US TREASURY YIELDS, FED MANEUVERS, AND FISCAL GAMES

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"Now if there's a smile on my face
It's only there trying to fool the public". "The Tears of a Clown", a song by Smokey Robinson and the Miracles

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CONCLUSION AND OVERVIEW

The United States Treasury 10 year note yield probably will continue to travel sideways for the near term.

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In America and many other key countries around the globe, uncertainties and risks regarding numerous entangled economic and political variables and marketplaces remain substantial. In particular, inflationary and recessionary (deflationary) forces battle for supremacy.

Monetary tightening by the Federal Reserve Board and its central banking allies has helped to cut lofty consumer price inflation levels. However, significant inflation persists in America. Both headline and core (excluding food and energy) inflation float well above targets aimed at by these guardians. Price indices for United States personal consumption expenditures services for the past several months have remained high. Yet in comparison with actual consumer price inflation, inflationary expectations for longer run time spans have remained moderate. Unemployment in the US remains low, assisting consumer confidence and thus household spending, thereby tending to keep interest rate yields relatively high. Given the Russian/Ukraine conflict and OPEC+ willingness to support prices, how probable is it that petroleum and other commodity prices will ascend again?

America's recent resolution of the heated battle over raising the debt ceiling avoided default. However, despite celebratory talk by many about how that new legislation displayed fiscal responsibility, the new law accomplished very little in substance toward reducing the towering public debt challenges confronting America. The massive and increasing public (and overall) debt in the United States (and many other leading countries) signal the eventual arrival of even higher interest rates.

Higher interest rates have diminished worldwide GDP growth prospects and boosted recessionary fears. History indicates that a negatively sloped US Treasury yield curve (short term rates higher than long term ones), such as has existed in America for over six months, portends a recession. Though history need not repeat itself, either entirely or even partly, significant disinflations induced by monetary policy tightening connect with recessions. But central bankers, Wall Street, Main Street, and politicians do not want a severe recession or a substantial fall in the S+P 500 and will strive to avoid those eventualities.

The shocking banking collapses a few months ago in America and Europe seem largely forgotten. However, they warn of dangerous fragilities facing banking systems and diverse marketplace arenas, especially if US rates resume their ascent or price feebleness in commercial real estate assets becomes even more worrisome. The United States dollar, the leading international reserve currency, has depreciated from its major high milepost reached in autumn 2022 but arguably remains "very strong". This robustness helps to make US Treasuries (and other dollar-

denominated assets) relatively appealing to some overseas players. Prices of emerging marketplace stocks and interest rate instruments remain vulnerable to rising UST yields and dollar strength. Also, even in an inflationary environment, fearful "flights to quality" (buying UST) sometimes emerge.

US TREASURY YIELDS: ROADS TRAVELED

The Pretenders' tune "Day After Day" says:
"Round and round and round we go
Just like yesterday".

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Since around mid-year 2022, the UST 10 year note has traveled in a range of about 2.50 percent to 4.35 percent.

	1Q20 Yield Bottom	**Mid-2020 Yield Lows**	**1Q21 Yield High**	**Aug 2021 Yield Low**	**Following Yield Highs**	**Lows**
UST 10 Year	.31 pc (3/9/20)	.54pc (4/21/20)	1.77pc (3/30/21)	1.13pc (8/4/21)	3.50pc (6/14/22)	3.32pc (1/19/23)
		.50 (8/6/20)		**Aug 2022 Yield Low**	4.01 (9/28/22)	3.33 (2/2/23)
				2.51 (8/2/22)	4.34 (10/21/22)	3.28 (3/24/23)
					4.09 (3/2/23)	3.25 (4/6/23)
						3.29 (5/4/23)

The yield high since 5/4/23 is 3.86 percent (5/26/23).

Monitor US corporate yield trends alongside those of the UST 10 year note. The Baa's autumn 2022 yield pinnacle, 10/24/22's 6.59 percent, occurred alongside the UST 10 year's crest. After making a yield low on 2/2/23 at 2.28pc, the Baa yield has climbed significantly, reaching 5.93 percent on 5/25/23.

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Consumer price inflation measures in America and elsewhere continue to point to higher yields for the UST 10 year and related global marketplaces. For the OECD as a whole, consumer price inflation (all items), though down from October 2022's 10.7 percent summit, grew a still-high 7.7 percent in March 2023. Moreover, OECD March 2023 CPI excluding food and energy rose a substantial 7.2 percent year-on-year, down only slightly from February 2023's 7.3pc year-on-year (Table 1; 5/4/23; next release 6/6/23).

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Federal Reserve rhetoric promotes its ability as a diligent and vigilant fighter for stable prices and against excessive inflation. Its devotion to its interpretation of its legislative mandate includes a subjective view (opinion) regarding what constitutes stable prices (and maximum employment) over the long run.

The Fed’s long-running gargantuan money printing (quantitative easing) program and sustained yield repression scheme (easy money policies) assisted the rise in the CPI-U from a rate of 1.4 percent year-on-year in January 2021 to May 2021’s five percent year-on-year jump, as well as the lofty year-on-year increases over the next two years up to the present. The Fed finally recognized and confessed that inflation was not a “transitory” or “temporary” phenomenon, and abandoned its money printing and yield repression policies, However, the Fed’s orations do not admit its important role in generating the lofty US consumer (and other) price inflation that emerged in mid-2021 and thereafter persisted. The Fed found it easier to blame inflation entirely on factors such as supply and demand imbalances (and supply chain disruptions) related to the pandemic and higher energy prices (Russian invasion of Ukraine) rather than to some extent on itself.

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Unnerving United States year-on-year increases in consumer price inflation, though still far above the Fed’s revered two percent inflation objective, have slowed. However this decline in the overall (headline) inflation has not come close to attaining the inflation target. And core inflation (excluding food and energy) has not decelerated much.

Reconnoiter US consumer price statistics (CPI-U, all items; Bureau of Labor Statistics; see Tables 1 and 5; 5/10/23; next release 6/13/23). In June 2022, the CPI-U raced up to a peak of 9.1 percent year-on-year. Inflationary growth gradually descended from this towering height. The CPI-U (all items) eroded to 7.1 percent year-on-year in November 2022 and 6.5pc year-on-year in December 2022, retreating to 6.0pc year-on-year in February 2023, 5.0pc year-on-year in March 2023, and 4.9 percent in April 2023. However, a rate of increase around five percent remains a rapid speed.

