# GREAT EXPECTATIONS: MARKETPLACE FIREWORKS

**©Leo Haviland** July 3, 2024
Leo.Haviland@gmail.com

In Charles Dickens's novel "Great Expectations", a character says: "'Ask no questions, and you'll be told no lies.'"

****

## CONCLUSION

Since around end December 2023, global inflationary forces have remained rather persistent. Note the moderate increase in the United States Treasury 10 year note yield since then. Recent consumer price index measures, despite having fallen from their peaks, stand fairly distant from the Federal Reserve Board's inflation target. Commodity prices "in general" clearly exceed their December 2023 trough. For at least the near term, the Fed therefore will find it difficult to reduce its Federal Funds policy rate nearly as much as many marketplace participants hope. The US dollar has remained strong, appreciating modestly since year end 2023; this pattern suggests that American interest rate yields probably will remain rather high. America's substantial and worsening national debt problems remain unsolved, with little prospect of progress anytime soon. Towering massive federal government budget deficits and high and growing debt as a percentage of GDP tend to boost interest rate yields higher.

Many times over the past century, significantly increasing United States interest rate yields have preceded a major peak, or at least a noteworthy top, in key stock marketplace benchmarks such as the Dow Jones Industrial Average and S+P 500. Although the S+P 500 has achieved a new all-time high this week, a "too strong" US dollar alongside rising US Treasury yields increases the probability for a fall in stocks. Marketplace opinions regarding substantial growth in US corporate earnings prospects for calendar years 2024 and 2025 look very optimistic.

Bitcoin and gold trends offer insight into patterns and prospects for other marketplaces, including the S+P 500.

The US national political scene in general and election season 2024 in particular add to financial marketplace risks.

## US INFLATION AND INTEREST RATES: ONGOING RISKS

"In the day we sweat it out in the streets of a runaway American dream", sings Bruce Springsteen in "Born to Run".

****

The Wall Street securities investment communities and their political and media allies have applauded lower United States inflation rates. Widespread faith exists that the trusty Federal Reserve will achieve its two percent inflation target fairly soon. Stock owners have been especially enthusiastic as the S+P 500 has flown to new highs in the hopes of further drops in key inflation measures and notable cuts by the Federal Reserve in the Fed Funds rate.

****

As part of its rhetoric relating to its goal defeating excessive inflation and establishing what it views as stable prices, the Federal Reserve repeatedly declares that it wants inflation to be well-anchored. The St. Louis Fed publishes a daily "5-year, 5-year forward inflation expectation rate". Its website states: "This series is a measure of expected inflation (on average) over the five year period that begins five years from today." Long run history back to 2004 shows that around three percent is high for this measure.

The St. Louis Fed's five-year, five-year forward inflation expectation rate bottomed during the early stage of the coronavirus at .86 percent on 3/19/20 (alongside the major low in the S+P 500 at 2192 on 3/23/20). Its subsequent peak remains 4/21/22's 2.67pc. The inflation expectation rate tumbled to 2.08pc (6/30 and 7/11/22). Though the high attained thereafter was 2.53 percent, reached on 8/7/23 and 10/18/23, it slid to 2.18pc on 12/27/23 (2.34pc on 7/2/24). Since this yardstick has remained fairly close to two percent since spring 2022, optimism that the Fed will ease its policy continues.

The Fed meets 7/30-31/24, 9/17-18/24, and 11/6-7/24.

****

However, review key inflation measures, Federal Reserve statements, other economic variables such as GDP, and recent moves in the US Treasury 10 year note. These probably indicate that inflation probably will not decline much (if at all) from current levels anytime soon and that the Fed will not ease as much as the stock and interest rate bulls hope. Thus the UST 10 year note yield likely will not fall substantially in the near term. The UST 10 year yield recently has attacked and probably will sustain a break above key resistance around 4.35 percent (4/2/24 high 4.41pc). It also probably will challenge the prior yield peak around five percent eventually.

****

The scoreboard underlines that although inflation has declined substantially from 2022's pinnacle, it nevertheless still surpasses the Fed's two percent target. The US consumer price index (CPI-U; all items) climbed 3.3 percent year-on-year in May 2024. Compare June 2022's year-on-year peak at 9.1 percent. However, the core CPI-U (less food and energy) advanced 3.4 percent year-on-year in May 2024 (Bureau of Labor Statistics; 6/12/24, next release 7/11/24).

The personal consumption expenditures price index has neared but remains above the Fed's two percent objective. In May 2024, it grew at an annual rate of 2.6 percent. The core PCE (less food and energy) likewise increased at an annual rate of 2.6pc (Bureau of Economic Analysis; 6/28/24, next release 7/26/24).

The key CPI-U and PCE inflation measures thus have remained recalcitrant in recent months, not yet attaining the Fed's beloved objectives. Digging into the May 2024 CPI-U statistics warns they probably will remain so. First, the "services less energy services" category (about 61.0 percent of the overall CPI-U increased 5.3 percent year-on-year in May 2024, far above the Fed's two percent target for "inflation". The "shelter" subset of that services category (36.1pc of the total index) climbed 5.4pc year-on-year in May 2024. Underscore that inflation in the services less energy services category, though it has declined from February 2023's year-on-year increase high of 7.3 percent, has stayed consistently over five percent for many months.

Much of the significant plummeting in the overall CPI-U since June 2022 derived from plummeting energy prices. In February 2024, the "energy" sector fell -1.9 percent year-on-year. However, that domain (6.6 percent of the CPI-U index) ascended 3.7pc year-on-year in May 2024.

Whether oil prices increase in future months of course matters a great deal in this inflation category. ICE Brent/North Sea crude oil (nearest futures continuation) established a critical bottom about a year ago, on 3/20/23 at 7012. Following 12/13/23's trough at 7229 neighboring this, Brent crude oil rallied about 27.5 percent to its recent high, 4/12/24's 9218. Though Brent dived to 7676 on 6/4/24, it thereafter climbed over ten dollars.

****

In its 12/13/23 meeting the Federal Reserve hinted that the rate-raising process probably was at or near an end ("we believe that our policy rate is likely at or near its peak for this tightening cycle"). However, despite the passage of half a year, this soothsayer has not clearly indicated when it probably will reduce rates. The FOMC noted in its 6/12/24 meeting: "In recent months, there has been modest further progress toward the Committee's 2 percent inflation objective." However, the Fed kept the Federal Funds rate range at 5.25 to 5.50 percent. And in its Press Release, this guardian again repeated its mantra: "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent." In his Press Conference, the Chairman declared that although inflation has eased substantially, it "is still too high." Moreover, its June 2024 Economic Projections raised its estimate for year-end 2024 of the Federal Funds rate to 5.15 percent from March 2024's forecast of 4.85pc (midpoint of the "central tendency'). In addition, the Fed announced it will continue to reduce the size of its bloated balance sheet.

The American economy has not weakened substantially. Real GDP actually increased at an annual rate of 4.9 percent in 3Q23and 3.4pc in 4Q23 (Bureau of Economic Analysis; 6/27/24; next release 7/25/24). Calendar year 2023 GDP rose at a 2.5pc annual rate. However, 1Q24 GDP expanded only 1.4 percent.

Unemployment figures remain low, further suggesting the likelihood that the Fed's game plan will remain moderately restrictive for a while longer. Unemployment rested at 4.0 percent in May 2024, creeping up from April 2023's 3.4pc low. Beginning in January 2022, it has been at or under 4.0 percent, (Bureau of Labor Statistics; 6/7/24, next release 7/5/24). US nominal wage increases, though they have declined, remain above those of real CPI-U (and PCE) price indices. According to the Atlanta Fed's wage tracker, the three month moving average for nominal median wage growth (hourly; unweighted) was 4.7 percent in March 2024 (down from July 2022's 6.7pc).

****

The following table displays the long run trend of rising US Treasury 10 year note yields since March 2020.

