FINANCIAL MARKETPLACE ADVENTURES: BACK TO THE FUTURE

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Leo.Haviland@gmail.com

In the movie "Back to the Future" (director, Robert Zemeckis), Dr. Emmett Brown warns: "No! Marty! We've already agreed that having information about the future can be extremely dangerous. Even if your intentions are good, it can backfire drastically!"

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CONCLUSION

In recent months, United States inflation benchmarks such as the Consumer Price Index have receded toward the Federal Reserve's two percent objective. Commodity prices "in general" in mid-September 2024 briefly slumped beneath December 2023's trough. Note the significant decline in the United States Treasury 10 year note yield since 4/25/24's 4.74 percent top. For at least the near term, the Fed's September 2024 Economic Projections encourage faith in many marketplace players that the Fed will reduce its Federal Funds policy rate substantially by the end of calendar 2025. Thus intertwined factors such as lower inflation statistics, anticipated Fed policy, falling UST yields, modest US dollar weakness relative to an earlier "too strong" level, and a move in the S+P 500 to a new record high (9/26/24's 5767) inspire belief that the American (and global) economy will keep expanding (or at least have a "soft landing" and escape recession). Widespread optimism regarding future American corporate earnings exists. The Wall Street securities investment communities and their corporate, political, and media allies have applauded both the decline in US Treasury yields and the stratospheric bull marketplace trend in US and other stock playgrounds.

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Nevertheless, the United States (and global) economy probably will slow down substantially and may not escape a recession. Fed monetary policy was significantly restrictive for an extended time span until recently, and it probably remains mildly so. Though American inflation is more subdued, it has not disappeared. The Fed's two percent target has not been achieved. Shelter and services inflation remain lofty. Also, suppose Middle East unrest sparks a sustained rally in petroleum prices. These considerations might encourage the Fed to ease monetary policy more cautiously.

In addition, American unemployment, though still fairly low, has climbed since April 2023. Existing single-family home prices dipped since June 2024. The US Treasury yield curve is inverted (short term rates above long term ones); history reveals this phenomenon often has preceded a recession. The long term and arguably even the near term US fiscal situation and its management are dangerous.

Out on Main Street, in contrast to Wall Street's exuberance, measures of Main Street optimism are mediocre. Arguably many people on Main Street already are living in recessionary times, partly because of the high inflation of the past few years. Some of former President Trump's enduring political appeal probably derives from the divergence between Wall Street (and other elite group) prosperity and Main Street economic realities.

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 UST 10 year note's yield increase from

12/27/23's 3.78 percent interim low up to 4/25/24's high probably warns of an impending decline in the S+P 500, especially since the Federal Reserve's real Broad Dollar Index has remained strong in recent months. The S+P 500 price probably will not exceed its late September 2024 high by much, if at all, and the S+P 500 will begin at least a moderate decline in the relatively near future.

Commodities "in general" have plummeted substantially from their first quarter 2022 pinnacle, whereas the S+P 500 has ventured to new highs. This massive decline in commodities as well as its notable divergence from the bullish S+P 500 trend since the S+P 500's major low on 10/13/22 at 3492, when interpreted alongside other bearish (recessionary) warning signs, probably point to approaching economic weakness and a fall in the S+P 500.

The UST 10 year note yield probably will decline beneath 9/17/24's 3.60 percent low. The US dollar probably will decline from current levels and challenge key support in the real Broad Dollar Index, April 2020's 113.4 elevation (recall also December 2023's 113.8). These trends will confirm economic feebleness.

The American national political scene in general and election season 2024 in particular add to financial marketplace risks. Major turmoil, including a persistent and determined refusal by a leading party and its Presidential candidate and many of their devotees to accept the Presidential election results, probably would be bearish for US stocks and the dollar. These political battles might cause a "flight to quality" and thus push UST yields lower. However, although America is not a developing/emerging marketplace nation, as in those other countries, fierce ongoing political conflict also could produce a yield spike. A US federal budget deficit crisis also could cause yields to increase sharply.

US INFLATION AND INTEREST RATES

"Face this world. Learn its ways, watch it, be careful of too hasty guesses at its meaning. In the end you will find clues to it all." H.G. Wells, "The Time Machine"

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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 and 2.17pc on 9/12/24 (2.31pc on 10/1/24). Since this weathervane has remained fairly close to two percent since spring 2022, optimism that the Fed will ease its policy continues.

