AMERICA DIVIDED AND DOLLAR DEPRECIATION

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Pogo, created by the cartoonist Walt Kelly, is a possum living in Georgia's Okefenokee Swamp. About 50 years ago, Pogo proclaimed: "We have met the enemy and he is us."

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OVERVIEW AND CONCLUSION

For many decades, the United States dollar has led the foreign exchange field as the key currency for global trade as well as financial reserves. Over that time span, 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) critical 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 crucial role in the increasingly intertwined global economic system has seldom been significantly questioned or challenged for over an extended period of time.

Using the Federal Reserve's real "Broad Dollar Index" (which is a monthly average) as a signpost, the US dollar "in general", for almost ten years, from its major bottom in July 2011 until April 2020, the overall trend of the dollar in general was bullish. The US dollar "in general" depreciated until "around" January 2021. It rallied for several months thereafter, with August 2021 being the high since then. From a long run historical perspective, August 2021's real Broad Dollar Index level is rather strong.

However, when interpreted alongside phenomena such as America's government debt level and trend, ascending United States inflation, and the nation's ongoing cultural divisions and the recent increase in net dissatisfaction among the US public regarding the country's direction, a review of various important currency cross rate trends against the dollar suggest that "overall" weakness in the US dollar has resumed (beginning around late August 2021) or will do so in the near future.

Take a related vantage point. Given the Federal Reserve's determined effort to repress (pin at a very low level) the Federal Funds rate and US Treasury yields despite numerous inflationary signs, a probable outcome (consequence; outlet) for that central bank scheme in the context of these assorted variables is a depreciating dollar.

In this context, if the real Broad Dollar Index ("BDI") moved toward or underneath its March 2009 international economic disaster peak at 101.5, that probably will help to precipitate a "weak United States dollar equals weak US stocks" scenario.

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An underlying factor promoting a dollar tumble is the gradually declining share of America as a percentage of worldwide GDP. Also, both political parties, not just the current US Administration, and especially in the coronavirus era, likely want the real Broad Dollar Index to stay beneath its April 2020 summit at 113.6. They also probably prefer a renewed fall in the BDI from August 2021's 107.3 elevation. The great majority of the country's politicians preach their allegiance to a strong dollar, but they also endorse economic growth.

Several additional phenomena make the dollar particularly vulnerable nowadays. First, although many major nations have increased their government debt burdens in recent years, America's public debt situation has worsened significantly more than most others since 2019. Moreover, America already faced widening federal budget deficits encouraged by the tax "reform" enacted at end 2017. Plus don't overlook the ongoing ominous long run debt burden, looming from factors such as an aging population. How easily will America service its debt situation? In addition, the current Administration's infrastructure proposals, if a significant proportion of them become law, probably will boost America's debt as a percentage of GDP. Will there be a political fight over raising the nation's debt ceiling? And America's corporate and individual indebtedness also is substantial.

Second, using the Consumer Price Index (CPI-U, all items) as a benchmark, American "inflation" in recent months has exceeded that of other leading nations. The Fed continues to maintain a highly accommodative monetary policy. This beloved guardian has merely murmured about tapering its massive quantitative easing (money printing) scheme, and it remains reluctant to raise policy rates significantly anytime soon. Due to the Fed's yield repression, nowadays US Treasury yields across the yield curve relative to the current US CPI level offer a negative real return. This negative return situation of course (all else equal) tends to make UST ownership rather unattractive for many marketplace participants.

Whether because of ascending US interest rates, a descending dollar or both, suppose foreigners become smaller buyers, or even net sellers, of US Treasury securities. Such overseas action would not be an endorsement of America.

Another bearish indicator for the US dollar exists: the intensity and breadth of America's cultural divisions has increased in recent times. Though the Trump era reflected and enhanced these splits, they remain very significant across various fields. America's ongoing substantial cultural battles in economic, political, and social arenas reflect reduced national unity and tend to undermine domestic confidence. American confidence in the nation's overall direction has slumped in recent months. As US citizen faith in the country's situation declines, so probably likewise will (or has) that of foreigners in regard to America. To some extent, faith in America and its institutions is reflected by a willingness to own substantial amounts of dollar-denominated assets.

An additional feature can intertwine with these variables to undermine the dollar, especially over the long run. In recent years, the strong international belief in the reliability (and leading role) of America as a trading and military partner probably has eroded somewhat. Some of this may reflect the declining US share of worldwide GDP. Former President Trump's often erratic behavior, bold wordplay, and frequent disregard for the truth assisted this fall in confidence process. Also, ongoing America First (Make America Great Again) movements and an apparently diminished American enthusiasm for multilateralism and globalization probably reduce confidence in other players that America will be "as committed" a partner. For example, trade conflicts, even if they now are less strident than during the Trump presidency, have not evaporated. The dismal American withdrawal process from Afghanistan troubles many overseas observers. In addition, the persistence of America's fervent and substantial cultural divides to some extent risk injuring foreign faith in the reliability and effectiveness of America on the international scene.

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Declining faith in American assets (and its cultural institutions and its economic and political leadership) can inspire shifts away from such assets. American marketplaces will not be completely avoided given their importance, but players can diversify away from them to some extent. 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.