The UST 10 year note yield climbed up from 3.78 percent on 12/27/23 to 4.74pc on 4/25/24. Its yield thereafter dipped to 6/14/24's 4.18pc. However, the UST 10 year's yield currently is above 10/21/22's important high at 4.34 percent (recall the S+P 500's major bottom on 10/13/22 at 3492 following the rising interest rate pattern). This rate rise since late December 2023 warns that widely watched inflation yardsticks will continue for a while to find it difficult to decline much further, if at all, toward the Fed's beloved two percent target. Many observers, particularly stock owners (especially the investment sects), pray that 10/23/23's 5.02 percent yield will not be approached or exceeded.

| | 1Q20 Yield <u>Bottom</u> | 1Q21 <u>Yield High</u> | Aug 2021 <u>Yield Low</u> | Following Yield <u>Highs</u> | Next Yield <u>Lows</u> | Autumn 2023 Yield <u>High</u> |
|---|---|---|---|---|---|---|
| **UST 10** | .31pc | 1.77pc | 1.13pc | 3.50pc | 3.32pc | 5.02pc |
| **Year** | (3/9/20) | (3/30/21) | (8/4/21) | (6/14/22) | (1/19/23) | (10/23/23) |
| **Note** | | | | 4.01 | 3.33 | |
| | | | **Aug 2022** | (9/28/22) | (2/2/23) | **Dec 2023** |
| | **Mid-2020** | | **<u>Yield Low</u>** | 4.34 | 3.28 | **<u>Yield Low</u>** |
| | **<u>Yield Lows</u>** | | 2.51 | (10/21/22) | (3/24/23) | 3.78pc |
| | .54pc | | (8/2/22) | 4.09 | 3.25 | (12/27/23) |
| | (4/21/20) | | | (3/2/23) | (4/6/23) | |
| | .50 | | | | 3.29 | |
| | (8/6/20) | | | | (5/4/23) | |

****

Suppose the Federal Funds rate over the next couple of years moves in the path the Fed's 6/12/24 "Economic Projections" indicate. For year-end 2024, the midpoint of the "central tendency" is 5/15 percent (up from 3/20/24's 4.85pc estimate), with that for end 2025 4.15 percent (rising from 3/20/24's 3.75pc forecast). The Fed Funds central tendency midpoint retreats to 3.25pc by end 2026. The cloudy "Longer run" midpoint for the Fed Funds rate is 3.00pc, up from 3/20/24's 2.80pc. Thus based on these estimates, the Fed Funds rate gradually will decline from current levels; therefore the yields of short term US Treasury securities likewise would fall. However, the implicit basis point decline in the Fed Funds rate for calendar 2024 (about 22 basis points; the midpoint of the current 5.25/5.50pc range minus 5.15pc) is less than what many securities bulls forecast.

However, if one assumes (wagers on) the Fed viewpoint regarding its policy rates (and all else equal), marketplace players should ask whether over the next few years the US Treasury 10 year note will slump much below 12/27/23's 3.78 depth for any very significant length of time. Suppose the Fed Funds rate equals the inflation rate (CPI-U, PCE, or however else defined) and that marketplace pilgrims generally can receive a real return of 50 basis points over the Fed Funds rate via the long term UST instruments they own. Thus, for the "Longer run" rate of 3.00 percent, that points to a UST 10 year note yield of 3.50 percent. Marketplace history reveals support in the 3.00 to 3.50 percent range for the UST 10 year note yield. Recall 6/14/22's 3.50 percent yield high; scan the five yield lows between 3.25 and 3.33 percent during first half 2023. Compare the prior yield highs on 10/9/18 (and 11/7/18) at 3.25 percent as well as the top 10 years ago on 1/2/14 at 3.06pc.

The year-end 2024 Fed Funds midpoint of 5.15 percent, even without adding a 50 basis point yield premium, exceeds 12/27/23's UST 10 year yield. The year-end 2025 Fed Funds midpoint of 4.15 percent sits mildly above the late December 2023 UST 10 year note level; 4.15pc plus a 50 basis point real return gives a 4.65pc UST 10 year yield.

Also underscore the US Congressional Budget Office's anticipation for the yearly average yield in the UST 10 year note ("An Update to the Budget and Economic Outlook: 2024 to 2034"; 6/18/24; see also "The Long-Term Budget Outlook: 2024 to 2054"; 3/20/24.). According to the CBO, the UST 10 year yield probably will average 4.50 percent in calendar 2024, around the current height. It predicts the average will drop to 4.10pc in calendar 2025 and 3.70pc in 2026.

**DANGER SIGNS: US FEDERAL DEFICITS, DEBT LEVELS, AND INTEREST RATES**

In the movie “Rashomon”, the Commoner remarks: “Man just wants to forget the bad stuff, and believe in the made-up good stuff. It’s easier that way.” (Akira Kurosawa, director)

****

According to the Congressional Budget Office (6/18/24 “Update”; Table 1.1), the fiscal year 2023 budget deficit totaled a massive amount, about $1.7 trillion, equaling 6.3 percent of Gross Domestic Product. The average deficit from 1974 through 2023 was 3.7pc of GDP. Federal debt as a percentage of GDP rose to 97.3 percent of GDP in fiscal 2023. Compare the 48.3 percent average for the 1974-2023 half-century. The CBO predicts the federal budget deficit will grow from around $1.9 trillion in 2024 (6.7 percent of GDP) to almost $2.9tr in 2034 (6.9pc of GDP). The budget deficit averages 6.3 percent of GDP from 2025-2034.

Debt held by the public as a percentage of GDP will be around 99.0 percent of GDP in fiscal 2024 and 101.6pc in 2025. According to the CBO, when debt held by the public as a percentage of GDP reaches 107 percent in 2029, it will exceed its prior historical high (106pc in 1946, right after World War Two). It reaches a monumental 122.4 percent of GDP by 2034, ascending to a colossal 166 percent of GDP by 2055 (and 2055’s pc debt estimate is probably even higher if one applies 6/18/24’s Update to March 2024’s “Long-Term Budget Outlook”. Debt held by the public balloons from $26.2 trillion in 2023 to $48.3 trillion in 2034. The CBO’s analysis reflects current law. But what if the individual income tax cuts scheduled to expire at the end of calendar year 2025 are extended? All else equal, that will exacerbate the deficit problem. (See also “The Budget and Economic Outlook: 2024 to 2034”; 2/7/24; “The Long-Term Budget Outlook: 2024 to 2054”; 3/20/24.)

Such ongoing substantial budget deficits (and the lack of political will to reduce them significantly) risk higher interest rates. Will credit agencies lower America’s credit rating? Though a fiscal crisis may not emerge in the near term, the odds of an eventual one probably are increasing.

****

America’s substantial ongoing federal fiscal deficits and large and growing federal debt as a percentage of GDP occasionally make headlines. Congressional leaders and Presidential candidates for quite some time have underestimated the severity and risks of the problems.

Partisan warfare, including internecine party conflict (particularly within the Republican camp) and election year 2024 politics have generated occasional fears and moderate excitement, but national leaders escape near term problems by repeatedly kicking the can down the road. The bipartisan budget deals reached in November 2023 as well as the more recent ones accomplished little of substance. Although America avoided a federal government shutdown, breaking through the appropriations logjam merely evaded the enactment of substantive solutions regarding deficit reduction. Theatrical legislative performances related to fiscal 2025 appropriations process probably will surface around (or not long after) the 2024 national election, even if only one party captures the Presidency, the Senate, and House of Representatives.

Politicians, Main Street, and Wall Street marketplace participants generally have confidence in the ability of US national leaders to postpone the short term fiscal problems indefinitely. As for the terrifying long run fiscal threats, and judging the politicians by their actions, most people nowadays do not worry about such dangers much. Maybe things will work out for the best somehow. Maybe everyone’s grandchildren will manage to solve the menacing long run troubles.

In any event, the majority of American political leaders have not acted to significantly reduce, or even address, the major long term budget and deficit issues.

Yet despite this complacency, all else equal, ravenous demand for credit and related substantial federal debt risks (and potential fiscal crises) tend to boost US interest rate yields. In addition, ongoing imprudent federal fiscal management tends to undermine confidence in the nation's ability to run itself well and thus over the long run makes its currency (all else equal) and its assets (including US Treasury securities such as the 10 year note) relatively (marginally) less attractive to hold.