The Fed meets 11/6-7/24 and 12/17-18/24.

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The scoreboard underlines that inflation has declined substantially from 2022's pinnacle, it still exceeds the Fed's two percent target. The US consumer price index (CPI-U; all items) climbed 2.5 percent year-on-year in August 2024. Compare June 2022's year-on-year peak at 9.1 percent. However, the core CPI-U (less food and energy) advanced 3.2 percent year-on-year in August 2024 (Bureau of Labor Statistics; 9/11/24, next release 10/10/24).

The personal consumption expenditures price index has neared but remains above the Fed's two percent objective. In August 2024, it grew at an annual rate of 2.2 percent. The core PCE (less food and energy) ascended at an annual rate of 2.7pc (Bureau of Economic Analysis; 9/27/24, next release 10/31/24).

Digging into August 2024 CPI-U statistics warns that the key CPI-U and PCE inflation measures probably will be increasingly reluctant to fall beneath the Fed's beloved two percent target for "inflation" ("stable prices"). First, the "services less energy services" category (about 61.2 percent of the overall CPI-U increased 4.9 percent year-on-year in August 2024, far above the Fed's. The "shelter" subset of that services category (36.4pc of the total index) climbed 5.2pc year-on-year in August 2024.

Much of the significant plummeting in the overall CPI-U index since June 2022 has derived from plummeting energy prices. In August 2024, the "energy" sector (6.9 percent of the CPI-U) dropped -4.0 percent year-on-year. Despite Saudi Arabia's decision in late September 2024 to increase its crude oil production, and despite ICE Brent/North Sea crude oil's (nearest futures continuation) crash from its 3/7/22's 13913 pinnacle (including a decline from 4/12/24's 9218), will Middle East warfare induce a notable rally in the petroleum complex?

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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"). After a long wait, this wizard on 9/18/24 cut the Federal Funds rates 50 basis points to 4.75-5.00 percent. The FOMC noted in this meeting: "The Committee has gained greater confidence that inflation is moving sustainably toward 2 percent [the two percent inflation objective]." In his Press Conference, the Chairman expressed that this meeting began the process of moving toward a more neutral stance; he did not seem fearful of a recession, adding that the risks to achieving its inflation and employment goals stood roughly in balance. Hence many observers eagerly await further Fed Funds reductions both in the short term and over calendar 2025.

The Fed will continue to reduce the size of its bloated balance sheet.

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The American economy has not weakened substantially. Calendar year 2023 GDP grew at a 2.9pc annual rate. First quarter 2024 GDP expanded 1.6 percent with 2Q24 rising 3.0pc (Bureau of Economic Analysis; 9/26/24; next release 10/30/24). The International Monetary Fund forecasts 2024 world GDP at 3.2 percent, with 2025 at 3.3pc ("World Economic Outlook Update"; 7/16/24).

US unemployment figures remain low, further suggesting the likelihood that the Fed's game plan will remain mildly restrictive for a while longer. Unemployment rested at 4.2 percent in August 2024 (4.3pc in July 2024), well beneath April 2020's 14.8 percent coronavirus peak, but creeping up from April 2023's 3.4pc low (Bureau of Labor Statistics; 9/6/24, next release 10/4/24). 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 4.6 percent in March 2024 (down from July 2022's 6.7pc).

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If the East/Gulf Coast dockworkers strike lasts for several weeks or more, that probably will injure the US and global economy. A sustained strike will tend to boost many prices, and it also risks causing production drops in many industries.

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The UST 10 year note yield climbed up from 3.78 percent on 12/27/23 to 4.74 percent on 4/25/24, not very far from 10/23/23's 5.02pc yield peak. However, as inflation benchmarks descended, the UST 10 year yield eroded. From 7/24/24's interim high at 4.30 percent, it dove to 3.60pc.