Suppose nations and corporations increasingly elect, whether for commercial or political reasons, to avoid using the dollar as the currency via which they transact business. That will injure the dollar.

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Even if US government debt yields slump from around current low levels due to a renewed "flight to quality", and even if the Federal Reserve and its central banking teammates maintain their quantitative easing and yield repression schemes, inflationary forces (encouraged by money printing; see the huge increase in America's money supply) and heated demand for credit eventually can push government (and corporate) interest rates upward.

DOLLAR: KEEPING IT REAL

Cross rates such as the US dollar versus the Chinese renminbi fascinate politicians, the Wall Street community (especially its currency wizards), congregations of corporations, the financial media, and some Main Street pilgrims. However, 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.

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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 US real "Broad Dollar Index" is a monthly average (January 2006=100; 9/1/21 latest release). The Fed's nominal Broad Dollar Index release provides daily data (8/30/21 latest release, 8/27/21 most recent data point).

The real Broad Dollar Index ("BDI") started a major bull appreciation from July 2011's bottom at 83.9.The real BDI peaked in April 2020 at 113.6. Perhaps the US dollar 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.

The real BDI fell to 103.4 in January 2021 (compare March 2009's pinnacle at 101.5). The high since then is August 2021's 107.3, a modest rally of 3.8 percent.

.	**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) 110.8 (6/7/21)	Nominal Dollar Index depreciation 12.4pc

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. Since 6/7/21's trough, the high is 114.8 on 8/20/21, a 3.6 percent advance.

RECENT US DOLLAR CROSS RATES

Several dollar cross rates nevertheless influence stock, debt, commodity, and other financial marketplaces and related rhetoric 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.

The seven currencies in the table below add up to 75.4 percent of the Broad Dollar Index (H.10; as of 2/1/21). The Euro FX has a 20.1 percent weight, the British Pound 5.4pc. The Chinese Renminbi captures a 13.7 percent share; the Canadian Dollar (13.3pc) and Mexican Peso (13.7pc) BDI weights are similar. The Japanese Yen's portion is about 6.4pc, with that of the Swiss Franc 2.8pc.

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The S+P 500 attained a major bottom on 3/23/20 at 2192, alongside many cross rate lows against the US dollar.

From an overall perspective for the assorted benchmark dollar cross rate relationships, the US dollar's depreciation since "around" late first quarter 2020 was widespread and lasted roughly one year (until about early January 2021/early June 2021, depending on the cross rate). For example, note the highs for the Euro FX against the US dollar on 1/6/21 and 5/25/21. The dollar, after around early June 2021, rallied a bit for a while on a cross rate basis.

However, since about mid-summer 2021, the dollar has started to depreciate again. For example, see the Euro FX's low at 1.166 on 8/20/21. Highlight the coincidence of the mid-August 2021 lows in the Euro FX and other currencies. Keep in mind the 8/20/21 high at 114.8 in the nominal Broad Dollar Index.

.	Around 1Q20 Low (date)	Following High (date)	Percent Rally Versus Dollar	Recent Low Against Dollar
Euro FX	1.064 (3/23/20)	1.235 (1/6/21); 1.227 (5/25/21)	16.1pc	1.170 (3/31/21); 1.166 (8/20/21)
British Pound	1.141 (3/20/20)	1.424 (2/24/21); 1.425 (6/1/21)	24.9	1.357 (7/20/21); 1.360 (8/20/21)
Chinese Renminbi	7.177 (5/27/20)	6.357 (5/31/21)	11.4	6.511 (7/27/21); 6.504 (8/20/21)
Canadian Dollar	1.467 (3/19/20)	1.201 (6/1/21)	18.1	1.295 (8/20/21)
Mexican Peso	25.78 (4/6/20)	19.55 (1/21/21); 19.60 (6/9/21)	24.2	21.64 (3/8/21); 20.75 (6/18/21); 20.46 (8/20/21)
Japanese Yen	112.2 (2/20/20); 111.7 (3/24/20)	102.6 (1/6/21)	8.6	111.0 (3/31/21); 111.7 (7/2/21); 110.8 (8/11/21)

.	Around 1Q20 Low (date)	Following High (date)	Percent Rally Versus Dollar	Recent Low Against Dollar
Swiss Franc	.990 (3/23/20)	.876 (1/6/21)	11.5pc	.947 (4/1/21); .927 (7/2/21); .924 (8/11/21)

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Everyone knows that assorted variables influence "money" ("currency-like" or currency substitute) yardsticks 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). In any case, the price directional and timing pattern of moves in gold and Bitcoin to some extent resembles those in the seven currencies above against the dollar.

Gold	1452 (3/6/20)	2063 (8/6/20); 1960 (1/6/21); 1916 (6/1/21)	42.1pc rally	1674 (3/8/21); 1693 (8/9/21)

Gold's pinnacle in August 2020 preceded the cross rate highs attained by various currencies against the US dollar by several months. However, note the similar timing of gold's interim tops in January 2021 and/or early June 2021 with the highs in the Euro FX and other currencies versus the dollar. If gold continues to rally, monitor its lofty summit of a decade ago, 9/6/11's 1912.