## WARNING SIGNALS: US DOLLAR TRENDS

Bob Dylan sings in "All Along the Watchtower":
"'There must be some way out of here,' said the joker to the thief
'There's too much confusion, I can't get no relief.'"

****

"US Dollar and Other Marketplace Adventures" (2/5/23) stated: "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." Subsequent essays, including "Marketplace Travels: Potential Bumps in the Road" (4/2/24), reaffirmed this viewpoint. The renewed rally in the US dollar over the past several months has carried it relatively close to autumn 2022's pinnacle, arguably making it "too strong."

****

After US and international consumer price inflation leaped in 2022, the Federal Reserve has been a leader in the quest to reduce that excessive inflation to tolerable levels. Its monetary policy tightening strategy (including rapid boosts to the Federal Funds rate, cutting the size of its enormous balance sheet, and hawkish rhetoric) played a key role in creating dollar appreciation and maintaining a very strong US dollar.

Thus to the extent the Fed policeman changes its program to a less restrictive stance (or hints that it probably will do so in the relatively near future), its leadership role probably will tend to depreciate the dollar. If increasing US interest rates helped the US dollar to rally (and remain strong), yield declines probably will weaken the dollar.

Similarly, to the extent the Fed maintains a restrictive monetary scheme (and warns that it will continue to do so until it ascertains substantial reasons to shift from that agenda), the dollar will tend to appreciate. Although Fed commentary has been less hawkish in recent months than earlier, it has resolutely retained a restrictive policy.

Recall the ascent in the UST 10 year note from 3.78 percent on 12/27/23 (3.81pc 2/1/24) to its initial highs around 4.35 percent on 2/23/24 and 3/18/24. The UST 10 year note broke above these with 4/2/24's level around 4.41pc. The rally in the US dollar since late December 2023 has paralleled (confirmed) the interest rate yield increases and the Fed's ongoing tight policy.

****

The Federal Reserve releases a real Broad Dollar Index (H.10; January 2006=100; monthly average; 7/1/24 is the latest) as well as a nominal Broad Dollar Index (daily data; 7/1/24 release;

6/28/24 most recent datapoint) covering both goods and services. The following table displays nominal Broad Dollar Index trends since March 2020.

| . | **1Q20** **<u>High (date)</u>** | **Key Low** **<u>Level (date)</u>** | **Percent Decline** **<u>from 1Q20 High</u>** | **Next** **<u>Highs (date)</u>** | **PC Rally from 2021 Low to** **<u>Fall 2022 High</u>** |
|---|---|---|---|---|---|
| **Nominal Broad Dollar Index** | 126.1 (3/23/20) | 110.9 (1/6/21) | 12.4pc | 124.1 (7/14/22) | 16.2pc |
| | | 110.5 (6/1/21) | | 123.6 (8/22/22) | **Oct23 + June24** **<u>BDI Highs</u>** |
| | | | | 128.4 (9/27/22) | 124.2 (10/5/23)<br>124.3 (10/26/23) |
| | | | | 128.4 (10/19/22) | 124.6 (6/27/24) |

The real Broad Dollar Index ("BDI") peaked in October 2022 at 121.1. Although it endured a moderate decline from that "too strong" elevation, the dollar generally has remained strong. June 2024's 117.7 level (the recent high) stands only about 2.8 percent beneath October 2022's resistance, and it exceeds October 2023's 117.4 prior interim high. Since nowadays the Fed probably does not want a too-robust US dollar, not raising the Federal Funds rate from current levels (and of course lowering it) probably will tend to stop a huge further dollar rally.

****

The Federal Reserve's real Broad Dollar Index had a titanic ascent from the price and time perspective from its major bottom at 83.9 in July 2011. Over the next 11 years, the Broad Dollar Index traveled a long distance, 44.3 percent, to reach October 2022's 121.1 peak. In its critical last stage of 21 months from January 2021's 103.3 interim low, the real BDI jumped a substantial 17.2 percent to its summit. June 2024's 117.7 height is rather close to October 2022's elevation.

****

The nominal BDI (daily data) retreated almost eight percent from its autumn 2022 pinnacle, fairly close to the important ten percent "correction" distance. Although the real Broad Dollar declined since October 2022, it did not decisively break beneath critical support, April 2020's 113.4 summit.

The real Broad Dollar Index established a crucial initial top in April 2020 at 113.4. It dropped 8.9 percent 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 October 2022 pinnacle. From August 2022's lofty 116.7, it appreciated to 119.5 in September 2022 and 121.1 in October 2022, smashing 6.8 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 above it to reach 9/27/22's and 10/19/22's 128.4 zenith.

Following late September/October 2022's highs, the US dollar in general depreciated moderately. The real Broad Dollar Index staggered downhill to 114.0 in January 2023. However, the real BDI has held around April 2020's 113.4 top. It motored up slightly to 114.9 in March 2023. Though the real BDI slipped to 112.4 in July 2023 (a 7.2 percent decline from autumn 2022's high), it steadied at 114.0 in August 2023.

"Marketplace Crossroads" (9/4/23) concluded: "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 rallied to 115.7 in September 2023 and 117.4 in October 2023. The US dollar therefore remained powerful. Though the US dollar in October 2023 was modestly beneath its autumn 2022 pinnacle, its rally from July 2023's low perhaps had made it "too strong" from the long run historical perspective. The real BDI slipped to December 2023's 113.8 (UST 10 year note low 12/27/23 at 3.78 percent). However, it bounced up to 115.1 in February 2024. And June 2024's real Broad Dollar Index at 117.7 not only hovers well above April 2020's 113.4 summit support, but also arguably has become too strong.

The nominal BDI likewise declined from its October 2023 summit; it closed at 118.8 on 12/28/23. The fall from 10/26/23's 124.3 to 118.8 is 4.4 percent. Like the real BDI, the nominal BDI has climbed a bit from its December 2023 trough. The high thereafter is 2/13/24's 121.9 (121.4 close on 3/29/24; not far from the October 2023 interim highs).

Highlight also the timing of the nominal BDI's low following its September/October 2022 highs around 128.4, 7/14/23's 117.4, an 8.6 percent slide. Compare the timing of July 2023's interim top in the S+P 500 (7/27/23 at 4607) with the 7/14/23 low in the nominal BDI. Note the nominal BDI's subsequent rally and the S+P 500's fall. The initial high in the nominal BDI since then was 10/26/23's 124.3; the S+P 500's low since its July 2023 peak is 10/27/23's 4104. The nominal BDI was 124.2 on 10/5/23, the eve of Hamas' attack on Israel. The nominal BDI on 6/27/24, 124.6, exceeds that of October 2023.

****

Investors as well as other traders and observers know that marketplace history does not necessarily repeat itself, either entirely or even partly. Trends and relationships can change, sometimes dramatically.

Recent history nevertheless indicates that at least for the near term, renewed US dollar appreciation portrayed via the Broad Dollar Indices probably has intersected with rising UST 10 year yields. Longer run history indicates that this warns of eventual noteworthy falls in the S+P 500 and emerging marketplace equities.

## AN OBSTACLE FACING STOCKS: RISING UST NOTE YIELDS

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

****

Let's focus on the history of and relationship between the US Treasury 10 year note and the S+P 500.

Many times over the past century, significantly increasing United States interest rates have preceded a major peak, or at least a noteworthy top, 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. The arithmetical (basis point) change has not always been large.

Sometimes the yield advance has extended past the time of the stock pinnacle. See "Long Run Historical Entanglement: US Interest Rate and Stock Trends" (7/6/23).