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

	1Q20 Yield Bottom	**1Q21 Yield High**	**Aug 2021 Yield Low**	**Following Yield Highs**	**Next Yield Lows**	**Autumn 2023 Yield High**
UST 10 Year Note	.31pc (3/9/20)	1.77pc (3/30/21)	1.13pc (8/4/21)	3.50pc (6/14/22)	3.32pc (1/19/23)	5.02pc (10/23/23)
				4.01 (9/28/22)	3.33 (2/2/23)	
	Mid-2020 Yield Lows		**Aug 2022 Yield Low**	4.34 (10/21/22)	3.28 (3/24/23)	**Dec 2023 Yield Low**
	.54pc (4/21/20)		2.51 (8/2/22)	4.09 (3/2/23)	3.25 (4/6/23)	3.78pc (12/27/23)
	.50 (8/6/20)				3.29 (5/4/23)	**April 2024 Yield High**
						4.74pc (4/25/24)

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Suppose the Federal Funds rate over the next couple of years moves in the path the Fed's 9/18/24 "Economic Projections" indicate. For year-end 2024, the midpoint of the "central tendency" is 4.50 percent (down from 6/12/24's 5.15pc estimate), with that for end 2025 3.35 percent (retreating from 6/12/24's 4.15pc forecast). The Fed Funds central tendency midpoint walks down to 3.10pc by end 2026. The murky "Longer run" midpoint for the Fed Funds rate is 3.00pc, unchanged from 6/12/24. Based on these estimates, the Fed Funds rate gradually will decline further from current levels; therefore the yields of short term US Treasury securities likewise would fall.

However, if one assumes (wagers on) the Fed viewpoint regarding its policy rates (and all else equal), marketplace players should ask whether over at least the next several months the US Treasury 10 year note will slump much below the 3.00 to 3.75pc range (12/27/23's 3.78 yield low) depth for any 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. In addition, 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 4.50 percent, even without adding a 50 basis point yield premium, exceeds 12/27/23's UST 10 year yield by 75 basis points. The year-end 2025 Fed Funds midpoint of 3.35 percent plus a 50 basis point real return gives a 3.85pc UST 10 year yield.

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US Treasury marketplace history reveals that a negatively sloped yield curve, with yields of short term instruments (such as the three month Treasury Bill) greater than that of long term ones (such as the UST 10 year note) often warns of an eventual recession. See the Federal Reserve Bank of New York, "The Yield Curve as a Leading Indicator" (9/4/24). The UST Bill yield has exceeded the US 10 year note yield (monthly basis) since November 2022. For August 2024, subtracting the three month T-Bill yield from the UST 10 year yield gives a negative 132 basis points. The daily level for 10/2/24 is roughly negative 80 basis points.

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

The Grateful Dead sing in "Casey Jones":
"Casey Jones you better
Watch your speed
Trouble ahead
Trouble behind
And you know that notion
Just crossed my mind"

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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.

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Genevieve Larkin exclaims in the film “Gold Diggers of 1937”: “It’s so hard to be good under the capitalist system!” (Lloyd Bacon, director)

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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 have escaped near term problems by repeatedly kicking the can down the road. The bipartisan budget deals reached in November 2023 as well as 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. To what extent and when will the extravagant borrowing and large and growing public debt darken the nation’s economic present (and future)? Even though the United States is not the only notable debtor nation, to what extent will its fiscal extravagance endanger the dollar’s role as the leading reserve and trading currency?

Both the proposed Democratic and Republican policy proposals probably will exacerbate the federal deficit problem. Those from the Republican team clearly win the prize as the most budget-busting. According to Penn Wharton studies (8/26/24), Harris’s proposals increase primary deficits by $1.2 trillion over the next 10 years, with Trump’s $5.8 trillion.

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. Monitor stresses inspired by towering federal government budget deficits and monumental and growing debt as a percentage of GDP. 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.

US DOLLAR TRAVELS

“It’s déjà vu all over again!” Baseball star Yogi Berra

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"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) and "Great Expectations: Marketplace Fireworks (7/3/24), reaffirmed this viewpoint. The renewed rally in the US dollar up to late June 2024 carried it relatively close to autumn 2022's pinnacle, arguably making it "too strong."

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After US and international consumer price inflation leaped in 2022, the Federal Reserve was 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, 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, the dollar will tend to move sideways or appreciate. Fed commentary has become less hawkish in recent months. Although the Fed has not completely abandoned its restrictive policy, its policy comments indicate a willingness to do so gradually.

Nowadays the Federal Reserve as well as the current Administration (and probably the new one starting 2025, regardless of which party) probably do not want a too-robust US dollar. Not raising the Federal Funds rate from current levels (and of course lowering it further) probably will tend to stop substantial dollar rallies.