Bitcoin	3926 (3/13/20)	64897 (4/14/21)	16.5 times 3/13/20's low	28800 6/22/21); 29301 (7/20/21)

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History reveals that nations around the globe seeking sufficient or increasing GDP growth often have enlisted economic weapons relating to trade, including depreciation of their home currency. Competitive depreciation (currency wars) thus can influence the US dollar level as well as the extent of its advances and declines.

US GOVERNMENT DEBT AND AMERICAN INFLATION IN GLOBAL CONTEXT

America's government debt load had been increasing significantly since the 2007-09 global financial crisis. And budget deficits and debt relative to GDP percentages had climbed following the national tax "reform" legislation enacted at end 2017. The nation's exciting tax reform law enacted at end 2017, championed primarily by President Trump and Republican legislators (and corporations and affluent individuals), substantially expanded the federal budget deficit. Under current law, these hefty deficits and the increasingly bloated overall national debt will persist. And the long run US deficit problem was substantial even before the tax reform law. Various spending (entitlement) schemes adored by many Democrats, even if tax "reform" is cut back (and capital gains increased or other revenue-raising schemes devised), have a substantial likelihood of continuing rather than curing the existing entrenched deficit problem and trend.

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America of course was not the only noteworthy nation with substantial government (and other) debt on the eve of the coronavirus disaster which emerged in early 2020.

However, since end 2019, America's general government debt situation has deteriorated relative to the world as a whole and the "advanced economies" category in general. That pattern, all else equal, probably will weaken the US dollar.

According to the International Monetary Fund's scoreboard, the world's general government gross debt (which includes not only national debt, but also regional/local obligations) as a percentage of GDP ballooned from 83.7 percent in 2019 (and recall the much lower levels prior to the 2007-09 global economic disaster) to 98.7 percent in 2020, with 2021's height forecast at 98.8pc. For advanced economies, 2019's gross debt of 103.7 percent of GDP spiked to 122.8pc in 2020; the IMF predicts 2021's will remain near that, at 122.5pc. See the IMF's recent "World Economic Outlook Update" (7/27/21; Box Table 2.1). For the US alone, as federal stimulus spending ballooned, general government gross debt leaped from 108.2 percent of GDP in 2019 to 133.6pc in 2020, with 2021's forecast at 134.5 pc, up sharply from 2019's elevation.

Thus from 2019 through 2021, global general government debt as a percent of GDP rose 15.1 percentage points, and those of advanced nations in general increased 18.8 points. For the Euro Area, from 2019 through 2021, debt grows 16.1 percent (84.0pc in 2019 to 100.1pc in 2021). China's government debt level in 2019 relative to GDP stood at 57.1pc, and it expands 13.2pc to 70.3pc in 2021. Compare America's much greater 26.3 percent spike over the 2019-2021 span.

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Many experts believe a sustained public debt level in excess of one hundred percent of GDP is dangerous to economic growth and financial stability. Perhaps America will be an exception to the rule, given the wealth owned by its citizens (as a whole) and domestic corporations. But maybe not. Some pundits nowadays also promote the wonders of national money printing capacity (see increasingly popular Modern Monetary Theory wordplay) and an ability to manage debts. Others not worried about risks from the substantial US general government debt emphasize that Japan's level has exceeded 200 percent for quite some time, with 2019's at 235.5 percent and 2020's at 254.6pc, with 2021's forecast at 256.5pc. But whereas most of Japan's government debt is owned by Japanese, foreigners own a substantial share of America's US Treasury securities.

The colossal deficit spending (stimulus) legislation totaled several trillion dollars enacted by the United States in calendar 2020 and 2021 in response to the coronavirus disaster stands out but is not alone. And further new US federal government spending (via infrastructure spending) may occur soon. For America in particular, given its critical role in the intertwined global economy, keep in mind its lofty governmental debt levels as a percentage of GDP and the probability of ongoing substantial budget deficits.

Moreover, many nations confront significant corporate debt challenges. Don't overlook household debt. America's household debt is very substantial in arithmetic terms.

The New York Fed's "Quarterly Report on Household Debt and Credit" (8/3/21) broadcast that 2Q21's total debt of $14.96 trillion was a new record and about $691 billion above 2Q20's. American household debt substantially exceeds (by 18.0 percent) the $12.68tr Goldilocks Era pinnacle (2Q08). Admittedly, US household net worth has increased substantially in recent years. However, an economic downturn (or even a slowdown) probably will challenge many consumers. Probably Wall Street and many "haves" ("big money") have benefited far more from the recent explosive rally in the S+P 500 than Main Street in general (both its individuals and small businesses).

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America's federal deficit spending has lifted the national debt to arguably hazardous levels. In recent times, think not only of the enormous coronavirus stimulus (rescue measures). Recall the tax "reform" legislation enacted in December 2017. Underlying long run financing difficulties facing the country (picture obligations to an aging population) preceded these monumental budget deficits.