Although the US CPI-U all items has braked lately, look under its hood for statistics in April 2023 regarding particular sectors. First, note April 2023’s 5.1 percent year-on-year slide in the energy category (6.9 percent of the index), The used cars and trucks arena constitutes 2.6pc of the CPI-U; it crashed 6.6 pc year-on-year. As was also true in March 2023, inflation declines in these two categories accounted for much of the amelioration in the April 2023 CPI-U rate. Consequently, excluding these two fields, CPI-U inflation did not improve much relative to prior months. Significantly, food costs rose 7.7 percent year-on-year in April 2023.

In addition, US CPI-U core inflation (excluding food and energy) remains robust and thus appears rather well entrenched. The CPI-U excluding food and energy grew at a bulky 6.6 percent year-on-year pace in September 2022. It descended modestly in several later months. However, April 2023’s core measure remained elevated at 5.5 percent year-on-year, about the same as March 2023’s 5.6 percent year-on-year ascent and February 2023’s 5.5 pc year-on year climb.

What about US price indices for Personal Consumption Expenditures, a favorite Fed yardstick? The PCE for all items in March 2023 dropped to 4.2 percent year-on-year from February 2023’s 5.1pc height and January 2023’s 5.4pc level. (Bureau of Economic Analysis; Table 11; 5/26/23; next release 6/30/23). However, April 2023’s all items grew 4.4 percent year-on-year. Thus despite progress relative to “too high” inflation, April 2023’s level leaves the PCE indicator decisively above the Fed’s two percent target for “stable prices”. In addition, this monthly improvement has not occurred in the PCE excluding food and energy. In April 2023, that indicator increased 4.7 percent versus April 2022, in line with the 4.6 percent year-on-year rise in March 2023 and February 2023’s 4.7pc ascent.

Moreover, underscore the significant increase in the services component of the Personal Consumption Expenditures index: PCE services accelerated 5.5pc year-on-year in both April 2023 and March 2023 (up 5.8pc year-on-year in February 2023, 5.7pc in January 2023), far beyond a two percent policy target.

"Inflation" of course has other dimensions such as wages (and financial assets such as stocks and real estate). For example, review the Atlanta Fed's wage tracker (5/11/23) for nominal overall unweighted hourly median wage growth. In April 2023, this moved up 6.1 percent (three month moving average), a substantial expansion from May 2021's 3.0pc. Thus wages have fallen little in nominal terms from August 2022's high of 6.7 percent year-on-year. Real wages have been negative (or mediocre) relative to inflation for quite some time. However, persistent high nominal wage increases risks becoming real (inflationary) wage growth, with real inflationary consequences for price index measures and other fields.

To what extent will past inflationary increases become even longer-lasting due to efforts by workers to maintain their earning power? Note strikes in Germany, the United Kingdom, and elsewhere due to the inability of wages to keep pace with inflation.

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The US unemployment rate trotted up to 3.7 percent in May 2023 from April's 3.4pc. This shift, and especially if unemployment increases significantly thereafter, probably will encourage the Fed to be cautious about raising interest rates. Nevertheless, the unemployment rate has stuck in the 3.4 to 3.7 percent since March 2022.

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The Federal Reserve's broadcasts from its latest gathering reflect a monetary tightening bias. However, its May 2023 meeting wordplay displays a less militant stance. On 3/22/23, the FOMC raised the Fed Funds rate by only 25 basis points to the 4.75 to 5.00 percent range. However, its March 2023 Statement noted: "The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time." Although the May 2023 meeting pushed the Funds rate up another 25 basis points to 5.00 to 5.25pc, its Statement removed that "some additional policy firming" language. And although the Fed heralded in May 2023 that "inflation remains elevated", its Press Conference said its "future policy actions will depend on how events unfold", and it will engage in a "meeting by meeting" approach. The Fed continues to tighten monetary policy by shrinking the size of its monumental balance sheet by up to $60 billion in UST and $35bb in agency mortgage-backed securities each month.

The crisis involving US regional banks, although it has substantially subsided for the time being, probably has tightened credit to some extent. Some banks (and perhaps other financial institutions) have suffered declines in asset values (not only in long-dated debt instruments such as UST, but also in their commercial real estate portfolios) and endured higher funding costs; many expect enhanced regulatory scrutiny.

The Fed next gathers 6/13-14/23, 7/25-26/23, and 9/19-20/23.

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The Fed's March 2023 Economic Projections are somewhat outdated. However, as the June 2023 Projections probably will not modify them drastically, March 2023's still offer guidance on future near term Fed monetary policy and US interest rate trends. The Fed's outlook for the Federal Funds rate at the end of a given calendar year (Table 1) gave a midpoint (central tendency) of

about 5.35pc for 2023 and 4.50pc for 2024, with 2025's falling to 3.45pc. The zealous watchdog continues to promote its misty "longer run" PCE inflation level of 2.00 percent, with the Federal Funds rate for that horizon at 2.50pc.

In any case, suppose the 10 year US Treasury note at year end 2023 matches the Fed Funds level projection. Then the UST will yield 5.35 percent, well above October 2022's 4.34pc crest. Compare the UST 10 year yield top at on 6/13/07 at 5.32 percent. Alternatively, if the United States 10 year note yield at end December 2023 is 100 basis points beneath the 5.35 percent Fed Funds midpoint, the UST's resulting yield of 4.35pc stretches up from its present elevation. What if the UST 10 year note yield provides a real return of 50 basis points relative to the Fed's core PCE measure at year end 2023? Then its yield will be around 4.20 percent (3.70pc plus 50 basis points). Or, looking forward, suppose America's core CPI-U inflation rate dips further on a year-on-year basis, yet remains persistently at four percent or higher. Assume the UST 10 year yield provides a real return of 50 basis points relative to this inflation weathervane. Then the US 10 year yield will hover at 4.50 percent or higher.