For example, the UST 10 year note yield increased since 3/9/20's major bottom at .31 percent, accelerating upward from 8/4/21's 1.13 percent to 6/14/22's 3.50 pc. The S+P 500 peaked during this climbing yield trend, on 1/4/22 at 4819. The pattern of rising UST yields leading to (encouraging) a fall in the S+P 500 continued. The UST 10 year note yield, after sliding down to 8/2/22's 2.51 percent, resumed its yield ascent. Recall the UST 10 year note's interim yield high at 4.01 percent (9/28/22) and the yield peak at 4.34pc on 10/21/22. Facing this rising yield period, the S+P 500 suffered a dreadful 27.5 percent decline from January 2022's glorious summit, reaching its major bottom on 10/13/22 at 3492 (close in time to the UST's 10/21/22 yield high).

The dollar's modest depreciation following its autumn 2022 peak probably assisted the S+P 500's rally from its dismal 10/13/22 bottom at 3492. What about emerging marketplace stock and debt battlefields? The price rally in the EEM and EMB ETFs since autumn 2022 and subsequent sideways move intertwined with an initial decline in and then sideways pattern in the real (and nominal) Broad Dollar Index.

Thereafter, the UST 10 year made another important interim yield low with 4/6/23's 3.25 percent. With 8/22/23's 4.37 percent, the UST 10 year pierced 10/21/22's 4.34 percent barrier. As the UST yield climbed, the S+P 500 established an important interim top on 7/27/23 at 4607 (a magnificent 31.9 percent rally from October 2022's 3492 valley). Remember the real Broad Dollar Index's interim low in July 2023 at 112.4 (slightly under April 2020's 113.4 top) around the time of the S+P 500's July 2023 high. The UST 10 year yield kept rising, reaching 5.02 percent on 10/23/23, one year from October 2022's interim high. Compare that interest rate level to 6/13/07's 5.32 percent Goldilocks Era summit. The S+P 500's 10/27/23 low at 4104 occurred only a few days after the UST 10 year's 10/23/23 high.

****

So in both calendar October 2022 and October 2023, the UST 10 year note yield attained an important top. Around the time of those peaks, the S+P 500 established an important low. In this context, underline the role of the very strong dollar and the timing of its summit. The real Broad Dollar Index peaked in October 2022 (nominal BDI pinnacle touched around then as well). Important highs in the real and nominal Broad Dollar Indices occurred in calendar October 2023.

Admittedly, most marketplace wizards express optimism regarding the potential for robust US corporate earnings for the next couple of years. Investment enthusiasm for artificial intelligence-related and other technology sectors has been powerful, which has played a key role in propelling the S+P 500 to new record highs.

The S+P 500's high since 10/27/23's low at 4104 is 7/3/24's 5539, a 35.0 percent upward explosion, substantially exceeding 7/27/23's interim top and flying 14.9 percent beyond 1/4/22's major high at 4819. The glorious 58.6 percent rally in the S+P 500 from 10/13/22's 3492 to 7/3/24's elevation undoubtedly has pleased the US stock investment (ownership) communities and their enthusiastic Wall Street and media allies. The Dow Jones Industrial Average's record high is 5/20/24's 40077 (39308 close on 7/3/24). The Nasdaq Composite Index's high in its bull move is 7/3/24's 18188.

Nevertheless, and although marketplace history need not repeat itself (either entirely or even partly), increasing UST 10 year note yields since late December 2023 accompanied by a strong (and perhaps too strong) and appreciating US dollar probably warn of a decline in the S+P 500.

****

Many marketplace captains watch other interest rate trends alongside those in the UST marketplace. For example, the German Bund's recent yield highs occurred close in time to that of the UST 10 year note. The Bund's yield top occurred 10/4/23 at 3.02 percent, with its second lower high at 2.97pc on 10/23/23 (the day of the UST peak). The Bund yield dived to 1.89 percent on 12/28/23 (which remains the low), adjacent to 6/16/22's 1.89pc summit. The recent yield high is 5/31/24's 2.71 percent.

****

Many stock marketplace experts and their followers proclaim that a bear move in stocks equals a slump of twenty percent or more from a peak. They define a ten percent fall in a stock benchmark such as the S+P 500 from an important high as a "correction". Often, downhill price moves from an important top find support (even if that floor is temporary) after "around" a ten or twenty percent decline. For example, the vicious three month fall from July 2023's 4607 interim high to 10/27/23's 4104 bottom ran 10.9 percent.

****

Of course, since marketplace history indicates that ongoing relationships can shift or transform, the current patterns between the US Treasury 10 year note yield and the S+P 500 (and the US dollar) can change.

History reveals that the dollar can depreciate substantially alongside or thus help lead to notable falls in the S+P 500 and "related" stock marketplaces. For example, picture a world of rising US and international interest rates (perhaps alongside dangerous inflation), widespread belief that America's public debt situation is poorly controlled and at fearful levels, and tighter monetary policy in many other leading nations relative to the US (or signs that America will lead the global monetary easing trend). And suppose US and worldwide corporate earnings prospects change direction from optimistic to gloomy. Alternatively, stock and other marketplace gamblers know the dollar can appreciate alongside a rally in the S+P 500.

****

In any case, the long run pattern of rising UST 10 year note yields probably has resumed, thus leading to eventual notable S+P 500 declines. Even if the UST 10 year note yield does not exceed its 10/23/23 pinnacle at 5.02 percent in the near term, suppose its yield climbs toward that height.

Alternatively, suppose the UST 10 year note yield does not in the near term make a new high around or above 10/23/23's 5.02 percent, or climb fairly close to 10/23/23's yield top. Would a renewed slump in UST 10 year yields toward or beneath 12/27/23's 3.78pc level portend not only future Fed easing, but also a recession (rather than a soft landing)? Be on the lookout for commodity price weakness in that regard. From this perspective, the rise in the UST 10 year yield since its December 2023 trough still has been leading to a subsequent high in the S+P 500.

****

What if the inflation rate does not keep falling toward the Fed's two percent target? The Fed probably will keep its policy rates lofty for many more months.

The formidable Fed probably will tolerate a brief recession to defeat inflation, but it (and of course Wall Street and Main Street and politicians) likely would hate a severe one. In today's international and intertwined economy, renewed substantial price falls (near to or under October 2022 lows) in the stock and corporate debt arenas (and other search for yield interest rate

territories), and greater weakness than has thus far appeared in home prices, plus a "too strong" US dollar, are a recipe for a fairly severe recession.

A five percent move over 3/28/24's interim high at 5265 equals 5528, a ten percent venture above 5265 gives 5792. Eight times 3/6/09's major bottom at 667 during the global financial disaster equals 5336; nine times that low is 6003.

A five percent fall in the S+P 500 from 7/3/24's 5539 high is 5262. The dip from 3/28/24's 5265 interim high to 4/19/24's minor low was 5.9 percent. A ten percent correction from 7/2/24's high equals 4985. Recall the 10.9pc drop from 7/27/23's 4607 to 10/27/23's 4104. A bear move of twenty percent gives 4431, with a 25pc retreat 4154. A 33 percent crash from 5539 equals 3689.

History shows that the Fed probably will not intervene with policy measures to support the economy (the S+P 500) if the S+P 500 fell only around 10 percent. It might try to halt a decline in the S+P 500 of around 20 percent, especially if it became concerned about economic growth or financial stability. A 33 percent crash in the S+P 500 probably will motivate the Fed to ease policy substantially; recall its rescue actions during first quarter 2020, when the S+P 500 collapsed 35.4 percent.

****

For the twenty-two US stock marketplace "bear" trends summarized in "US Stocks Over the Long Run: Bear Marketplace History" (8/4/23), the average percentage decline from the peak to the trough is about 33.9 percent. The average duration of the descent from the summit to the bottom is approximately 14.2 months.

## EMERGING MARKETPLACE VOYAGES

"It's déjà vu all over again!" Baseball star Yogi Berra

****

The United States dollar level and trends play an important role for the securities trends of emerging marketplaces. For example, all else equal, a stronger dollar (and especially a "too strong" dollar) alongside high and rising American US Treasury yields presses down on US dollar-denominated (and other) emerging marketplace debt prices (increases yields), and thereby tends to weaken emerging marketplace stocks.

Often commodities "in general" move in the same direction around the same time as prices for emerging marketplace securities (and other search for yield assets such as US corporate bonds).