Combine the headline numbers for America's various rescue (stimulus) spending schemes enacted during the coronavirus pandemic era. March 2020's CARES legislation totaled about $2.2 trillion). The end December 2020 program equaled $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 22.0 percent of America's calendar 2021 nominal GDP (2Q21 annualized) of about $22.7 trillion (GDP from the Bureau of Economic Analysis, Table 3; 8/6/21).

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 102.7 percent by end 2021 (compare around 79 percent at end 2019). Though federal debt as a percent of GDP dips slightly in subsequent years (2024 is about 99.1pc of GDP), it then expands. By 2031, debt as a percent of GDP grows to 106.4 percent of GDP, the highest in US history. See "An Update to the Budget and Economic Outlooks 2021 to 2031" (7/1/21, and note Table 1; see also the CBO's 7/21/21 "Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031", Table 1-1). The previous peak, in 1946, followed sizable World War II deficits. The CBO warns in "The 2021 Long-Term Budget Outlook" (Table 1; 3/4/21) that by 2051 federal debt as a percent of GDP will reach a celestial 202 percent.

The CBO declares the federal budget deficit for fiscal year 2021 as $3.0 trillion, equal to 13.4 percent of GDP (2020's was $3.1 trillion, or 14.9pc of GDP). Under current law they average $1.2 trillion per year from 2022 to 2031. The deficits average 4.2 percent of GDP through 2031, "well above their 50-year average of 3.3 percent." According to the Congressional Budget Office, debt held by the public at end fiscal year 2020 was about $21.0 trillion, with that for fiscal 2021 predicted at $23.0tr and 2022 at $24.4tr (Table 1-1; 7/21/21).

The CBO's current baseline budget projections do not incorporate the cost of not yet legislated government infrastructure projects suggested by the Biden Administration. These include traditional infrastructure (such as bridges; an estimated $1.0 to $1.2 trillion) as well as so-called "human infrastructure" (another $3.5 trillion). Whether one of more of these schemes will become law is unclear, as are possible compromises in the law-making process. Nevertheless, the potential range likely is between $1.0 trillion and $4.7 trillion. Some progressive Democrats with ambitious spending ideas have mentioned even higher numbers for the human infrastructure program. In any case, these ambitious infrastructure projects (even with some taxation boosts) in practice probably will rely in part on net new borrowing, and perhaps on continuing Fed money printing.

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Enormous sustained money printing (quantitative easing), particularly since the advent of the coronavirus pandemic, by the Federal Reserve and its central banking friends underpins some of the momentum for interest rate yield ascents in the United States and elsewhere. Note the increase in American (and global) inflation measures (as in the Consumer Price Index), as well as in other asset territories (not merely in the S+P 500, but also homes; note also rising rents).

Let's examine the consumer price arena. For example, the OECD's July 2021 CPI (all items, Table 1; 9/2/21) for the G20 rose 4.6 percent year-on-year (compare 2.0pc in December 2020 and 3.1pc in March 2021). For the total OECD, consumer prices increased 4.2 percent versus July 2020. The OECD states China's consumer prices edged up only one percent in July 2021 relative to the prior year period.

America's CPI-U (all items; and as noted in the OECD table) increased 5.4 percent in both June and July 2021 (1.4pc in December 2020; Bureau of Labor Statistics, 8/11/21). Thus America's CPI inflation recently has significantly exceeded the OECD G20 (and overall OECD) estimates.

Of course there are numerous inflation yardsticks and entangled variables influencing "inflation" within countries and around the globe. Yet all else equal, and especially given ongoing interest rate yield repression by the Federal Reserve (and negative real return across the US Treasury yield curve; the UST 10 year yield is about 1.35 percent), this difference in consumer price inflation between the US and other key nations probably is bearish for the US dollar.

The Fed of course hopes that American inflation is not accelerating as much as the CPI suggests. According to the Federal Reserve Bank of New York's "Underlying Inflation Gauge" (8/11/21), "trend CPI inflation is estimated to be in the 3.7% to 3.8% range" for July 2021.

Inflation expectations indicators in America gradually have risen since late March 2020. The St. Louis Fed's five-year, five-year forward inflation expectation rate bottomed at .86 percent on 3/19/20 alongside the S+P 500's major bottom at 2192 on 3/23/20. It made an interim trough at 1.71 percent on 9/24/20; the S+P 500 established a key interim low at 3209 that day. The five-year, five-year forward rate bounced up to 2.38 percent on 5/11/21 and is 2.20pc as of 9/3/21. At some point many stock marketplace participants may deem a rising and fairly high inflation expectations level as being bearish for American stock trends.

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Of course the Federal Reserve graciously may keep up its money printing (quantitative easing) festival and acquire more mountains of UST (and other debt) securities. But the Fed is not the only key player in the US Treasury marketplace.

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 scampering to do so. Scan major foreign holders of UST trends (8/16/21; June 2021 statistics are the most recent ones). Foreigners as of June 2021 own about $7.20 trillion in UST (Japan $1.28tr, Mainland China $1.06tr). June 2021 exceeds the year ago period of June 2020 by a modest sum, $150 billion.