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Assume continued fairly high CPI-U inflation for the next few months. Based on the preceding yield analysis derived from the Federal Reserve Economic Projections, the UST 10 year note yield could climb to about 5.35pc. Thus the UST 10 year note arguably has a hypothetical near term trading range between around 2.50 percent and 5.35 percent. A slump to 2.50 percent or less probably would warn of (confirm) a "flight to quality" (and likely recession); soaring above 5.35 percent likely would signal a dangerous inflation trend.

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"Oh yes, I'm the great pretender
Adrift in a world of my own
I play the game but to my real shame
You've left me to dream all alone". "The Great Pretender", a song by The Platters

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Republicans and Democrats engaged in a noisy partisan battle this spring over raising the debt ceiling and spending plans. America avoided default on its national debt via the recent enactment of H.R. 3746, the "Fiscal Responsibility Act of 2023" (the President signed the legislation on 6/3/23). The debt limit (ceiling) was suspended through election season 2024, until January 1, 2025; as of 1/2/25, the debt limit will increase by the amount of obligations incurred.

Prior to the passage of the "Fiscal Responsibility Act of 2023", the United States federal debt situation warned of a long term trend for higher US Treasury yields. Despite its pretentious title, that Act made only a tiny step toward greater fiscal responsibility. The paltry changes in the national budget situation appear by comparing the overall situation prior to the passage of H.R. 3746 with its aftermath.

For the debt estimates prior to the glorious "Fiscal Responsibility Act", see the Congressional Budget Office's "The Budget and Economic Outlook: 2023 to 2033" (5/12/23 and 2/15/23). Note the substantial demand for credit (big budget deficits) and the related large and growing public debt level as a percentage of GDP. For example, federal debt held by the public as a percentage of GDP rises from 98.2 percent in fiscal 2023 (compare the 46.9 percent average for the 1973-2022 average) to about 118.9 pc of GDP in 2033, soaring to 195.0 pc of GDP in 2053 (See Table 1 and Table 1-1; Table 1-8).

Underline worrisome high budget deficits as a percent of GDP: 5.9 percent of GDP in 2023, 5.8pc in 2024, with the 2024-28 span averaging 5.8pc per year and the 2024-33 period averaging 6.1pc. The actual 2022 budget deficit was about $1.4 trillion, with 2023's estimated at $1.5 trillion. From 2024 through 2033, the forecast deficit remains over $1.5 trillion every year, vaulting over two trillion dollars with 2030's $2.1tr estimate, with 2023's at almost $2.9tr.

Now examine the "CBO's Estimate of the Budgetary Effects of H.R. 3746, the Fiscal Responsibility Act of 2023" (5/30/23, Table 1). The Act changed the CBO's prior baseline projections for the 2023-33 span by reducing the deficit by around $1,528 billion (about $1.5 trillion) dollars. About $1,332 billion of this cut involved statutory caps on future discretionary funding, with most of the balance being lower debt interest costs.

The CBO's 5/30/23 H.R. 3746 analysis does not provide the detailed budget projection layout offered in its May 2023 "The Budget and Economic Outlook: 2023 to 2033". The CBO eventually will update its overview in comprehensive fashion. However, let's venture into the fine print. The "Budget and Economic Outlook" had debt held by the public at $46,709 billion in 2033 (ten years from now), with Gross Domestic Product at $39,288 billion that year; thus federal debt as a percentage of GDP reached the 118.9 percent level noted above. Now reduce that 2033 debt of $46,709 billion held by the public total by the $1,528 billion savings in the Fiscal Responsibility Act ("FRA"), making the 2033 debt about $45,182 billion. Suppose 2033 GDP does not change from the Budget and Economic Outlook's estimate. That makes US debt as a percentage of GDP in 2033, pursuant to the FRA, of 115.0 percent. Compared to the massive 118.9 percent of GDP prior to H.R. 3746, this savings (effort at responsibility) looks extremely modest.

Moreover, the savings in practice may turn out to be much less than the $1,528 billion outlined by the CBO and celebrated by the FRA's supporters. Note that the spending caps currently are enforceable for only two years, the same duration as the debt ceiling increase. There are no decade-long binding spending caps. According to the NYTimes ("Biden's Debt-Deal Strategy: Win in the Fine Print"; website, 6/3/23), Congress "agreed to structure the cuts so they appeared to save $1.5 trillion over a decade in the eyes of the nonpartisan Congressional Budget Office. But thanks to the side deals—including some accounting tricks—White House officials estimate the actual cuts could total as little as $136 billion over the two enforceable years of the spending caps that are central to the agreement." The CBO's Table 1 (FRA; 5/30/23) indicates that statutory caps on discretionary spending for 2024 and 2025 combined add up to about $171bb, fairly close to the White House estimate. Another NYTimes article refers to the FRA's 10 year span of discretionary spending, and implicitly to the $1.5 trillion potential in total savings over that decade ("In Pursuit of Consensus, Did Biden Find the Reasonable Middle or Give Away Too Much?"; website, 5/28/23). The newspaper says: " a rough New York Times calculation suggests the agreement reached by Mr. Biden and Mr. McCarthy might cut just $650 billion instead." In any case, the wonderful Fiscal Responsibility Act did nothing significant on either the revenue raising or entitlement spending fronts.

Persistent fierce partisan conflicts in America and many other nations range across numerous economic, political, and other cultural dimensions. This makes it difficult for United States politicians to comprise substantially on major issues (despite the passage of the Fiscal Responsibility Act and the debt ceiling resolution). In any case, given the divided Congress (Democratic Senate, Republican House of Representatives), the competitive passions of 2024 election season, and intense and often uncivil national culture wars, no notable progress on reducing America's long run deficit problems will occur anytime soon.

Suppose Republicans capture the Presidency and both houses of Congress in the 2024 election. Will they seek to reduce not only discretionary spending, but also that of entitlement programs such as Social Security? Will they slash military expenditures? Will Republicans decide to raise revenue by increasing individual and corporate taxes, which they refused to consider in the negotiations surrounding the Fiscal Responsibility Act of 2023?

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Chuck Berry sings in “Too Much Monkey Business”:
“Salesman talkin’ to me, tryin’ to run me up a creek
Says you can buy it, go on try it, you can pay me next week, ahh
Too much monkey business, too much monkey business
Too much monkey business for me to be involved in”.

