplace players apparently have preferred currencies other the dollar more. Otherwise, the real and nominal Broad Dollar Indices would not have depreciated significantly.

Several dollar cross rates significantly influence stock, debt, commodity, and other financial marketplaces and related marketplace and political rhetoric. Individual cross rates against the dollar have somewhat different stories. Various nations have different trade weights within the Fed's real BDI. 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 following table add up to 75.4 percent of the Broad Dollar Index (2/21/21 trade weights). From the cross rate perspective for these benchmark relationships, the dollar's decline over the past year is widespread. The S+P 500 bottom was 3/23/20 at 2192, neighboring many of these cross rate lows against the dollar.

.	Percentage Weight	2020 Low (date)	Subsequent High (date)	Percentage Rally Versus Dollar
Euro FX	20.1	1.064 (3/23/20)	1.235 (1/6/21); 1.227 (5/25/21)	16.1pc
British Pound	5.4	1.141 (3/20/20)	1.424 (2/24/21); 1.425 (6/1/21)	24.8

.	Percentage Weight	2020 Low (date)	Subsequent High (date)	Percentage Rally Versus Dollar
Chinese Renminbi	13.7	7.178 (5/27/20)	6.357 (5/31/21)	11.4
Canadian Dollar	13.3	1.467 (3/19/20)	1.201 (6/1/21)	18.1
Mexican Peso	13.7	25.79 (4/6/20)	19.55 (1/21/21); 19.72 (5/18/21)	24.2
Japanese Yen	6.4	112.2 (2/20/20); 111.7 (3/24/20)	102.6 (1/6/21)	8.6
Swiss Franc	2.8	.990 (3/23/20)	.876 (1/6/21)	11.5

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The Swiss Franc, though a modest percentage of the Broad Dollar Index ("BDI"), joins the group given its importance in the global currency trading universe.

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Particularly in an era of trade wars, competitive depreciation can limit declines for any given currency.

OTHER "MONEY"

"The best things in life are free
So give them to the birds and bees
I need money (that's what I want)". "Money (That's What I Want)" (Gordy and Bradford, lyrics)

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Everyone knows that assorted variables influence foreign exchange and "money" levels and trends. From some vantage points, money probably includes currency/cash-like or currency substitute/alternative vehicles (assets) such as gold and cryptocurrencies. However, to the extent confidence diminishes in currencies in general and America's dollar in particular (given its role in the global economy), price trends in gold and cryptocurrencies such as Bitcoin at times can indicate (confirm) weakness in the dollar (and perhaps also in the American economic and political system in general).

.	2020 Low (date)	Subsequent High (date)	Percentage Rally
Gold	1451 (3/16/20)	2063 (8/6/20)	42.1pc

The timing of the March 2020 lows in gold and Bitcoin resembles those in the US dollar cross rates for the seven currencies above. Gold, after its 8/6/20 plateau, and unlike the seven currencies above relative to the dollar, did not ascend to new highs. It fell 18.9 percent to 3/8/21's 1673. However, gold's subsequent climb remains consistent with the downward pressure on the real Broad Dollar Index since spring 2020. At around 1900 recently, it still surpasses March 2020’s low by 30.9 percent..

Bitcoin	3915 (3/13/20)	64870 (4/14/21)	1557.0pc

Marketplace wordplay ties Bitcoin and other cryptocurrencies into currency discussions. However, some gospels associate or compare cryptocurrencies with other assets classes, which can include stocks, interest rates, real estate, and commodities.

In any case, the explosive and astounding Bitcoin rally which began in March 2020 occurred at around the same time as the US dollar began to depreciate (and when the S+P 500 began its magnificent leap). After establishing an interim top at 1/8/21 at 41982, Bitcoin cratered 31.4 percent down to 28818 on 1/22/21. Bitcoin thereafter skyrocketed to 4/14/21’s celestial high, but crashed a murderous 53.7 percent to 30017 on 5/19/21.

Fortune-seekers and other soothsayers should be wary about generalizing between relationships between Bitcoin (and other cryptocurrencies) and other marketplaces such as the US dollar (and other currencies), the S+P 500 (and other stock benchmarks), interest rate battlefields, and commodities. However, Bitcoin at over 30000, though well below its April 2021 crest, probably to some extent still represents some lack of confidence in currencies in general, and therefore even in the US dollar. Some may watch to see if Bitcoin’s price decline since April 2021 “leads” to (is a warning sign for) a price decline in American stocks and other assets in the “search for yield/return” category such as corporate debt, US dollar-denominated emerging marketplace sovereign bonds, and commodities such as petroleum.