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The Federal Reserve releases a real Broad Dollar Index (H.10; January 2006=100; monthly average; 10/1/24 is the latest) as well as a nominal Broad Dollar Index (daily data; 9/30/24 release; 9/27/24 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) 110.5 (6/1/21)	12.4pc	124.1 (7/14/22) 123.6 (8/22/22) 128.4 (9/27/22) 128.4 (10/19/22)	16.2pc **Oct23 + June24 <u>BDI Highs</u>** 124.2 (10/5/23) 124.3 (10/26/23) 124.8 (7/1/24) 124.6 (7/30/24)

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The Federal Reserve's real Broad Dollar Index ("BDI") 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 103.2 interim low, the real BDI jumped a substantial 17.2 percent to its summit.

The real Broad Dollar Index established a crucial initial top in April 2020 at 113.4. It dropped 9.0 percent to 103.2 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.

"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."

Although the real BDI endured a moderate decline from October 2022's "too strong" elevation (the nominal BDI retreated almost eight percent from its autumn 2022 pinnacle), the dollar generally has remained strong. Despite the real Broad Dollar's tumble after October 2022, it has not decisively broken beneath the critical support of April 2020's 113.4 summit.

Also highlight 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.

The real Broad Dollar Index staggered downhill to 113.9 in January 2023. But the real BDI nevertheless has held around April 2020's 113.4 top. It motored up slightly to 114.8 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 114.1 in August 2023.

The real BDI rallied to 115.8 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 117.4 not only hovered well above April 2020's 113.4 summit support, but also arguably became 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 was 4.4 percent. Like the real BDI, the nominal BDI climbed from its December 2023 trough. The high thereafter is 7/1/24's 124.8.

June 2024's real Broad Dollar Index at 117.4 (the recent high) stands only about 3.2 percent beneath October 2022's 121.2 resistance, and it matches October 2023's 117.4 prior interim high. September 2024's 115.4 real BDI likewise remains strong, for it resides above April 2020's 113.4 support. The nominal BDI's 9/26/24 level of 121.3 also is strong.

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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.

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, reaching 4.74pc on 4/25/24, fairly close to 10/23/23's 5.02pc peak. The rally in the US dollar from late December 2023 (real Broad Dollar Index trough 113.8) until late June 2024 (real Broad Dollar Index 117.4; nominal BDI high 7/1/24 at 124.8) paralleled (confirmed) the interest rate yield increases and the Fed's ongoing tight policy.

The nominal BDI's retreat from 7/1/24's 124.8 and 7/30/24's 124.6 was paralleled by the fall in the US 10 year note yield from interim highs at 4.49 percent on 7/1/24 and 4.30pc on 7/24/24. The July 2024 highs in the US dollar and the UST 10 year helped lead to the S+P 500's drop to its 8/5/24 interim low at 5119.

The decline in the UST 10 year note yield to 9/17/24's 3.60 percent and the retreat in the nominal BDI to its late September low helped to propel the S+P 500 to its 9/26/24 high at 5767.

However, a sustained fall in the UST 10 year note yield beneath 9/17/24's 3.60 low probably will warn of very sluggish growth, or even a recession, especially if the real Broad Dollar Index moves beneath support around April 2020's 113.4 (December 2023 113.8). Note that "overall" over the past few years, the S+P 500 has rallied substantially even the United States dollar has generally been "strong". A persistent reversal of US dollar strength probably will signal US stock weakness.

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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.

Despite the dollar's having been strong for several years from the historical perspective, including 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 as well as international (or local/regional) political upheaval.

THE INTERSECTION BETWEEN US STOCKS AND UST NOTE YIELDS

Bob Dylan says in "The Times They Are A-Changin'":
"There's a battle outside and it is ragin'
It'll soon shake your windows and rattle your walls
For the times they are a-changin'"

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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 emerging marketplace stock and bond ETFs (EEM and EMB) 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 fall in the UST 10 year note yield from 10/23/23’s 5.02 percent summit as well as 4/25/24’s 4.74pc interim high yield interrelated with the S+P 500’s movements. 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. Important highs in the real and nominal Broad Dollar Indices occurred in calendar October 2023. Note the S+P 500’s interim low on 4/19/24 at 4954.