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The CPI-U all items reached 5.0 percent year-on-year in May 2021 and thereafter stayed above that level. Despite the pattern of sustained troubling inflation since then, many marketplace observers probably retained faith in the Fed’s ability to subdue it eventually. Arguably the Fed’s unleashing rhetoric about its determination to vigorously combat inflation, as well as its sharp raising of the Federal Funds rate and shrinking of its balance sheet, have helped to keep inflation expectations and thus longer term UST yields relatively modest despite ongoing high CPI-U and personal consumption expenditure inflation statistics. The five-year, five-year forward inflation expectation rate measures the expected inflation (on average) over the five year period that begins five years from today (St. Louis Fed). The high since January 2021 is 4/21/22’s 2.67 percent. On 6/2/23, it stood at 2.23 percent.

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Growing marketplace and political fears about oncoming global economic slowdowns and recessions probably helps to moderate inflation expectations and thus keeps US 10 year note yields modest (despite current CPI inflation still being high). Although US 4Q22 GDP grew at a 2.6 percent annual rate, that in 1Q23 sputtered only 1.3 percent higher (Bureau of Economic Analysis; Table 1; 5/25/23; 6/29/23 next release).

Based on the Fed’s Economic Projections (3/22/23) and other benchmark forecasts, the near term road ahead for US GDP expansion appears gloomy. The midpoint of the central tendency for the change in 2023 real GDP is a slim .40 percent increase, with 2024 walking only 1.25pc upward. The International Monetary Fund’s “World Economic Outlook” (Table 1.1; April 2023) estimated US GDP will increase only 1.6 percent in 2023, with that for 2024 scraping up only 1.1pc. The IMF predicts global growth of only 2.8pc in 2023 (compare 3.4pc in 2022), with 2024’s at 3.0pc. World output for “advanced economies”, according to the IMF, drives up only 1.3 percent in 2023 and 1.4pc in 2024. Looking out to 2030, the World Bank recently warned of a “lost decade” for the worldwide economy (“Falling Long-Term Growth Prospects”; see the “Foreword”; March 2023). “Today nearly all the economic forces that drove economic progress are in retreat…The result could be a lost decade in the making…for the whole world.”

The recent banking crisis involving Silicon Valley Bank (and assorted regional banks), by igniting fears of a related widespread economic downturn, helped reduce UST yields and at least temporarily soothed fears of a renewed sharp rise in interest rates. The financial emergency plan of the Treasury, Fed, and FDIC aimed to support (rescue) the banking system and thus the economy (recall 2007-09)—and save uninsured depositors at shipwrecked or endangered banks. To the extent fears persist that similar shocks may erupt, these worries can mitigate interest rate increases for the near term.

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Although the cultural past does not necessarily (inevitably) repeat itself, either entirely or even partly, let's venture back to US Treasury yield patterns. The New York Federal Reserve Bank publishes history and graphs indicating the spread relationship (basis point differential) of the UST 10 year note (they label it a "bond") yield less the three month T-bill rate (bond equivalent basis). A negative number indicates that the yield curve is negatively sloped, with the three month T-bill yield exceeding that of the UST note.

Going back to around 1959, the development of a negatively sloped yield curve (monthly average) often has preceded ("led to") a US recession. The US yield curve has a negative slope, having become negative with November 2022's -36 basis points. The latest NY Fed data (5/4/23 release) gives a differential of 113 basis points for January 2023, 102 basis points for February 2023, 115 basis points in March 2023, and 159 bp in April 2023.

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A recent study reviewed large disinflations that occurred since 1950 in the United States and several other major economies. The analysis concluded: "there is no post-1950 precedent for a sizable central-bank-induced disinflation that does not entail substantial economic sacrifice or recession." "Significant disinflations induced by monetary policy tightening are associated with recessions." Moreover, "in the current circumstances that already involve significant policy tightening (and a prospect for further restraint), an 'immaculate disinflation' would be unprecedented." "The bad news is that it is highly likely that achieving the Fed's inflation target will lead to a recession." See "Managing Disinflations" (Stephen Cecchetti, Frederic Mishkin, and others; 2/24/23; "US Monetary Policy Forum" of the "Initiative on Global Markets"; The University of Chicago Booth School of Business). See also Mishkin's comments in the Financial Times, "Fed now on right track to restore price stability"; 3/9/23).

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Foreigners hold a huge amount of UST securities. As of March 2023, they owned about $7.6 trillion. Although up from October 2022's $7.1bb (compare the UST 10 year yield high on 10/21/22 at 4.34pc), March 2023's sum remains about unchanged from March 2022. If UST yield resume their climb, and especially if US federal budget deficits remain high, will foreigners reduce their UST buying, or perhaps become net sellers? What if the US dollar weakens as well?

THE US DOLLAR PLAYING FIELD

The essay "US Dollar and Other Marketplace Adventures" (2/5/23) concluded: "Based upon the Federal Reserve Board's real and nominal Broad Dollar Indices, the United States dollar probably established a major top in autumn 2022." This remains the case.

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What factors indicate the likelihood of United States dollar weakness over the misty "long run"? The United States share of global GDP probably will continue to decline. Moreover, as the world has become increasingly multipolar, economic and political interests competitive with (or hostile to) American ones no longer as easily (or at least as extensively) accept or require American leadership (hegemony) in the economic (including the dollar) and political spheres. Although the dollar will remain the important international reserve asset and the critical benchmark for conducting world trade business, on the margin (gradually), it probably will become less important.

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Although Republicans and Democrats finally agreed to increase the debt ceiling, the American debt situation for the long run remains very worrisome. The existing public debt burden as a percentage of GDP is very substantial, and experienced observers expect this probably will rise over time under current policies. Interest rates consequently may need to increase quite a bit from current levels. So near term (and ongoing) debt (and spending) squabbles and underlying long term debt challenges will induce some fear in US dollar asset holders. Thus the dollar (and many dollar-denominated assets) may become less desirable.

Cultural divisions and conflicts (and assorted varieties of populism) of course span the globe. However, America's deep-seated ones arguably make the nation less able to solve its significant problems (not only the sizeable and growing federal debt). Given the nation's election year 2024 politics, these cultural wars probably will persist for quite some time. Thus the nation and its assets (including the dollar) have become marginally less attractive to some investors.