In nominal terms, UST have a positive yield, whereas much high-quality government debt elsewhere (as in Germany) has a nominal negative yield. Nevertheless, the real rate of return on US Treasury securities relative to inflation is negative, which thus makes holding UST unappealing. If the dollar declines, this displeases foreign holders of UST, and especially when nominal interest rates are lower and the real return negative. If foreigners start to become substantial net liquidators of their UST positions, this will help to push the dollar lower.

US INTEREST RATE HISTORY

"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." But 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 (use the UST 10 year note as a benchmark) which started with 3/9/20's .31 percent bottom (.50pc on 8/6/20) probably will continue. Its high to date since March 2020's low is 1.77pc (3/30/21). The UST 10 year yield has climbed from its interim lows this summer around 1.13pc on 7/20/21 and 8/4/21. Its current height around 1.35 percent hovers around the major troughs in yield of 1.32 percent on 7/6/16 and 1.38pc on 7/25/12.

The Federal Reserve Board and its central banking allies have been very determined to maintain yield repression and quantitative easing (including UST buying) programs. Yet gargantuan credit demand (particularly when existing US government debt already is towering) probably assists eventual further yield climbs in policy rates as well as sovereign and corporate debt securities, not only in America, but also in other advanced and emerging marketplace realms. So does sustained rises in inflation in yardsticks such as the Consumer Price Index. All else equal, massive money printing (quantitative easing) probably eventually has inflationary consequences. US unemployment arguably is probably fairly close to what central bankers, politicians, and the general public view as reasonable (see the pre-coronavirus era).

US STOCKS: CULTURE, CORPORATE EARNINGS, AND THE DOLLAR

Sustained low US Treasury interest rates in America (and negative yields in many other jurisdictions) create an especially alluring environment to spark and justify inclinations by "investors" (and others) to buy and hold American stocks. In numerous countries, real interest rates are negative. Many ask, when government interest rates are paltry (and in many government domains around the globe, even negative) and a notable need for sufficient (adequate; reasonable) yield (return) exists, "Where do I put my money?" Suppose also that the "free supply" of equities is relatively low. Note also share buyback programs and an active mergers and acquisitions environment. Plus many believe "there's a lot of cash around looking for a home." And "don't miss the train" by staying out of the market (sidelined). Since the coronavirus pandemic emerged, many Main Street residents eagerly have plunged into the US stock playground, especially from the buy side. The venerable rhetoric regarding the reasonableness of buying and holding United States stocks for the "long run" and the related culture of equity bullishness has not disappeared. A bullish American stock playground situation thus can continue for quite some time.

Easy money programs from central banking and related political action in the early stages of the coronavirus pandemic probably renewed willingness to buy the S+P 500 on dips and to doubt the potential for notable "corrections" (declines around ten percent), near-bear moves (declines approaching twenty percent), and (especially for) bear moves (slumps of twenty percent or more). Since 3/23/20's 2192 bottom, the declines have been relatively minor and short-lived. The greatest to date is September 2020's 10.6 percent correction, from 9/2/20's 3588 to 9/24/20's 3209.

In the post-financial crisis era of 2007-09, the Fed generally has aimed to support (and often to rally) American stocks and real estate prices. This watchdog traditionally becomes less inclined to rescue the S+P 500 when it attains "high" prices (especially new record highs) or apparently "overvalued" levels. Yet during the explosive rally since March 2020, it has manifested little inclination to subdue the stock rally. In any case, at or around current (or higher) S+P 500 elevations, the Fed probably will not seek to save stocks from a moderate decline (around 10 percent from a top). But if significant declines in American stocks develop, won't the trusty Fed and its comrades (especially if the falls approach or exceed 20 percent) rush in and save the day via accommodative rescue schemes?

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FactSet heralds S&P 500 corporate earnings for calendar year 2021 fly up 42.6percent year-on-year ("Earnings Insight", 9/3/21), with calendar 2022's marching up 9.3pc versus 2021. The forward 12 month price/earnings ratio is 21.3, well above the 18.2 five year average and the 16.3 ten year average. History of course demonstrates that stock valuation measures can remain "high" for some time, and even move upward further.

According to Refinitiv ("S&P 500 Earnings Scorecard", 9/3/21), analysts estimate calendar 2021 earnings blast up 45.9 percent versus 2020's. Refinitiv projects calendar 2022's will increase about 9.0pc year-on-year. The estimated four quarter forward price/earnings ratio is 21.9.

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But consider what may dim present-day corporate earnings optimism. Will coronavirus troubles help to cause this? What about a Fed tightening? Or, suppose the American Congress reverses some or all of the tax "reform" legislation (which boosted earnings substantially). Imagine if the US boosted taxes on high individual incomes and capital gains. What if America raised revenues via a wealth tax of some sort, or increased estate taxes?

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Numerous intertwined and changing variables influence marketplace levels and trends, including convergence and divergence (lead/lag) ones. And of course ongoing convergence and divergence patterns (relationships) can shift or transform, sometimes substantially.

United States dollar levels and trends in relation to those of US stocks, US debt securities, and other marketplaces are complex and sometimes change dramatically. All else equal, a weaker dollar tends to boost the nominal price of dollar-denominated assets, including American stocks. Nevertheless, this theoretical rule of thumb relationship is not necessarily or always realized in marketplace practice (history). Phenomena in addition to dollar depreciation influence US securities trends. Keep in view the considerations discussed above undermining the dollar, and thereby the desire to hold dollar-denominated instruments.