Although marketplace history need not repeat itself (either entirely or even partly), increasing UST 10 year note yields from late 12/27/23’s 3.78pc low up to 4/25/24’s 4.74pc summit accompanied by a strong (and perhaps too strong) and appreciating US dollar warned of a decline in the S+P 500. The S+P 500 made an interim top on 7/16/24 at 5670. In this context, recall the UST 10 year’s 7/24/24 interim high at 4.30pc alongside the S+P 500’s minor low on 8/5/24 at 5119. The UST 10 year note’s yield increase from December 2023’s 3.78pc trough up to 4/25/24’s high probably continues to signal an impending decline in the S+P 500, especially as the real Broad Dollar Index has remained strong in recent months from the historical perspective.

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The S+P 500's high since 10/27/23's low at 4104 is 9/26/24's 5767, a 40.5 percent upward explosion, substantially exceeding 7/27/23's interim top and flying 19.7 percent beyond 1/4/22's major high at 4819. The glorious 65.1 percent rally in the S+P 500 from 10/13/22's 3492 to 9/26/24's elevation undoubtedly has excited and pleased the US stock investment (ownership) communities and their enthusiastic Wall Street and media allies. The Dow Jones Industrial Average's record high is 9/24's 42628. The Nasdaq Composite Index's high in its bull move is 7/11/24's 18671 (recent top 9/26/24 at 18327).

The S+P 500's 9/26/24 high level occurred fairly close from the calendar month/day perspective to its 10/11/07 peak at 1576. The 9/16/14 calendar date is a nearly one year diagonal bull move from 10/27/23's 4104 trough and about a two year diagonal climb relative to 10/13/22's bottom.

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Many marketplace captains watch other interest rate trends alongside those in the UST marketplace. For example, the German Bund's recent yield trend shifts 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 10 year peak). The Bund yield dived to 1.89 percent on 12/28/23 (which remains the low; UST 10 year low 12/27/23), adjacent to 6/16/22's 1.89pc summit. The recent yield high in the Bund is 5/31/24's 2.71 percent (UST interim high 5/29/24 at 4.64pc), with 10/1/24's 2.01pc the subsequent low (UST low 9/17/24 at 3.60pc).

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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.

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

Suppose the long run pattern of rising UST 10 year note yields resumes. History warns that will lead to an eventual notable S+P 500 decline.

Or suppose the UST 10 year note yield slumps significantly beneath 12/27/23's 3.78pc level. Would a trip toward 3.00 to 3.25pc 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.

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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.

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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.

A five percent fall in the S+P 500 from 9/26/24's 5767 high is 5479. The dip from 3/28/24's 5265 interim high to 4/19/24's minor low was 5.9 percent. The slide from 8/26/24's 5652 to 9/6/24's 5403 was 4.4pc. A ten percent correction from 9/26/24's high equals 5190. Recall the vicious 10.9pc drop from 7/27/23's 4607 to 10/27/23's 4104. The slump from 7/16/24's 5670 to 8/5/24 voyaged 9.7pc. A bear move of twenty percent from 5767 gives 4614, with a 25pc bloodbath 4325; a 33 percent crash equals 3841.

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.

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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 ESCAPADES

"The Master said, 'He who gives no thought to difficulties in the future is sure to be beset by worries much closer at hand.'" Confucius, "The Analects" (Book XV, 12)

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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.

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"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, 6/30/24). China's Shanghai Composite Index's price and time picture generally resembles that of the EEM. Taiwan has a 19.3 percent share in the EEM. India represents 19.1pc, with South Korea having 12.1pc. 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 11.8 years (6/30/24). 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.

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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 price 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 EMB established an interim price low on 4/16/24 at 86.40; note the timing of the UST 10 year note's important interim yield high, 4/25/24's 4.74pc.

The EEM plummeted 11.8 percent from 7/12/24's 44.64 to 8/5/24's 39.39. Compare the timing of the S+P 500's interim high on 7/16/24 and its subsequent 8/5/24 low at 5119.

The EEM's 10/2/24 high at 47.16 exceeds 7/31/23's and 1/26/23's resistance level. However, the EEM's September 2024 high stands far beneath 2/16/21's 58.29 pinnacle. The EMB's bull move from its 10/19/23 price valley reached a high of 93.97 on 9/18/24 (the EMB's interim top on 89.73 on 12/27/23 paralleled the UST 10 year note's 3.78 percent yield low on 12/27/23).

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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 3/19/20 bottom neighbored 1/27/16’s 2638 major low (6/12/15 peak at 5178). The Shanghai Composite attained an important interim 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 minor top on 7/27/23 at 4607.