Competitive depreciation (currency wars) tends to limit currency depreciation and appreciation to some extent. In any case, Americans do not want a "too weak" dollar. Not only does a too weak dollar signal economic and political feebleness (reduced power), but also (all else equal) a depreciating dollar can have inflationary consequences. However, the Federal Reserve's benchmark real Broad Dollar Index currently is far from feeble from the long run historical perspective. Besides, perhaps a somewhat weaker dollar will assist American economic growth for a while. With the 2024 election campaign underway, the current US Administration probably does not want the dollar to be "too high".

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The Federal Reserve releases a real Broad Dollar Index (H.10; January 2006=100; monthly average; 6/1/23 is the latest) as well as a nominal Broad Dollar Index (daily data; 5/30/23 release; 5/26/23 most recent datapoint) covering both goods and services.

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The real Broad Dollar Index's attained its peak (monthly average; Fed H.10; goods and services: January 2006=100) in October 2022 at 121.2. From its major bottom over 11 years before then in July 2011 at 83.9, the BDI skyrocketed 44.5 percent. The real BDI jumped substantially, 17.3 percent, from January 2021's 103.3 low to the October 2022 peak at 121.2 about 21 months later.

That price and time BDI bull market history (a substantial percentage climb over a lengthy period of time with several extensive bull stages) does not mandate a major long run decline for the US dollar. However, in conjunction with the preceding noteworthy bearish factors, it does indicate the real Broad Dollar Index has the potential for an impressive decline (and greater than what has transpired since October 2022's summit) lasting for a considerable time period.

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However, for the near term, several bullish factors support the Broad Dollar Indices ("BDI"). First, the Federal Reserve emphasizes its loyalty to its monetary tightening scheme in its battle to return inflation to two percent. This illuminated guide has not ruled out further Federal Funds rate increases to achieve its objective. It continues to reduce the size of its mammoth balance sheet. Moreover, this respected leader trumpets its strategy of maintaining policy rates for quite some time at heights sufficient to bring inflation down to its vision of acceptable levels. Unemployment figures remain very low, further suggesting the likelihood that Fed policy will maintain a moderately hawkish stance for at least the near term.

Also, the US dollar's weakness which emerged in autumn 2022, and the rally in key global stock marketplaces such as the S+P 500, has not been matched by a sustained rally in commodities "in general". All else equal, a slumping US dollar tends to boost the nominal price of dollar-denominated assets. Marketplace history is not marketplace destiny. However, despite occasional divergence, over the long run commodities in general have moved in similar time and price patterns with the S+P 500. Yet commodities in recent months, despite occasional rallies, have acted comparatively weak in relation to the S+P 500. Even the petroleum complex, despite vigorous OPEC+ efforts to support the price and Western restrictions on Russian oil imports, has shown only intermittent strength. This relative feebleness in commodities despite dollar depreciation hints that at least for the near term, the dollar probably will not decline much further.

In addition, the real broad Dollar Index (a monthly average) currently borders critical support, April 2020's 113.4 summit. The nominal BDI (daily data) has retreated almost eight percent from its autumn 2022 pinnacle, fairly close to the important ten percent "correction" distance.

Finally, consider US Administration rhetoric about the importance of democracy relative to autocracy. For example, see the White House's "National Security Strategy" (10/12/22). Is that wordplay and related American global policy actions on topics such as the Ukraine/Russia conflict and the Taiwan/China relationship a campaign to keep the dollar moderately strong?

Thus for the near term and given the prevailing convergence relationships between the UST 10 year note and the US dollar, steady UST rates (and especially rising ones) probably will keep the US dollar fairly powerful from the long run historic perspective. The dollar nevertheless will find it challenging to surpass its recent high by much (if at all) for very long.

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.	**1Q20 High (date)**	**Key Low Level (date)**	**Percent Fall from 1Q20 High**	**Next Highs (date)**	**PC Rally from 2021 Low**
Nominal Broad Dollar Index	126.1 (3/23/20)	110.9 (1/6/21) 110.5 (6/1/21)	12.4pc	123.9 (7/14/22) 123.5 (8/22/22) 128.3 (9/27/22) 128.3 (10/19/22)	16.1pc

Note the initial low in the nominal Broad Dollar Index low in early January 2021 (1/6/21) occurred close in time to the peak on 1/4/21 in US dollar-denominated government bonds issued by emerging market countries (iShares EMB ETF top at 116.09) as well as the emerging marketplace stocks pinnacle on 2/16/21 (iShares EEM ETF top at 58.29).

The real Broad Dollar Index peaked in April 2020 at 113.4. It sank to 103.3 in January 2021. With May 2022's 114.3, it surpassed April 2020's key resistance barrier. The real Broad Dollar Index ("BDI") was triumphantly strong (arguably "too strong") in the several months running up to and including its pinnacle in October 2022. From August 2022's lofty 116.6, it appreciated to 119.5 in September 2022 and 121.2 in October 2022, smashing 6.9 percent over April 2020's 113.4 summit. The nominal BDI in mid-July and late August 2022 approached its late March 2020 high, eventually accelerating through it to reach 9/27/22's and 10/19/22's 128.3 zenith (see also 11/3/22's 128.1).

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Marketplace history indicates that United States dollar weakness can fuel or coincide with (confirm) a rally in the S+P 500. Sometimes (but not always) the Broad Dollar Index has attained critical marketplace tops alongside important bottoms in the S+P 500.

For example, recall the real Broad Dollar Index crown at 101.6 in March 2009 in connection with the S+P 500's major low on 3/6/09 at 667. The S+P 500 bottomed on 2/11/16 at 1810 (1/20/16 at 1812); compare the real BDI's January 2016 interim high at 107.5 (final top at 110.0 in December 2016, though). The S+P 500 attained a significant trough on 12/26/18 at 2347; November 2018's real BDI interim top at 107.7, though not a final high in the major bull move of the real BDI, was not exceeded by much for quite a few months (September 2019 minor high at 108.6), until March 2020/April 2020.

Many on Wall Street and Main Street surely recognize the nominal Broad Dollar Index's 3/23/20 pinnacle at 126.1 coincided with the S+P 500's 3/23/20 major low at 2192. The nominal BDI's venture beneath its 3/23/20 crest at 126.1 after around 11/9/22 probably accelerated the bull move in the S+P 500 (which began with 10/13/22's 3492) and many other key global stock marketplace signposts.