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So suppose renewed US dollar deterioration appears (a decline approaching ten percent from its April 2020 peak). Suppose that dollar depreciation intertwines with widespread concerns regarding US inflation (probably accompanied by fears of eventually rising interest rates, or at least a noteworthy tapering of massive debt securities buying), worries about government (and other) indebtedness, disappointing prospects for a continued strong American recovery and thus for US corporate earnings (especially for 4Q21 and calendar 2022), and substantial American political divisions. These variables may interrelate to help precipitate a notable decline in the S+P 500 and related equity playgrounds.

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Also review additional US dollar history in the context of the S+P 500 over the past decade. First, the real Broad Dollar Index ("BDI") started a major bull appreciation from July 2011's bottom at 83.9. The BDI rally preceded but roughly coincided with a crucial bottom in the S+P 500, 10/4/11's 1075. Thus over a rather long run of around ten years (since July 2011), there has tended to be a "strong US dollar equals strong S+P 500" relationship. Of course other considerations mattered; also, that dollar/stocks relationship was (and is) not "perfect".

Despite the real BDI's net decline since April 2020's 113.6, the dollar probably remains "strong", perhaps "too strong". At 107.3 in August 2021, it remains significantly above March 2009's global financial crisis peak of 101.5.

Given this durable "strong dollar, strong American stocks" relationship, and since the US dollar weakened since around April 2020, we should ask what consequences a notably weaker US dollar eventually will have for the S+P 500. As a guideline, a reversal of the past linkage (which began around July 2011) linkage warns that at some point a sufficiently weak (depreciating) US dollar will link ("lead") to declines in US equities ("feeble dollar equals weak US stocks" would be the guideline aphorism). A race to get away from the dollar (dollar depreciation) can connect with (confirm) a widespread effort to escape from American stocks.

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A five percent fall in the real BDI from its April 2020 pinnacle equals 108.0 (the rally from January 2021 has retraced up to August 2021's 107.3). A ten percent drop gives 102.3, close to January 2021's 103.4, and neighboring the critical level of 101.5 (the major high achieved in March 2009, during the global economic disaster).

A five percent fall in the "overall" dollar level from April 2020's high may make little difference for United States stocks and debt securities. However, a renewed and sustained decline from around 108.0 in the BDI is a bearish omen for them, and especially in an environment of rising American inflation and increasing public debt dangers.

A sustained dollar tumble approaching ten percent (and especially a fall exceeding ten percent and beneath March 2009's 101.5 signpost) probably will help to push the S+P 500 and related stock prices quite a bit lower.

Many equate strong (high; rising) United States stocks over the long run as a signal or proof of the triumphant progress of the American Dream's economic, political, and social principles. Therefore a linked and sustained decline in both the US dollar and American stocks probably will reduce the overall persuasiveness of the American Dream in general.

AMERICAN CONSUMER CONFIDENCE

Consumers represent about 68.3 percent of United States GDP (as of 1Q21; Federal Reserve Board: Z.1, "Financial Accounts of the United States", Table F.2; 6/10/21). Consumers obviously spend money on a diversity of goods and services for all sorts of reasons. But roughly speaking, and all else equal, they tend to spend less when there is an economic downturn or substantial fears of one. And thus widespread worries about the American economy tend not only to slow or slash consumer spending rates, but also thereby (all else equal) to reduce American corporate earnings (profitability). This in turn can help to weaken overall US stock marketplace prices.

Sharp falls in United States consumer confidence at times have coincided with economic slowdowns (recessions) as well as with notable declines in American stock barometers such as the S+P 500. For example, the US Consumer Confidence Index (Conference Board; 1985=100; "CCI") peaked in January (and May) 2000 at 144.7 (S+P 500 peak on 3/24/00 at 1553; Dow Jones Industrial Average high 1/18/00 at 11,910). The CCI bottomed at 61.4 in March 2003, alongside the final low in the S+P 500, 3/12/03's 789. In the Goldilocks Era, consumer confidence crested with July 2007's 111.9. The S+P 500's initial top was 7/16/07's 1556, with its zenith 10/11/07's 1576. The confidence indicator crashed alongside stocks, reaching a basement-level 25.3 in February 2009; the S+P 500 major bottom was 3/6/09's 667.

Explore the CCI's movements during the Trump Era. It was 100.8 in October 2016, shortly before the election. It rose sharply to 109.4 in November 2016 and 113.3 in December 2016. This indicator stayed relatively strong thereafter. Its high since then is October 2018's 137.9 (almost three years ago); this occurred near in time to the 9/21/18 (2941)/10/3/18 (2940) interim high in the S+P 500. The CCI was a still-lofty 132.6 in February 2020, around the time of the S+P 500's glorious 2/19/20 pinnacle at 3394. However, the CCI tumbled to 118.8 in March 2020, crashing to 85.7 in April 2020 (85.9 May 2020). The S+P 500 fell more or less alongside the CCI, making its bottom on 3/23/20 at 2192.