The Shanghai Composite collapsed following its late July 2023 interim high, reaching 2635 on 2/5/24. The Chinese government’s economic support measures sparked a rally, with 5/20/24’s 3174 the important high thereafter. The Shanghai Composite then endured a murderous fall, touching 2690 on 9/18/24. This stock decline and related concerns about economic growth and deflation spurred China’s fearful leaders to embark on another financial rescue program/stimulus package to engineer a stock price rally and to assist the property sector. The Shanghai Composite shot up to 3358 on 9/30/24, an astonishing 24.8 percent rally.

Renewed attacks by the Shanghai Composite on the 2635/2690 range (9/18/24’s 2689; 2/5/24’s 2635; 3/19/20’s 2647; 1/27/16’s 2638) 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. See also the IMF’s 5/28/24 “2024 Article IV Mission” which underlined that “China faces significant fiscal challenges, especially for local governments.”

GREAT EXPECTATIONS: S+P 500 VALUATION AND CORPORATE EARNINGS

“Calling out around the world, are you ready for a brand new beat?
Summer’s here and the time is right, for dancing in the street.” The song “Dancing in the Street”, by Marvin Gaye, William Stevenson, and Ivy Jo Hunter

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According to FactSet, the forward 12 month Price/Earnings ratio for the S+P 500 is 21.6. This P/E ratio stands above the 19.5 five year average, and it also surpasses the 18.0 ten year average (“Earnings Insight”; 9/27/24). LSEG estimates the S+P 500’s forward four quarter P/E ratio at 22.3 (“S&P 500 Earnings Scorecard”; LSEG I/B/E/S; 9/27/24). 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 29.2. This stands far above its 24.7 five year average and leaps over the 20.9 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 an economic slowdown or recession encourages widespread price weakness in the overall American stock marketplace.

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Many marketplace wizards express optimism regarding the potential for robust US corporate earnings for the next couple of years. Investment enthusiasm for or derived from 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.

FactSet says 2Q24 earnings for the S+P 500 grew 11.2 percent year-on-year (9/27/24). It expects 3Q24 earnings will rise 4.6 percent year-on-year, with 3Q24 increasing 8.1pc versus 3Q23 and 4Q24 racing up 14.9pc year-on-year. It indicates calendar 2024 year-on year earnings for the S+P 500 will soar 10.0 percent. FactSet prophesizes 1Q25's earnings will soar 14.5pc year-on-year, with 2Q25 flying up 13.6pc versus 2Q25. FactSet believes calendar 2025 earnings will advance 15.1 percent year-on-year. LSEG predicts a 10.7 percent year-on-year spike in calendar 2024 corporate earnings. LSEG forecasts year-on-year increases of 13.2 percent in 2Q24, 5.3pc in 3Q24, and 12.9pc in 4Q24, with calendar 2024 earnings ascending 10.0pc year-on-year. They assert 1Q25 earnings will climb 14.4pc in 1Q25, with 2Q25's up 13.8pc versus 2Q24. Calendar 2025 earnings fly up 15.0 percent year-on-year. ("S&P 500 Earnings Scorecard"; LSEG I/B/E/S; 9/27/24)

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 opinions regarding these future earnings darken, thereby disappointing many stock investment bulls? 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 and long-running 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.

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Massive stock buybacks in the S+P 500 (see the Center on Budget and Policy Priorities, "Record Stock Buybacks Bolster Case for Raising Corporate Tax Rate"; 6/24/24) probably have contributed significantly to the S+P 500's long run bull trend as well as widespread optimism regarding its future prospects.

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Wall Street's confidence in "the economy" (as evidenced by the magnificent bull move in the S+P 500 to celestial highs and Wall Street's sunny outlook for future US corporate earnings) probably is not mirrored on Main Street. The Conference Board's Consumer Confidence Index fell to 98.7 in September 2024 from August 2024's 105.6, the largest one month decline since

August 2021 (9/24/24). The University of Michigan's Index of Consumer Sentiment has slumped from 79.4 in March 2024 to 67.9 in August 2024 (66.4 in July 2024). Though that Index's August reading rises from June 2022's dismal 50.0 depth (US Consumer Price Index peaked in June 2022 at 9.1 percent), it remains relatively depressed from the historical perspective. The University of Michigan's measure for Current Economic Conditions dropped from 82.5 in March 2024 to 61.3 in August 2024.