A mighty dollar and price slumps in emerging marketplace securities helped to undermine the S+P 500 and create its 1/4/22 pinnacle at 4819. The 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). A very strong US dollar encouraged the relationships of higher US Treasury yields, descending stock prices, and nosediving prices for commodities in general.

****

"EEM" is the iShares MSCI (BlackRock) emerging stock markets ETF. This weathervane covers over 800 large and mid-size companies. Despite Mainland China's global economic power, most analysts classify it as an emerging market nation from the economic perspective. It possesses a

25.1 percent portion of the EEM (BlackRock's iShares website, 3/31/24). China's Shanghai Composite Index's price and time picture generally resembles that of the EEM. The S+P 500's trends often have converged with those of the EEM, but sometimes they have diverged for extended periods.

The "EMB" ETF, from iShares (BlackRock)/J.P. Morgan, gives investors and other enterprising gameplayers an opportunity to deal in United States dollar-denominated government bonds issued by emerging market countries. The EMB includes over 30 countries and has a weighted average maturity of about 12.0 years (3/31/24). The EMB is quoted in price terms, so falling prices reflect rising yields. Keep price trends for the S+P 500 and other stock marketplaces in view, as well as an eye on price trends for commodities in general.

****

Let's survey price patterns of emerging marketplace securities over the past couple of years. The EEM's 10/24/22 low at 33.49 (S+P 500 bottom 10/13/22 at 3492) was followed by a high on 1/26/23 at 42.53 and a second and lower top on 7/31/23 at 42.00. Compare the EMB's 76.35 trough on 10/21/22 and interim tops on 2/2/23 at 8997 and 7/31/23 at 87.79.

The EEM's established a notable low with 10/23/23's 36.38, The EMB rallied from its 10/19/23 trough at 79.70. Thus the EEM and EMB reached their important troughs around the time of the highs in the US dollar (nominal BDI tops on 124.2 on 10/5/23 and 10/26/23 at 124.3; compare timing of US dollar's cross rate highs relative to key trading partners). These emerging marketplace securities lows thus tended to confirm the high in the US dollar. Note the similar timing of the US Treasury 10 year note's yield high to date, 10/23/23's 5.02 percent, as well as the S+P 500's 10/27/23 bottom at 4104.

The EEM's 5/17/24 high at 43.87 exceeds 7/31/23's and 1/26/23's resistance level (42.00/42.53), but by less than five percent. The EEM's May 2024 high stands far beneath 2/16/21's 58.29 pinnacle. The EMB's bull move from its 10/19/23 price depth reached a high of 90.08 on 3/27/24 (89.73 on 12/27/23); compare its 5/16/24 interim top at 89.95, alongside that in the EEM.

****

China's Shanghai Composite Index's pinnacle during the coronavirus pandemic following its 3/19/20 low at 2647 occurred 2/18/21 at 3732 (note double top linked to 9/14/21's 3724 high). The Shanghai Composite attained a crucial trough on 10/31/22 at 2885 (near 4/27/22's 2864; creating a double bottom).

The Shanghai Composite Index's summit since its October 2022 valley occurred with 5/9/23's 3419. That May 2023 interim top did not break over 7/5/22's 3424 (a 19.6pc jump from 4/27/22's 2864). Note the Shanghai Composite's lower high at 3322 on 7/31/23, close in time to the S+P 500's top on 7/27/23 at 4607.

Many marketplace veterans associate a bullish copper marketplace with a strong (or recovering) Chinese economy, with sustained copper bearishness connected to (reflecting) Chinese economic weakness. The Shanghai Composite cut under 8/25/23's 3053 low, reaching 2924 on 10/23/23 (bordering from the time parameter the S+P 500's key 10/27/23 low at 4104). Compare the timing of COMEX copper's interim low (nearest futures continuation) on 10/23/23 at 3.530 (close to 5/24/23's 3.540).

The Shanghai Composite collapsed following its July 2023 interim top, reaching 2635 on 2/5/24. Chinese government support measures sparked a rally, with 5/20/24's 3174 the high thereafter. Copper skyrocketed up to 5.199 on 3/18/24.

Attacks by the Shanghai Composite on 10/31/22's 2885 (4/27/22's 2864), and especially on 3/19/20's coronavirus pandemic era bottom at 2647, probably will agitate global marketplaces.

America is not the only land with substantial and growing indebtedness. For example, the International Monetary Fund's broad coverage viewpoint indicates that China's overall nonfinancial sector debt is massive, reaching 301 percent of GDP in 2022 (248pc of GDP in 2018). This includes not only the official version of general government debt, but also the IMF's estimate of other types of local government borrowing ("augmented" debt). See the People's Republic of China "2023 Article IV Consultation" (February 2024; Table 5: "Nonfinancial Sector Debt"). The substantial indebtedness and related financial carnage in China's property sector probably continues to undermine that nation's growth.

## GREAT EXPECTATIONS: S+P 500 VALUATION AND CORPORATE EARNINGS

In "On Wall Street", Finley Peter Dunne's famed character Mr. Dooley declares: "A Ti-tan iv Finance is a man that's got more money thin he can carry without bein' disordherly. They'se no intoxicant in th' wurruld, Hinnissy, like money. It goes to th' head quicker thin th' whiskey th' dhruggist makes in his back room." (The spelling is Dunne's.)

****

According to FactSet, the forward 12 month Price/Earnings ratio for the S+P 500 is 21.2. This P/E ratio stands above the 19.3 five year average, and it also surpasses the 17.9 ten year average ("Earnings Insight"; 7/3/24). LSEG estimates the S+P 500's forward four quarter P/E ratio at 21.7 ("S&P 500 Earnings Scorecard"; LSEG I/B/E/S; 6/28/24). Views on "overvaluation" ("expensive"), "undervaluation" ("cheap"), and "fair (or reasonable; average) value" and similar notions reflect opinion. Yet the overall S+P 500 arguably looks somewhat "high" relative to this measure.

Rallies in the "technology" stock sector, encouraged partly by hopefulness regarding the financial benefits and profits from artificial intelligence innovation, have played a major role in the S+P 500's price rise in recent months. Will this enthusiasm persist? In any case, FactSet gives the forward 12 month P/E ratio for the "information technology" sector at 30.5 ("Earnings Insight"; 7/3/24). This stands far above its 24.5 five year average and soars over the 20.6 ten year average.

Perhaps this current high valuation for such technology firms (including many massive enterprises) will persist. Perhaps a "new era" for this sector exists; perhaps "this time is different." But maybe this lofty valuation will decline, especially if US interest rates remain persistently high, or widespread price weakness emerges in the overall American stock marketplace.

****

According to the Bureau of Economic Analysis (6/27/24, Table 9), US after-tax corporate profits (with inventory valuation and capital consumption adjustments) were essentially flat in calendar 2023 versus 2022, inching up only .2 percent year-on-year. For 1Q24, after-tax profits advanced 5.3pc year-on-year, though they declined -2.7pc relative to 4Q23.

****

FactSet says 1Q24 earnings for the S+P 500 grew 5.9 percent year-on-year (7/3/24). It expects 2Q24 earnings will rise 8.8 percent year-on-year, with 3Q24 increasing 8.1pc versus 3Q23 and 4Q24 racing up 17.3pc year-on-year. It indicates calendar 2024 year-on year earnings for the S+P 500 will leap 11.2 percent (calendar year 2023 only rose one percent year-on-year). FactSet prophesizes 1Q25's earnings will soar 15.2pc year-on-year, with 2Q25 flying up 15.6pc versus 2Q25. LSEG predicts a 10.7 percent year-on-year spike in calendar 2024 corporate earnings. LSEG indicates quarterly year-on-year earnings jumped 8.2 percent in 1Q24, and it predicts year-on-year increases of 10.6pc in 2Q24, 8.6pc in 3Q24, and 14.8pc in 4Q24. Calendar 2025 earnings fly up as well, rising 14.4pc year-on-year. ("S&P 500 Earnings Scorecard"; LSEG I/B/E/S; Exhibits 5, 20, and 21; 6/28/24)

Will actual United States calendar 2024 and 2025 corporate earnings match these optimistic expectations? To what extent are these bullish earnings viewpoints "built into" the current S+P 500 price? Or will viewpoints regarding these future earnings darken, thereby disappointing many stock investment bulls? The ongoing fairly strict Federal Reserve policy (relatively high Federal Funds rate), if not eased much (if at all) later this year, not only will worry stock marketplace bulls, but also probably will weigh on corporate profitability. Suppose American or global growth falls short of expectations.