The CCI's high since its April 2020 bottom is June 2021's 128.9. August 2021 retreated to 113.8; compare the July 2007 Goldilocks Era high at 111.9. A sharp and sustained decline beneath July 2007's crest would be a bearish indicator for the US economy. CCI dives close to or beneath the 85.7 April 2020 valley will be a very bearish danger signal for the S+P 500.

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Suppose there is a further downturn in US consumer confidence. The Conference Board's Consumer Confidence Index is generally labeled as an "economic" indicator. Economic confidence nevertheless interacts with political and other cultural phenomena to some extent, and sometimes more with them at some times than others.

AMERICA DIVIDED: CULTURE WARS

Before Abraham Lincoln became President and the outbreak of the American Civil War, he stressed regarding the slavery issue: "A house divided against itself cannot stand." (Speech, "A House Divided"; Springfield, Illinois, June 16, 1858). He added: "I do not expect the house to fall—but I do expect it will cease to be divided." Lincoln's "house divided" metaphor traces back to the Bible. Jesus warned (Matthew 12:25; see also Mark 3:24-25): "Every kingdom divided against itself is brought to desolation; and every city or house divided against itself shall not stand."

Patrick Henry, one of America's political "Founding Fathers", is remembered for orations such as his 1775 one: "Give me liberty or give me death!" In a March 1799 speech, in regard to the Virginia and Kentucky Resolutions, he declared: "United we stand, divided we fall. Let us not split into factions which must destroy the union upon which our existence hangs."

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Many other nations around the globe in recent times of course have endured significant cultural divisions and conflicts. The economic, political, and social dimensions and visions of American Dream culture (rhetoric) and their application are not unchanging. America always has had some cultural divides and fights, despite widespread faith in the American Dream.

But America's cultural battles seem particularly wide-ranging and intense nowadays. Not only does the United States have significant internal cultural divisions across various parameters. 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"). Focus on the rhetoric and fights relating to America's substantial economic inequality. Underscore the divisions according to age, sex/gender, region, urban/rural, racial/ethnic background, and religion. Look at intense battles relating to immigration, abortion, law and order ("justice"), climate change, and coronavirus vaccination (and masking). Faith in (respect for) many important institutions and "leaders in general" has tended to decline. The discourse between opponents is often uncivil, and frequently hostile. Thus arguably a divided America confronts a cultural crisis.

Contrast much of current Republican (and former President Trump's) doctrine with that of Democrats in general. The rhetoric and methods of former President Trump and many of his allies likely has assisted the virulence of so-called culture wars.

The ferocious partisan politics (which partly reflect these cultural divisions) persisted on media and national legislative stages and elsewhere prior to, up through, and following America's 2020 national election, and probably will continue to do for many months from now. Populist agitation from diverse directions will persist. So will fervent efforts by various elites (the establishment) to preserve or enhance their privileges (forms of entitlement). The US midterm 2022 and 2024 presidential election campaigns beckon. Great numbers of cultural players currently are unwilling to sacrifice their ideals and compromise much with their antagonists. Don't forget the January 2021 insurrection at the Capitol, as well as the continued inaccurate belief embraced by a significant minority of Americans that somehow former President Trump had the 2020 Presidential election stolen from him.

Though these cultural issues are extremely complex, long-running globalization trends and growing acceptance by many Americans of "cultural diversity" probably have eroded allegiance to the American Dream to some extent (or at least encouraged some alternative formulations of it) and also encouraged the strength of several of these divisions. In this respect, so has the declining faith in deep-seated and widely-shared (traditional) community institutions and values, which has occurred alongside growing devotion in practice to (emphasis on) the rights of the individual (and the rights of groups smaller than the "country as a whole") relative to the rights of "the national community as a whole".

Increasingly sharp and ongoing conflicts between cultural alternatives, all else equal, probably tend to decrease US consumer confidence and increase worries about the state of and direction of the country, especially when widespread concerns about economic growth and stability develop. Cultural conflicts are one factor, in conjunction with other variables, which can help to undermine the dollar and United States stocks.

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RealClearPolitics ("RCP") surveys American views regarding the direction of their country. The data, which extends back to 2010, always has shown a net negative number, and thus as being always on the wrong track. Consequently viewers should analyze and monitor patterns. For example, around net -55 is a very high total.

Note the recent widening of the differential, in which more and more people see the country as being on the wrong track. For the period 8/12/21 to 9/2/21, 30.1 percent viewed the country as moving in the right direction, 60.6pc in the wrong direction. Thus the current differential is -30.5 percent net moving in the wrong direction.

Compare the net low of -13.8 percent in the "Direction of Country" index on 2/18/20. Recall that the Consumer Confidence Index was at a still-strong 132.6 in February 2020, and that the S+P 500 achieved a major high on 2/19/20 at 3394. RCP's "Direction of Country" index was -15.0 on 3/17/20. Compare the timing of the spread of the coronavirus and economic shutdowns and an increase in the net wrong direction percentage. It grew and accelerated from 6/1/20's -27.6; remember that George Floyd died 5/25/20 (-26.4 that day) and the consequential growing Black Lives Matter protest movement and the related increase in law and order concerns. The negative number rose to -47.5 on 8/3/20, but declined to -29.4 on US Election Day, 11/3/20. The Direction of Country index spiked to -49.5 negative on 1/17/21, following the 1/6/21 insurrection at the US Capitol in Washington, DC.