The late September/October 2022 highs in the real and nominal Broad Dollar Indices coincided with (interrelated with; confirmed) the October 2022 lows in the S+P 500 (10/13/22 at 3492) and other search for yield marketplaces as well as the timing of the UST 10 year note yield highs at 4.01 percent (9/28/22) and 4.34pc (10/21/22).

Therefore, looking forward for the near term, a fairly strong dollar for the near term could intertwine with higher UST yields and a falling S+P 500. Suppose the real BDI stays beneath October 2022's 121.2 high. If it nevertheless continues to rest above or even "around" April 2020's 113.4 prior top, it still will be quite powerful from the long run historic perspective. The real BDI therefore probably would be a bearish factor for the hunt for yield/return securities playgrounds, especially if United States and other key interest rate benchmarks continued to climb.

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For the real Broad Dollar Index, a five percent decline from October 2022's 121.2 pinnacle equals 115.1, a ten percent tumble gives 109.1, a fifteen percent drop 103.0 (March 2009 summit 101.6), with a twenty percent crash 97.0. A five percent fall in the nominal BDI from its September/October 2022 highs around 128.3 gives 121.9, a ten percent correction 115.5, a fifteen pc one 109.1, with a twenty pc collapse 102.6.

Following late September/October 2022's highs, the US dollar "in general" has depreciated a moderate amount. The real Broad Dollar Index tumbled down to 114.2 in January 2023. However, the real BDI has held above April 2020's 113.4 top. It increased slightly to 115.2 in March 2023. Though the real BDI slipped to 113.8 in April 2023 (a 6.1 percent decline from autumn 2022's high, it inched up to May 2023's 114.2. The US dollar therefore remains rather strong from the historical perspective.

The nominal BDI's low following its September/October 2022 highs around 128.3 remains 2/2/23's 118.3, a 7.8 percent slide. The nominal BDI appreciated 3.2 percent from 2/2/23's trough to its following high at 122.1 on 3/15/23. It thereafter weakened for about a month, with its subsequent low at 118.6 on 4/13/23 adjacent to 2/2/23's depth.

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Given the bullish and bearish crosscurrents for the "overall" US dollar, what price range for the real Broad Dollar Index looks probable for the near term horizon? October 2022's formidable roadblock at 121.2 will be very difficult to surpass. A five percent decline to 115.1 neighbors April 2020's important 113.4 landmark. A ten percent tumble from the October 2022 high equals 109.1, a likely eventual target.

For the longer run, notable support exists around 103.0 (a fifteen percent drop from October 2022; January 2021 low 103.4) to 100.0 (remember March 2009's 101.6 summit during the 2007-09 global economic disaster; see February 2018's 100.2 trough).

US STOCK MARKETPLACE PATHS

"Won't Get Fooled Again" by The Who emphasizes:
"A change, it had to come
We knew it all along
We were liberated from the fold, that's all
And the world looks just the same
And history ain't changed
'Cause the banners, they all flown in the last war".

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Very long run American marketplace history demonstrates that substantially climbing United States interest rates in important benchmarks such as the US Treasury 10 year note have preceded noteworthy peaks and led to bear trends in key stock marketplace signposts such as the Dow Jones Industrial Average and the S+P 500. Sometimes a yield climb, after preceding a stock marketplace top, then retreated; yet in some cases yields marched even higher after the equity peak.

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Sustained rising US (and global) interest rate yields led to the S+P 500's majestic and joyful pinnacle at 4819 on 1/4/22. UST 10 year yields began rising in early March 2020, accelerating aggressively upward following 8/4/21's 1.13 percent trough as American (and worldwide) consumer price inflation became very significant. Following the S+P 500's victorious bull parade to its January 2022 summit, it collapsed 27.5 percent to 10/13/22's gloomy 3492 low. This valley rested merely 2.9 percent above 2/19/20's 3394 pre-coronavirus pandemic peak.

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A "too strong" United States dollar intertwined with ongoing price declines in both emerging marketplace equities and US dollar-denominated sovereign debt securities (both emerging marketplace stock and debt prices peaked in first quarter 2021). The mighty dollar and the price slumps in emerging marketplace securities helped to undermine the S+P 500. A very strong US dollar encouraged the relationships of higher US Treasury yields, descending stock prices, and nosediving prices for commodities "in general".

However, the US 10 year note yield achieved an important high on 10/21/22 at 4.34 percent. Using the Federal Reserve Board's nominal Broad Dollar Index as a guidepost, the US dollar peaked at 128.3 on 9/27/22 and 10/19/22. The S+P 500 established a trough in its bear trend with 10/13/22's 3492. Thereafter, S+P 500 rallies usually have linked with a declining Broad Dollar Index, with a tumble in the S+P 500 connected to an appreciating BDI.

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Broad Dollar Index trends probably assisted the creation of the S+P 500's January 2022 top and its subsequent decline. The real Broad Dollar Index peaked in April 2020 at 113.4. After an extensive rally from January 2021's 103.2 low, May 2022's 114.6 surpassed April 2020's key resistance. Note the S+P 500 slump from its interim highs at 4637 (3/29/22) and 4513 (4/21/22). The real BDI kept rising for several more months. In this BDI and S+P 500 context, note the timing of the broad S&P GSCI's peak on 3/28/22 (at 853.3) and its important subsequent drop-off point on 6/8/22 (at 825.4). Thus the real Broad Dollar Index ("BDI") was very strong (arguably "too strong") in the several months running up to and including its peak in October 2022.

Underscore the similar timing of the rally in the S+P 500 from its October 2022 bottom and the US dollar's depreciation for several months beginning in fall 2022. A rally in the dollar helped push the S+P 500 briefly downhill; its low since 2/2/23's 4195 was 3/13/23's 3809.

All else equal, United States dollar feebleness tends to inspire ascents in the nominal value of dollar-denominated assets, including stocks. Nevertheless, in practice that tendency is not inevitable.

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Scan the S+P 500's bullish and bearish travels over the past three years.