****

As the battle by the all-star Federal Reserve (and many of its central banking teammates) to defeat runaway inflation has involved a sharp boost in interest rates (and a reduction in the Fed's enormous balance sheet), it has risked recession (or very slow growth) in America and around the world. However, hope persists that the American and worldwide economy will achieve a "soft landing", not a "hard" one. The stratospheric flight in the S+P 500 in recent months perhaps persuaded many stock owners that there will be no landing at all.

## HOME SWEET HOME

The median sales price of existing single-family homes prices made an initial high with June 2023's $415,700. January 2024's $382,900 fell 7.9 percent from there. However, May 2024's $424,500 median sales price increases 10.9 percent versus the January 2024 low and rises 5.7pc year-on-year. See National Association of Realtors (6/21/24). However, May's median price exceeds that of June 2023 by only 2.1pc. Thus its percentage climb relative to its June 2023 high falls far short of the S+P 500's nearly twenty percent ascent to date relative to its July 2023 interim high at 4607. As mortgage rates have remained lofty, single-family home sales have tumbled in recent years, from 5.41 million in 2021, 4.48mm in 2022, to 3.66mm in 2023, with May 2024's at a 3.71mm annual rate.

American house price trends of course do not always or necessarily dance alongside (converge with) the S+P 500. However, renewed weakness in the US housing marketplace might encourage (interrelate with) price declines in the S+P 500.

China's housing crisis has not disappeared.

****

A substantial amount of commercial real estate debt obligations in America and elsewhere probably has become difficult to repay. Examine credit quality. According to the Financial Times (6/24/24, p6), mortgage veterans assert that "Credit agencies have mis-rated more than $100bn of

commercial real estate debt in an increasingly popular segment of the market… in which deals are backed by one loan or mortgage on a single large office building."

## COMMODITIES, INFLATION, AND THE S+P 500

In "Suddenly, Last Summer", a 1959 film based on the Tennessee Williams play (Joseph Mankiewicz, director), a character says: "Truth is the one thing I've never resisted."

****

United States dollar levels and trends of course will continue to intertwine in complex and sometimes changing fashions with interest rate, stock, and commodities marketplaces.

All else equal, a weaker US dollar tends to boost the nominal prices of dollar-denominated financial instruments such as commodities and the S+P 500. However, marketplace history is not marketplace destiny. A depreciating or feeble dollar does not always in practice mandate (parallel; confirm) higher prices for dollar-denominated "assets". Neither does a stronger dollar necessarily coincide with or inevitably lead to a slump in the prices of commodities "in general" or US stocks.

Many marketplace gurus promote commodities as an "alternative investment (or asset)" class, a worthy arena in which "investors" can diversify their portfolios. In recent decades, commodities, like emerging marketplace securities, often have represented vehicles whereby those seeking wealth and financial security can "search for yield".

American stocks and commodities in general (and individual commodities) obviously have different supply/demand situations. But history indicates that over the long run, the S+P 500 playground 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. Over the long run of recent decades, prices of commodities "in general" tend to converge with the S+P 500.

Enlist the broad S+P GSCI as a yardstick for the overall commodities domain. The thrilling petroleum complex constitutes the largest share weight of the broad S&P GSCI, roughly 55 percent for calendar 2024 (almost 57 percent in 2023).

****

However, price and time trends for the overall commodities field sometimes have diverged from that of the S+P 500 (and other international equity realms) for extended periods. Revisit the ending of the Goldilocks Era, in which the S+P 500 peaked over nine months before commodities. The S+P 500 pinnacle occurred 10/11/07 at 1576, the GSCI summit on 7/3/08 at 894.

Divergence between the S+P 500 and the broad GSCI developed beginning around autumn 2022. The S+P 500 made a floor on 10/13/22 at 3492 and rallied up to 7/27/23's 4607. In contrast, the bear trend in the broad GSCI retained momentum after autumn 2022, making an interim low in end May 2023. Some convergence arguably followed. The S+P 500, following its 7/27/23 high, began to collapse from 9/14/23's 4512. This mid-September 2023 collapse point occurred alongside the GSCI's 9/15/23 high and only two weeks prior to Brent/North Sea crude oil's 9/28/23 high. However, divergence between the S+P 500 and the commodities complex soon reappeared, lasting until around year end 2023. Whereas the S+P 500 rallied substantially after

10/27/23’s 4104 depth, the GSCI and Brent/North Sea crude oil rallies did not begin until mid-December 2023.

****

Persistently higher commodity prices may propel overall inflation measures higher and injure business and consumer confidence. The commodity price climb not only might push interest rate yields upward, but also might eliminate existing hopes for acceptable future economic expansion or at least for a soft landing.

****

Russia’s invasion of Ukraine 2/24/22 ignited a massive bull move in commodities in general and the petroleum complex in particular. The broad GSCI peaked relatively shortly thereafter, on 3/8/22 at 853.3, making a significant further summit on 6/8/22 at 825.4. Commodities thereafter crashed, breaking down a bloody 38.9 percent from 3/8/22’s 853.3 to 5/31/23’s 521.6 (528.0 on 6/28/23). This late May 2023 GSCI interim trough level bordered important prior lows at 522.3 (12/20/21; pre-Ukraine invasion) and 509.2 (12/2/21). ICE Brent/North Sea crude oil (nearest futures continuation), following 3/7/22’s 13913 pinnacle, crashed to 7012 on 3/20/23, making another important low at 7157 on 6/28/23.

The GSCI domain advanced a noteworthy 19.6 percent from May 2023’s trough to its following high at 623.6 (9/15/23; 623.4 on 9/28/23). Brent/North Sea crude oil soared 39.3 percent from its 3/20/23 low at 7012 to 9/28/23’s 9769. However, The GSCI fell to 570.4 on 10/6/23, and Brent/North Sea crude oil plummeted to 8344 that day. Despite the start of the Israel versus Hamas war on 10/7/23 and the passage of nine months, both the GSCI and Brent/North Sea crude oil remain beneath their September 2023 interim tops.

The GSCI high following 10/7/23 is 10/20/23’s 607.7, but it fell to 516.4 on 12/13/23 (around prior troughs; a 39.5 percent dive from 3/8/22’s summit). Although Brent/North Sea crude motored up to 10/20/23’s 9379, it tumbled substantially to 12/13/23’s 7229, close to 3/20/23’s and 6/28/23’s depths.

OPEC+’s crude oil production cuts, beginning with its 10/5/22 production cut agreement and continuing with 11/30/23’s OPEC+ program, have helped to support petroleum prices and encourage a rally. Monitor the extent of inventory drawdowns and declines in days coverage.

Recall that the S+P 500 made a crucial interim low on 10/27/13, prior to the 12/13/23 troughs in the broad GSCI and Brent/North Sea crude oil. However, the S+P 500 blasted even higher, accelerating rapidly following its decisive breakout on 12/13/23 (4643 the low that day, above 7/27/23’s 4607), right alongside the 12/13/23 GSCI and crude oil lows. From 12/13/23’s 7229, Brent leaped up 27.5 percent to 9218 on 4/12/24. The GSCI rallied 17.5 percent from 12/13/23’s 516.4 to 606.8 on 4/12/24.

The broad GSCI and petroleum complex rallied sharply from their December 2023 lows alongside a fairly strong (even appreciating) US dollar (Broad Dollar Index). Also note the timing of the decline in key cross rates versus the dollar such as the EuroFX, which has slumped since 12/28/23’s interim top at 1.114. Though Brent/North Sea crude oil tumbled to 7676 on 6/4/24 (GSCI low 6/4/24 at 555.8), it rallied significantly in recent weeks, reaching 8746 on 7/2/24.