US INTEREST RATES, STOCKS, AND THE DOLLAR

In the film “Blood Simple” (Coen Brothers, director), private detective Visser declares: “The world is full o’ complainers. An’ the fact is, nothin’ comes with a guarantee. Now I don’t care if you’re the Pope of Rome, President of the United States, or Man of the Year; somethin’ can all go wrong.”

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“History on Stage: Marketplace Scenes” (8/9/17) concluded: “many times over the past century, significantly increasing United States interest rates have preceded a noteworthy peak in key stock marketplace benchmarks such as the Dow Jones Industrial Average and S+P 500. The yield climb sometimes has occurred over a rather extended time span, and the arithmetical (basis point) change has not always been large. Sometimes the yield advance has extended past the time of the stock pinnacle.” As “History on Stage” states, the precipitating arithmetical change has not always been big.

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).

The recent S+P 500 high is 4238 (5/7/21), a majestic 93.3 percent rally from 3/23/20’s 2192 major trough. History shows that stock valuation measures can remain “high” for some time, and even move upward further. The Federal Reserve's monetary policy remains accommodative; money printing and yield repression persist. US national deficit (economic stimulus) spending is massive and likely will remain so for quite some time.

Nevertheless, by various measures, US stock valuations are high relative to long run historical standards. FactSet ("Earnings Insight"; 5/21/21, next release 6/4/21), declares that the forward 12 month price/earnings ratio for the S+P 500 is 21.2. This exceeds the five year average of 18.0 and the 10 year average of 16.0. According to Refinitiv ("S+P 500 Earnings Scorecard"; 5/28/21), the S+P 500's forward four quarter price/earnings ratio is 22.0. Metaphorically speaking, how much of prospective corporate earnings increases are "built into/contained in" the current S+P 500 price?

Significant UST interest rate increases and notable US dollar deterioration (the real Broad Dollar Index decline since spring 2020's peak has been almost ten percent so far), if accompanied by widespread and growing concerns regarding American national indebtedness, disappointing prospects for a further American recovery and thus for US corporate earnings (especially for late calendar 2021 and 2022), and in the landscape of America's substantial political divisions, probably will unite to help to precipitate a notable US stock marketplace decline.

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Diverse subjective (cultural) perspectives identify, assess, and forecast bullish and bearish price trends and relationships over various time horizons. Marketplace history is not necessarily marketplace destiny, either entirely or even partly. Thus apparent marketplace convergence and divergence (lead/lag) relationships can persist for extended periods of time. They also can shift or transform, sometimes dramatically.

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All else equal, a depreciating United States dollar tends to boost the nominal price of dollar-denominated assets such as American stocks (and many key commodities). All else equal, an appreciating US dollar tends to reduce the nominal price of dollar-denominated assets such as American stocks. As in marketplace history there have been times of "weaker dollar promotes (equals) stronger US stock prices" so there can be a "strong dollar equals (occurs alongside) weak US stocks".

A depreciating dollar thus at times has helped to spark bull moves in the S+P 500. For example, recall the US dollar depreciation after March 2009's 101.6 peak. The S+P 500 established a major bottom on 3/6/09 at 667. The S+P 500 flew up to an interim top at 1220 on 4/26/10; it marched up to 5/2/11's major high at 1371 about a year later.

During the global economic disaster of 2007-09, recall that the real Broad Dollar Index bottomed in April 2008 at 86.8, close in time to the S+P 500's final top on 5/19/08 at 1440 (peak 10/11/07 at 1576). The real Broad Dollar Index rallied as the S+P 500 crashed. The S+P 500 reached bottom on 3/6/09 at 667; the real BDI's pinnacle was March 2009's 101.6. From around spring 2008 to March 2009, the dominant US dollar/stocks pattern was a "strong dollar, weak stocks" one.

However, this theoretical rule of thumb is not necessarily or always realized in marketplace practice (history). Numerous intertwined and changing variables in addition to US dollar levels (and dollar appreciation and depreciation) influence other marketplace levels and patterns, including convergence and divergence (lead/lag) ones.

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The real Broad Dollar Index (of course with the benefit of hindsight) arguably was “way too low (weak, feeble)” in July 2011 at 83.9. Did it “overshoot on the downside”?

Was the real BDI “far too high” (strong, powerful) with April 2020’s 113.7? Did the dollar remain “too strong for too long”?

In any case, the real Broad Dollar Index started a major bull appreciation from July 2011’s bottom at 83.9, peaking in April 2020 at 113.7. Of course within that period, the dollar did not go straight up. Let’s take an admittedly broad brush view of the S+P 500 over that nearly nine year span.