	1Q 2020 High (date)	**1Q 2020 Low (date)**	**Interim High**	**Take-Off Low (date)**	**Peak and Other Highs (date)**
S+P 500	3394 (2/19/20)	2192 (3/23/20)	3588 (9/2/20)	3209 (9/24/20)	4819 (1/4/22)
	3137 (3/3/20)			3234 (10/30/20)	4637 (3/29/22)
				Key 2022 +2023 Lows	4513 (4/21/22)
				4115 (2/24/22)	4308 (4/28/22)
				3637 (6/17/22)	
				3722 (7/14/22)	4325 (8/16/22)
				3492 (10/13/22)	4195 (2/2/23)
				3765 (12/22/22)	
				3809 (3/13/23)	

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The extent of economic growth in America and elsewhere influences the size and duration of US corporate earnings. Corporate earnings (levels, patterns, and outlook) of course are an important stock price variable for many investors and other trading pilgrims. History shows that equity indices such as the S+P 500 (and individual equities) can and do trade at various price/earnings ratios. According to FactSet, the forward 12 month P/E ratio for the S+P 500 is 18.0. This P/E

ratio stands below the five year average of 18.6, but above the 17.3 ten year average ("Earnings Insight"; 6/1/23). Refinitiv estimates the forward four quarter P/E ratio at 18.7 ("S&P 500 Earnings Scorecard"; I/B/E/S; 6/2/23). At present, analysts express optimism for strong year-on-year earnings for 4Q23 and calendar year 2024.

Nevertheless, all else equal, mediocre United States real GDP prospects (if realized) indicate that the S+P 500 probably will not rally much in real terms from around current levels.

Yet we live in a nominal price world. According to the Bureau of Economic Analysis (Table 1; 4/27/23), 1Q23 current dollar GDP grew at a 5.1 percent annual rate (4Q22's expanded 6.6 percent annualized) . All else equal, nominal price increases throughout the economy resulting from (reflecting) inflation (and of course other factors matter) will tend to boost stock prices. Given a tendency for nominal price increases (and thus in nominal corporate earnings as well), nominal S+P 500 prices (all else equal) will tend to march upward modestly.

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What consequences probably follow from a long run noteworthy increase in American interest rates, assuming significant faith persists in the inflation-fighting credentials and strategy of the Federal Reserve? The probable long term prospects for generally sustained higher United States (and worldwide) interest rates will tend to lower the S+P 500 and other stock marketplaces (and other "search for yield" asset classes).

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The S+P 500's high since its October 2022 bottom is 6/2/23's 4291, adjacent to the important resistance of 8/16/22's interim high at 4325. Also for the near term, recessionary signs and warnings and determined inflation fighting by the Fed and other central banking guides probably make it very challenging for the S+P 500 to sustain an advance above the 4513 (4/21/22) to 4637 (3/29/22) range.

Is there divergence between the so-called "real economy" ("real world") and the financial world of Wall Street stocks? Record levels of share buybacks probably have assisted the apparent economic bullishness reflected by the S+P 500's rally of recent months. According to the NYTimes (5/18/23, website; citing research by Janus Henderson): "The world's 1,200 biggest public companies collectively bought back a record $1.3tn [trillion] of their own shares last year, triple the level of a decade ago and almost as much as they paid out to shareholders in dividends…The trend has continued this year…" Also, the fierce rally in many large technology stocks has played a crucial role in boosting the S+P 500 during its recent ascent. The NYTimes notes (5/31/23, website) that "the S&P 500…is supposed to be a broad barometer of the US stock market but has increasingly been driven by a small number of tech giants."

In contrast to the current rather sunny (bullish) Wall Street corporate ("big business") outlook (and the perennial bullishness, at least for the long run, of the great majority of Wall Street stock "investment" wizards and their devoted apostles), see the depressed Main Street outlook of the NFIB's "Small Business Optimism Index" (1986=100; Small Business Economic Trends"; 5/9/23; next release 6/13/23). The Index peaked at 108.8 in August 2018; on the eve of the coronavirus disaster in January 2020, it stood at 104.3. Though it crashed to 90.9 in April 2020, it rebounded to 104.0 in October 2020. However, the Index gradually has stumbled downhill, with April 2023's 89.0 piercing under the dismal April 2020 valley.

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In the near term, suppose rising US Treasury yields and some US dollar strength encourage S+P 500 retreats. Perhaps the yield increases in the UST 10 year note to date, and especially those since August 2022's yield bottom at 2.51 percent, will be sufficient in this regard. But also picture a renewed UST 10 year attack toward or above 10/21/22's 4.34 percent. How far down in reverse might the S+P 500 venture? It probably will be difficult for the S+P 500 to fall beneath its October 2022 bottom by much (if at all) in the absence of a notable and sustained US recession and global GDP slowdown.

Although a recession probably will be bearish for the S+P 500 and many other related stock marketplaces, the dutiful Fed probably will tolerate a brief recession to defeat the evil of excessive inflation (and thus will countenance lower stock prices than current ones). However, it (and of course Wall Street and Main Street and politicians) likely would hate a severe recession. In today's intertwined and globalized economy, substantial price falls in the stock and corporate debt price arenas (and other search for yield interest rate territories), and even greater weakness than has thus far appeared in home prices, plus a "too strong" US dollar, constitute a package for a fairly severe recession.

Suppose a badly bloodied S+P 500 collapsed close to (and especially if it fell beneath) 10/13/22's critical support at 3492. That situation probably would elicit fervent and fearful appeals for help from Wall Street (particularly from armies of investors and those who serve them), agitated shouts from an armada of politicians and the financial media, and widespread concern on Main Street. October 2022's 3492 depth borders the 2/19/20 pinnacle at 3394, achieved as the horrible worldwide coronavirus pandemic emerged. The respected Federal Reserve gatekeeper and its trusty central banking cohorts likely would halt monetary tightening (and perhaps even ease conditions significantly), in the event of such a damaging downturn in the S+P 500. Recall the lively massive central banking (and fiscal) actions as the S+P 500 (and American and international economy) violently tumbled in first quarter 2020 during the coronavirus disaster. The S+P 500 plummeted 35.4 percent from 2/19/20's 3394 to 3/23/20's 2192.

A 33 percent retreat from 1/4/22's peak equals 3209. A fifty percent rally from 3/23/20's 2192 gives 3288. Support in this 3200 to 3500 region further derives from price gaps between 3405 (11/4/20)/3389 (11/3/20) and 3336 (11/3/20)/3330 (11/2/20). Scout out as well the take-off rally point at 3209 (9/24/20)/3234 (10/30/20) created during the major bull charge up to January 2022's 4819 peak.