Does the sideways to up trend in commodities prices since December 2023 indicate that international economic weakness will be avoided? Or does the commodities climb instead warn of entrenched (and impending higher) inflation and loftier interest rate yields (note the dollar’s

rally in recent months as the UST 10 year yield has risen), with eventual economic feebleness and falls in stock prices to follow? What will happen to commodities in general if the strong US dollar becomes too strong?

Will the Brent/North Sea crude oil price venture near 9/28/23's 9769 high 9769 or even exceed $100 per barrel again? The Israel/Hamas war, which began 10/7/23, might help to accomplish this. Will that conflict spread around the Middle East, or even further? Will many petroleum producing nations impose an oil embargo to help reverse the humanitarian crisis in Gaza or for other policy reasons? The World Bank warned of a potential surge in crude oil prices over $100 per barrel, or even to around $150/barrel ("Commodity Markets Outlook"; October 2023).

## GOLD AND BITCOIN ADVENTURES, POLITICAL AGITATION

"Do you remember things that made sense? Things you could count on? Before we all got so lost? What are we gonna do, Charlie? What am I gonna do?" Ron Kovic, in the film "Born on the Fourth of July" (Oliver Stone, director)

****

In recent months, the US "technology stock sector", Bitcoin, and gold all have raced significantly higher, achieving levels which the great majority of experienced observers probably would have designated as astonishing if asked six months ago.

Obviously, stocks (and other securities), cryptocurrencies, and precious metals represent different classes of financial instruments. These marketplaces of course have significant differences in their supply/demand profiles.

The technology industry is very substantial and directly ties into wide sectors of global economic life. Many of its corporations earn notable revenues and make profits. Some of the larger firms within it arguably belong to one or more oligopolies, and thus command significant marketplace power. Thus bull (and bear) trends in the technology sector probably often parallel (or even lead or propel) trends in key "overall" stock marketplace benchmarks such as the S+P 500. Not only tech stocks participated in the S+P 500's magnificent advance over recent months. However, enthusiasm over the artificial intelligence story and related or similar narratives in the technology universe probably inspired particularly enthusiastic net buying in the tech stock arena.

To some extent, each marketplace's rapid and substantial bull move encouraged further buying enthusiasm within it. Greed and "fear of missing out" (on a "good buying opportunity" undoubtedly existed in regard to many technology stocks, Bitcoin, and gold. Moreover, that the "free supply" (readily available inventory) in these three fields probably is relatively low (and even lower when prices leap and stay high) probably exacerbates bull moves. Position covering by injured short sellers probably also encouraged dramatic price increases. Like other marketplaces, the technology stock territory, Bitcoin, and gold attract and tend to keep buyers because they often receive the honored "investment" label by many marketplace guides and participants. Bull moves in all three benefit from the instruments being deemed suitable "assets" by means of which prudent "investors" can diversify their portfolios.

Participation in Bitcoin became more accessible due to regulatory approval of ETFs. This invited and accelerated heated buying. Gold has long been seen as representing a "store of value". Numerous central banks own gold as a reserve asset, and marketplace reporting indicates that many have increased their gold holdings. Both Bitcoin and gold attract interest from those

seeking to avoid tax obligations payable to, or the monitoring of their money movements by, regulatory authorities.

Since around 4Q23, substantial rallies in Bitcoin and gold have occurred despite overall strengthening of the US dollar. So what other factors might have encouraged these leaps in Bitcoin and gold prices? Potential for an expansion of the war between Israel/Hamas, or the Ukraine/Russia conflict, or a violent outbreak somewhere else probably is one consideration. Perhaps many nations, institutions, and individuals have become increasingly fearful that another nation (or group of countries) might seize (and perhaps keep or sell) their financial assets (currencies or securities) has motivated such buying. As a recent example, keep in mind the seizure of Russian assets by Western nations in response to its Ukraine invasion.

****

Gold can be and is priced (quoted) in dollars (and other currencies). The same is true of Bitcoin. Some view gold as a worthy long run alternative to the US dollar. Gold has long been viewed as a store of value against currency depreciation and political turmoil, as well as a worthy "search for yield" financial asset. Bitcoin in recent years has also attracted buying interest for these reasons.

Thus despite the US dollar's being rather strong from the historical perspective, and despite the dollar's rally since around late December 2023, there may have been substantial buying by countries, institutions, and individuals of gold and Bitcoin due to concerns about long run dollar depreciation or political upheaval.

America's taking an increasingly smaller share of global GDP encourages some long run movement away from the dollar, despite its importance as the key global reserve currency. Plus some important countries may be actively seeking to undermine the dollar's commanding position as a reserve currency and in world trade.

Moreover, concerns about America's current and long run federal debt level and trend, as well as the quality of government leadership in dealing with those issues, probably encourages some diversification away from the dollar (movement out of dollar-denominated assets) by marketplace participants with long run horizons.

****

In America, enthusiastic partisans and factions trumpet the wisdom of contending viewpoints. Wide-ranging, deep-seated, and intense culture wars exist across (and often between) various economic, political, and social dimensions. They likely will remain so for quite some time.

America's culture wars arguably make the nation less able to solve its significant problems (not only the sizeable and growing federal debt one). Given the nation's election year 2024 politics, these cultural battles probably will persist for quite some time. Thus the nation and its assets (including the dollar) have become marginally less appealing to some investors.

These violent cultural conflicts thereby at times can significantly influence foreign exchange, interest rate, stock, and other financial marketplaces.

And unease (dismay; anger) in the United States is widespread. To what extent do Americans trust and have confidence in their political leaders and institutions (and in their ability to ensure satisfactory economic outcomes for the majority of people)? A substantial majority of the nation is displeased with the direction of the country. According to polling summarized in RealClearPolitics, only 24.0 percent believe America is moving in the right direction, with 66.0pc

claiming the nation is moving on the wrong track (net wrong track 42.0pc; date range for polls 6/20-7/2/24).

If substantial percentages of Americans believe the country is heading the wrong way, why should foreigners feel differently from them about the US?

****

In “The Rocky Horror Picture Show” (Jim Sharman, director), The Criminologist states: “I would like, if I may, to take you on a strange journey.”

****

All else equal, the highly uncertain overall outcome in America’s upcoming 11/5/24 national election (especially in regard to the Presidency, but also for control of the Senate and House of Representatives) probably makes ownership of the dollar and debt securities (and even other dollar-denominated assets such as stocks and real estate) appear increasingly risky to many marketplace participants. Keep in mind that the nation’s fierce culture wars and its near term and long run federal fiscal irresponsibility intertwine with this political uncertainty, and probably will continue to do for a long time. Is owning long term US Treasury notes and bonds around their late December 2023 yield levels (UST 10 year note yield low 3.78 percent on 12/27/23) a reasonable (“good”) wager for the long run?

Since November 2024’s national election is only four months away, it is a truism that much can and will happen between now and then. Political roads will have numerous twists and turns. Which party, Republican or Democrat, will win the Presidency? Polls involving Trump and Biden (at least through their recent debate) suggest a close battle. A great percentage of voters wish there were competent electable alternatives to these two leaders. Will Biden decide to withdraw from the race? Political pros currently predict a close electoral vote count, with victory depending on the outcomes in a handful of swing states. Also, the existence of third party Presidential candidates makes the 2024 electoral vote outcome even more unclear.

Will Trump and a large section of his devoted fans admit defeat if he loses the Electoral College vote, or will they claim the game was rigged and the election stolen? What would they do? What consequences would potential or actual significant turmoil probably have for the US dollar, US Treasury yields, and the S+P 500?