The S+P 500 established a key bottom on 10/4/11 at 1075 (a 21.6 percent bear move from 5/2/11’s 1371 plateau; a Fed quantitative easing round ceased in June 2011). The October 2011 S+P 500 low thus occurred not long after the July 2011 bottom in the real Broad Dollar Index. The S+P 500’s established a peak on 2/19/20 at 3394. That February 2020 stock marketplace summit thus occurred close in time to the spring 2020 pinnacles in the broad and nominal real Dollar Indices. So despite the complex and changing global economic and political universe over those roughly nine years, there was a “strong dollar equals strong stocks” relationship during that period. Thus the “weak US dollar equals (or leads to, confirms) strong US stocks” guideline does not necessarily or always occur in practice.

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Let’s further investigate the US dollar (real BDI)/US stocks relationship in the last stage of the July 2011 (83.9 bottom) to April 2020 (113.7) period. An intensified hunt for sufficient (good, reasonable, acceptable) yield (return) coincided with (partly resulted from) the promulgation of the Fed’s glorious accommodative patience doctrine (and the related cutting of the Federal Funds rate) around end December 2018/early 2019.

Recall the association (linkage) from around end December 2018/early 2019 between a relatively strong US dollar, the S+P 500 rally (S+P 500 bottom 12/26/18 at 2347), and other upwardly moving asset prices, particularly dollar-denominated ones. The real Broad Dollar Index made an interim low at 106.0 in January and February 2019, which stood above February 2018’s 100.3 valley (and significantly above July 2011’s major low). The real BDI’s January/February 2019 low remained the trough for calendar 2019.

The S+P 500 probably was the leader in this asset price climb. Thus there was a “strong US dollar, strong US stocks” relationship from around early 2019 up through around the middle of first quarter 2020. Also, highlight interrelated price jumps in other advanced nation equities, emerging marketplace stocks in general, lower-grade United States corporate debt, as well as emerging marketplace sovereign debt securities denominated in US dollars. Around Christmas 2018, the petroleum complex (generally dollar-denominated on the international scene) joined the constellation of bull moves in dollar-priced assets.

The epic yield (return)-seeking quest in various US dollar-denominated asset classes probably helped to maintain US dollar strength throughout calendar 2019 and into early 2020. Although the real Broad Dollar Index’s initial high was September 2019’s 108.6, it inched only slightly lower thereafter, to 106.5 in January 2020 (107.9 in February 2020). The S+P 500’s peak was 2/19/20 at 3394. American stock marketplace strength arguably encouraged faith that America and the dollar (and dollar-denominated assets) were good places to place one’s funds.

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From February 2020's minor low at 107.9, as the coronavirus spread, and the related worldwide economic downturn took place, the real Broad Dollar Index soared to 112.0 in March 2020 and April 2020's high at 113.7. The S+P 500 rapidly crashed 35.4 percent to 3/23/20's bottom at 2192. This "stronger dollar, weak stocks" relationship over these couple of months in part reflected a scramble for dollars (dollar debtors found dollars in relatively short supply for a while) as the global economy slumped and the corporate earnings outlook cratered. As the Fed made dollars more readily available, bids to acquire them became less frantic, thereby easing upward pressure on the dollar.

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From its 2/19/20 plateau at 3394, the S+P 500 plummeted 35.4 percent to 3/23/20's 2192. Thereafter (since around spring 2020), underline the ongoing and increasingly withering weakness in the real Broad Dollar Index alongside the remarkable major bull move in the S+P 500 (5/7/21 at 4238 is the record high to date). The "weak (weakening) US dollar equals strong (bullish) US stocks" guideline thus has prevailed since spring 2020. However, that relationship can change.

Keep in mind the real Broad Dollar Index pattern from July 2011's bottom at 83.9 to April 2020's 113.7 summit in the context of the S+P 500 back then. Since that "strong/appreciating US dollar equals (leads to; confirms) powerful/bullish US stocks" pattern can and did exist in practice, so can a major trend of "weak dollar equals weak US stocks".

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For America, picture an environment of notably increasing inflation, rising (or fears of higher) United States Treasury (and other key) interest rate yields (even if the Fed battles to maintain its yield repression strategy), and severe US federal (and global) debt problems. Suppose sustained substantial worries regarding global economic strength and recovery reappeared. How will stock marketplaces react to significant increases in US corporate, high-income individual, and capital gain taxes? What if optimism regarding future US corporate earnings begins to fade? Suppose domestic and international confidence in America (not only in its political system/situation) deteriorates. In such a world, with valuations of American stocks in general (S+P 500) apparently high from the historical perspective according to various measures, a move by the real Broad Dollar Index beneath March 2009's international economic disaster high might help to precipitate a "weak US dollar equals weak US stocks" scenario.

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For detailed further discussion of stock, interest rate, currency, and commodity marketplaces and the political scene, see "American Inflation and Interest Rates: Painting Pictures" (5/4/21); "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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