As America's feverish political scene became somewhat less frantic, the coronavirus vaccine campaign began, and the economy continued to recover, the Direction index thereafter plummeted to -6.0 percent on 4/14/21. It thereafter remained at a low negative number for several months. However, the negative figure for the Direction of Country has increased significantly since 8/1/21's -13.5 to -30.5 recently.

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See also the similar recent pattern in the Gallup poll on American opinion regarding the state of the nation. Gallup asks: "In general, are you satisfied or dissatisfied with the way things are going in the United States at this time?" This Gallup poll history goes back to 1979.

Although (like the RCP pattern) the Gallup poll's current net dissatisfaction retreats sharply from the net 77 percent unhappiness of early 2021 (11 percent satisfied, 88pc dissatisfied; 1/4-21/21 poll), Americans have become more dissatisfied in recent months.

According to Gallup, about 54 percent of America nowadays (8/2-17/21 poll) is net dissatisfied with how things are going in the country (23 percent satisfied, 77pc dissatisfied). Significantly, this races up from the net 26 percent dissatisfaction in mid-spring 2021 (5/3-18/21 statistics had 36pc satisfied and 62pc dissatisfied).

The August 2021 poll's net dissatisfaction of 54 percent exceeds the pre-election 2020 estimate of 43 percent (28pc satisfied, 71pc dissatisfied; 10/16-27/20). Compare 7/1-23/20's net 73 dissatisfied (13pc satisfied versus 86pc not content).

Despite the S+P 500's climb to record highs, August 2021's 54pc net dissatisfaction substantially surpasses the 10 percent net dissatisfaction around the time of the February 2020 pinnacle in the S+P 500 (2/3-16/20 had 45pc satisfied, 55pc unsatisfied).

Recall the huge net dissatisfaction during the depths of the global economic disaster of 2007-09, 94 percentage points (7 percent satisfied, 91pc dissatisfied).

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Let's travel back further in the history of Gallup poll numbers. Once upon a time (about two decades ago), Americans were very net satisfied with the "way things are going". In late 2001, they were 42 percent net satisfied (70pc fairly pleased, 28pc dissatisfied), with 2/12-13/99's net contentment at 45pc (71pc satisfied, 26pc unhappy).

This major shift in this Gallup poll indicator for America from net satisfied to net dissatisfied over recent decades probably partly reflects the development of diverse and significant cultural wars (and related violent rhetoric), including conflicts relating to growing economic inequality and greater political and social divisions.

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Suppose Americans remain likely to be engaged for quite some time in fierce internecine cultural battles (not mere skirmishes). If Americans increasingly view their country as heading in the wrong direction, if Americans evidence increasing net dissatisfaction with the way the country is going, imagine what many foreigners (including those holding dollar-denominated assets) believe (or may believe relatively soon) about the United States. If Americans increasingly are unhappy with America, why should attitudes of foreigners in regard to the US (including overseas investors in America and its financial marketplaces) be significantly different from American ones?

Keep in mind the similar timing for the decline in US consumer confidence since June 2021. These recent trends for the Direction of Country, net dissatisfaction (unhappiness; dismay), and consumer confidence probably are linked. They are bearish weathervanes for (leading indicators for; can confirm weakness in) the US dollar and American stocks, especially when viewed in the current context in relation to other variables such as American government debt and inflation trends.

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Stocks and the dollar are not merely financial instruments. Both the US stock marketplace and the dollar are rhetorical symbols of (metaphors for) America. From the cultural perspective, "high" US stock marketplace prices confirm to many observers (especially American ones) the economic and political strength of the United States in general and the reasonableness (rationality; persuasiveness), goodness (merit; praiseworthiness; even morality), and success of its American Dream culture as a whole. Strong stocks (are good) reflect a strong (good) country and its good (strong; persuasive) ideology! American Dream support for a strong dollar 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. Yet in general, 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". Thus a robust (or at least a fairly powerful, strong) US dollar tends to support similar opinions regarding American strength and its American Dream ideology.

So from America's cultural perspective, a high (and rising) S+P 500 alongside a strong US dollar represents a triumph for America and its American Dream perspectives, arguments, and values. A combination of a sustained and substantial slump in both American stocks and the US dollar consequently will damage United States and global faith in the American Dream. Since America's long run cultural success on economic, political, and other fronts has enabled it to inspire others and thus export its visionary Dream to many places and people around the globe, substantial injury to faith in the American Dream doctrine probably will have international consequences.

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For detailed further discussion of stock, interest rate, currency, and commodity marketplaces and the political scene, see essays such as “Great Expectations: Convergence and Divergence in Stock Playgrounds” (8/14/21); “Financial Fireworks: Accelerating American Inflation” (7/3/21); “Marketplace Rolling and Tumbling: US Dollar Depreciation” (6/1/21); “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).

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