Legal (even Constitutional) fights also might generate turmoil in interest rate, stock, foreign exchange, and commodities fields (particularly if this warfare also involves notable civil unrest). The Supreme Court ruled that states cannot keep Trump off the ballot based on an interpretation of the Constitution’s 14th Amendment. However, suppose Trump captures the Republican Presidential nomination and is victorious in the overall Electoral College vote. Court delays have reduced the likelihood that Trump will be tried (and perhaps convicted) prior to the election in several cases in which he is a defendant. The Supreme Court’s recent immunity ruling perhaps will make some of these trials less likely to occur. However, a New York State court has convicted Trump, and he awaits sentencing (if the judge does not set aside the verdict) in mid-September. Will US laws block him from taking office, whether directly, or in some roundabout fashion involving his quest to be pardoned? Yet federal pardons issued by the President apply only to federal offenses, not to state crimes; Trump confronts state criminal penalties in Georgia too. If Trump receives a criminal conviction involving a jail sentence prior to the election, will he be able to serve as President while his appeal is pending? Will the US Supreme Court hear appeals on an expedited basis, and how will it rule?

****

Suppose Trump becomes President again. Some believe he does not want a strong dollar and desires lower interest rates. See "Dangers of dollar nationalism hang over the world economy" (Financial Times, 5/13/24, p19).

Trump also plans to make permanent the entire deficit-finance tax law enacted in 2017, and also to add another tax cut for businesses and individuals. He intends to impose new tariffs on many imported goods. He also plans to deport a huge number of illegal (undocumented) immigrants. These tax, tariff, and immigrant policies likely would increase inflation and thus interest rates. See the NYTimes, "Trump Vows to Lower Prices. Some of His Policies May Raise Them", 6/8/24).

****

Anyway, America is not the only important nation with debt or internal political problems. The very substantial rallies in gold and Bitcoin probably reflect not only US dollar depreciation concerns and safe haven/political unrest (war; violence), and search for yield considerations, but also reduced faith in many quarters that important countries and global institutions can manage economic and political outcomes satisfactorily.

****

Let's survey price and time trends for Bitcoin, the S+P 500, and gold in recent years.

Marketplace patterns (trends; convergence/divergence; lead/lag) of course do not necessarily repeat themselves and can change or transform. However, since first quarter 2020, Bitcoin and the S+P 500 sometimes have displayed roughly similar price and time shifts (trend changes).

For example, as the coronavirus pandemic emerged, the S+P 500 made a major high on 2/19/20 at 3394; Bitcoin attained an important interim top shortly before then, on 2/13/20 at 10769. Bitcoin's major bottom on 3/13/20 at 3926 slightly preceded the S+P 500's major low on 3/23/20 at 2192. Bitcoin established an initial all-time pinnacle on 11/10/21 at 69000, a few weeks before the S+P 500's major high at 4819 on 1/4/22. Bitcoin attained an important second top on 12/27/21 at 52100, very close in time to the S+P 500's January 2022 summit.

Bitcoin crashed 77.5 percent from its November 2021 crown. Its 11/10/22 bottom at 15518 (a one year anniversary from 11/10/21's top) occurred not long after the peak in the nominal Broad Dollar Index (128.4 on 9/27/22 and 10/19/22). The S+P 500 attained its major bottom on 10/13/22 at 3492, close in time to the UST 10 year note's 10/21/22 4.34 percent yield high.

Bitcoin achieved an interim high at 31791 on 7/13/23. The S+P 500 made an interim top on 7/27/23 at 4607. Bitcoin dropped to 24925 on 9/11/23. However, it thereafter accelerated upward from the lows on 10/16/23 at 26781 and 10/24/23 at 31642 (recall the S+P 500's important trough on 10/27/23 at 4104) to 1/11/24's 49000. Though Bitcoin dived precipitously to 1/23/24's 38518, it exploded up 91.4 percent in less than two months to 73734 on 3/14/24; this remains the high to date. The bull segment from 10/16/23's key low at 26781 to 3/14/24's celestial height is 175.3pc. The recent high is 18.8 times 3/13/20's 3926 bottom. The S+P 500's high to date is 7/3/24's 5539.

In regard to Bitcoin's ascent from 1/23/24's trough at 38518, note the time of the S+P 500's interim lows on 1/5/24 at 4682 and 1/31/24 at 4845. Recall the S+P 500's prior major high at 4819 of 1/4/22; the S+P 500 broke decisively above this following 1/31/24. The S+P 500 spiked higher from a minor low 4946 on 2/21/24, which was the day of Nvidia Corporation's (a major

firm in the technology sector and for artificial intelligence-related products) bullish earnings release. Bitcoin soared from 2/26/24's 50524 interim low.

Bitcoin's colossal bull ride from its 3/13/20 major bottom to its 3/14/24 high lasted four years. The S+P 500's awesome bull move from 3/23/20's major low to its high to date has traveled over four years. Will a sustained decline in Bitcoin lead to (confirm) a substantial fall in the S+P 500?

Recall the May 2024 timing of important highs in emerging marketplace securities (EEM and EMB). In addition to its March 2024 peak, Bitcoin made a noteworthy interim top on 5/21/24 at 71886 (see also 6/7/24 at 71900; 4/8/24 at 72709). Further declines in these marketplaces probably will suggest that owners are exiting from these "hunt for yield" arenas.

Compare also the timing of Bitcoin's noteworthy bottom on 11/10/22 at 15518 with COMEX gold's 11/3/22 bottom at 1615 (nearest futures continuation; 9/28/22 low at 1620). Also note the timing of the US Broad Dollar Index high: October 2022. Gold (nearest futures continuation) thereafter rallied up to 2/2/23's 1959. After falling to 1808 on 2/28/23, it advanced, but ran into crucial resistance around 2070 with 5/4/23's 2072 summit. Players remember prior exuberant highs at 2072 on 3/8/22 and 8/6/20 at 2063. Following May 2023's crest, gold made a second and lower top with 7/18/23's 1978; Bitcoin established an interim top on 7/13/23 at 31791. The July 2023 tops occurred close in time to 7/14/23's interim low in the nominal Broad Dollar Index (July 2023 trough in the real BDI); compare as well late July 2023's timing for interim highs in the S+P 500 and emerging marketplace securities.

Gold made a key trough with 10/6/23's 1809, right near 2/28/23's low. Recall the S+P 500's key 10/27/23 bottom at 4104, as well as Bitcoin's lows on 9/11/23 (at 2492) and 10/16/23 (at 26781). Also, on the timing pattern front, compare the 10/6/23 gold low with the nominal Broad Dollar Index high on 10/5/23 at 124.2 (just prior to the 10/7/23 attack by Hamas on Israel) and 10/26/23's 124.3. The recent sharp upward move in gold to new highs, like that in Bitcoin, probably partly reflects the persistence of inflationary forces. Gold skyrocketed from 2/14/24's minor low at 1985, with its high to date 5/20/24's 2436 (see also 4/12/24's 2429) , about 17.6 percent above the 2072 prior peak. The bull move from 10/6/23's 1809 to the recent high equals 34.7 percent.

****

For further analysis of key interest rate, stock, currency, and commodity marketplaces and their relationships, as well as the economic and political scenes, see essays such as: "Marketplace Travels: Potential Bumps in the Road" (4/2/24); "Financial Playgrounds: the Money Games" (1/2/24); "US Dollar Voyages: Adventures in Wonderland" (12/3/23); "Financial Battlegrounds: an Age of Anxiety (Continued)" (11/1/23); "Financial Agitation" (10/3/23); "Marketplace Crossroads" (9/4/23); "US Stocks Over the Long Run: Bear Marketplace History" (8/4/23); "Long Run Historical Entanglement: US Interest Rate and Stock Trends" (7/6/23).

****

This essay is furnished on an "as is" basis. Leo Haviland does not warrant the accuracy or correctness of this essay or the information contained therein. Leo Haviland makes no warranty, express or implied, as to the use of any information contained in this essay in connection with the trading of equities, interest rates, currencies, or commodities, or for any other use. Leo Haviland makes no express or implied warranties and expressly disclaims all warranties of merchantability or fitness for a particular purpose. In no event shall Leo Haviland be liable for any direct, indirect, special, incidental, or consequential damages (including but not limited to trading losses or lost profits) arising out of or related to the accuracy or correctness of this essay or the information contained therein, whether based on contract, warranty, tort, or any other legal theory.

All content copyright © 2024 Leo Haviland. All Rights Reserved.