COMMODITY ADVENTURES

The Beatles' "Day Tripper" declares:
"Got a good reason
For taking the easy way out, now…
It took me so long to find out
And I found out".

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Prices for commodities in general climbed substantially after December 2021 (Russia invaded Ukraine 2/24/22), magnifying global inflation concerns and increasing consumer price indices in America and elsewhere, thus helping to move US Treasury yields upward. The higher interest rate pattern encouraged the price peak and subsequent noteworthy decline in global stock marketplaces. The UST 10 year note yield ascended dramatically from 8/4/21's 1.13 percent interim bottom to 10/21/22's 4.34pc high.

The S+P 500’s 1/4/22 pinnacle preceded the awesome high for the overall commodities complex (broad S&P GSCI on 3/8/22 at 853.3) by about two months. This represented relatively modest divergence between those marketplace realms from the time parameter. After around March 2022 and into autumn 2022, the S+P 500 (note its lower interim high on 3/29/22 at 4637) and broad GSCI price trends tended to converge, usually (roughly) moving lower together. Though commodities peaked in early March 2022, on balance they remained very elevated until around mid-June 2022.

However, divergence between the S+P 500 and the broad GSCI developed beginning around autumn 2022. Although the S+P 500 bottomed on 10/13/22 at 3492, from mid-summer 2022 through end May 2023, the bear trend in commodities retained momentum and continued. The GSCI’s low is 5/31//23’s 521.6, a harrowing 38.9 percent bear crash from 3/8/22’s magnificent peak at 853.3. The S+P 500 rose 22.9 percent from 10/13/22 to 6/2/23’s 4291.

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American stocks and commodities in general (and individual commodities) of course have different supply/demand situations. History indicates that over the long run, the S+P 500 and commodities in general tend to travel together (in the same direction, around the same time). Often major highs (major bottoms) for commodities in general and the S+P 500 occur around the same time. All else equal, sustained “high” interest rates (especially in real terms) tend to put downward pressure on both commodities and stocks.

All else equal, a weaker US dollar tends to boost the nominal prices of dollar-denominated financial instruments such as commodities. However, a feebler dollar does not always in practice mandate (parallel; confirm) higher prices for dollar-denominated commodities. Neither does a stronger dollar necessarily coincide with or lead to a slump in commodities prices.

The long run tendency for the S+P 500 and commodities to trade together (similar price and time patterns) encourages optimism among investment and other search for yield/return groups that steady to climbing GSCI prices eventually will associate with increasing stock prices.

The petroleum complex constitutes the largest share weight of the broad S&P GSCI, almost 57 percent for 2023. OPEC+ has attempted to support oil prices for several months. OPEC+ reached a production cut agreement on 10/5/22, which it reaffirmed on 12/4/22. However, prices for the petroleum complex in general kept falling. On 4/2/23, it added a “voluntary” production cut adjustment. Brent/North Sea crude oil’s low in its bear move from 3/7/22’s 13913 pinnacle (nearest futures continuation) remains 3/20/23’s 7012. However, that trough has been challenged recently with 5/4/23’s 7128 and 5/31/23’s 7139. OPEC+ responded again on 6/4/23 with a renewed price stabilization effort. The group agreed to extend the existing cuts, valid until the end of 2023, until the end of 2024. In addition, Saudi Arabia pledged to reduce its output by one million barrels per day for July 2023, with the possibility of extending it for longer.

The recent S+P 500 rally has taken it within reach of 8/16/22’s important interim top at 4325. However, although hope exists that the Fed will halt and eventually reverse its Federal Funds rate raising program, concerns about weaker international and United States GDP growth have increased in recent months. The GSCI’s May 2023 low having occurred over seven months after the S+P 500’s October 2022 bottom arguably confirms the significant probability that such economic weakness (and maybe even a recession) will emerge. Recessionary concerns of course tend to push yields for longer-dated Treasuries such as the UST 10 year lower, even if short-term UST yields stay relatively high due to Fed tightening schemes. Keep in mind the US dollar remains fairly strong from the historic perspective. Thus commodities in general, when

interpreted in association with these other variables, indicate the S+P 500 probably will not surpass spring 2022's significant interim tops (4/21/22's 4513 and 3/29/22's 4637) for at least the near term.

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What are important near term support and resistance levels for the broad S&P GSCI?

Resistance:

**670 to 705: 671.5 (10/10/22 interim top); 679.3 (3/15/22 interim low); 705.3 (7/29/22 high)/705.2 (8/29/22 high); 33 percent rally from 521.6 low is 695
**622 to 632: 622.1 (1/24/23 interim top); 632.1 (2/18/22 low); 632.9 (7/14/22 trough)
**600: GSCI crashed from around 600 in 2014; 10/25/21 high 599.9; 595.2 on 1/24/22 was take-off point in bull move to March 2022 peak; 600.8 (2/13/23) and 599.2 (4/13/23) drop-off levels

Support:

**510 to 522: 521.6 (5/31/23 low)/522.3 (12/20/21)/509.2 (12/2/21 pre-Ukraine invasion low)
**453.2: the 1/8/20 drop-off point on the eve of the coronavirus disaster
**426.7: 50 percent collapse from 3/8/22's 853.3 peak

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For additional analysis of key interest rate, currency, stock, and commodity marketplaces and their relationships, as well as the economic and political scenes, see other essays such as: "On the Road: Marketplace Traffic" (5/1/23); "Home on the Range: Financial Battlegrounds" (4/1/23); "Balancing Acts: Financial Marketplace Trends" (3/5/23); "US Dollar and Other Marketplace Adventures" (2/5/23); "Wall Street Marketplaces: Fasten Your Seat Belts" (12/5/22); "Critical Conditions in Financial Marketplaces" (11/13/22); "Hunting for Yield: the Thrill Is Gone" (10/4/22); "Marketplace Expectations and Outcomes" (9/5/22); "Summertime Blues, Marketplace Views" (8/6/22); "We Can't Get No Satisfaction: Cultural Trends and Financial Marketplaces" (7/13/22).

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