What about the "small business" world on Main Street, as opposed to the "big business" represented by "big business" and Wall Street? The NFIB's Small Business Optimism Index for August 2024 was 91.2, the 32nd consecutive month below the 50-year average of 98. Compare July 2019's 104.7 and June 2021's 102.5.

HOME SWEET HOME

In the movie "A Clockwork Orange" (Stanley Kubrick, director), one character declares: "Initiative comes to thems that wait." Another notes: "Public opinion has a way of changing."

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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, June 2024's $432,900 median sales price increases 13.1 percent versus the January 2024 low. See National Association of Realtors (9/19/24). However, August 2024's $422,100 median price slips 2.5 percent from June 2024's level. This price fall, though modest, contrasts with the ongoing rally in the S+P 500. 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 August 2024's at a 3.48 mm annual rate. Inventory (months supply) has moved up in recent months, reaching 4.1 months in August 2024 relative to February 2024's 2.8 months.

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

China's housing crisis has not disappeared.

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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 AND THE S+P 500

Steppenwolf sings in "Born to Be Wild":
"Get your motor runnin'
Head out on the highway
Looking for adventure
In whatever comes our way".

“Weapons change, but strategy remains strategy, on the New York Stock Exchange as on the battlefield.” Edwin Lefevre, “Reminiscences of a Stock Operator”

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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 price highs (major bottoms) for commodities in general and the S+P 500 occur around the same time. Sometimes there is a lead (lag) of a few months (or less) between when trend changes and thus key highs and lows occur. Thus over the long run of recent decades, and although marketplace convergence and divergence is a matter of subjective perspective, 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).

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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.

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Let’s review the “overall” relationship between the S+P 500 and the broad GSCI since early 2022.

The S+P 500 made an initial peak on 1/4/22 at 4819. The broad GSCI made a major high not long thereafter, on 3/8/22 at 853.3. Both marketplaces fell sharply “together” for several months. But whereas the S+P 500 established a major low (ending its bear trend) 27.5 percent lower on 10/13/22 at 3492 (which has not been broken), the broad GSCI did not make a critical bottom until one year later, on 12/13/23 at 516.4. The December 2023 GSCI low occurred fairly close in time to the S+P 500’s 10/27/23 important interim low at 4104. Thus there was some notable divergence between the two marketplace domains from “around” autumn 2022 until fall 2023.

Both the S+P 500 and commodities in general then climbed for several months.

However, for the late 2023 span through end-September 2024, there has been noteworthy "overall" divergence between the S+P 500 and commodities in general. Whereas the S+P 500 of course has been in a bull trend (despite a few price dips), the GSCI has been in a sideways (or sideways to down) trend. Moreover, in recent months the GSCI has slumped (note the interim highs on 4/12/24 at 606.8 and 7/5/24 at 592.2), making a new low at 502.5 on 9/10/24 (and under the 12/13/23 one), while the S+P 500 continued to climb to new highs. Note the S+P 500's upward jumps from 4/19/24's 4954 and 8/5/24's 5119. Arguably the bear trend for the GSCI which started on 3/8/22 persisted after 12/13/23's low.

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Declines in "overall" commodity prices over the past couple of years have helped to lower inflation measures such as the Consumer Price Index. The Federal Reserve and other central banks thus have had scope to reduce their policy rates.

However, the massive decline in the broad GSCI price and its divergence from the S+P 500 (especially within the past few months) probably warn that an important top in the S+P 500 as well as an economic slowdown or recession will appear soon. In recent months, the fall in US interest rate yields (such as the UST 10 year note), the weakening of the US dollar, and rising unemployment tend to confirm this. So do the massive national US fiscal problems and political risks associated with the America's upcoming national election.

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Review some broad GSCI history over the past few years alongside petroleum price trends.

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.

OPEC+'s crude oil production cuts, beginning with its 10/5/22 production cut agreement and continuing with 11/30/23's OPEC+ program, helped to support petroleum prices to some extent and encourage occasional rallies. However, days coverage for OECD on land industry stocks since 3Q22 did not decline much (if at all) from 3Q22 through 2Q24 (see OPEC's "Monthly Oil Report", Table 11-3; 9/10/24).

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 a year, 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. 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.

From its low at 6/4/24 at 555.8, the broad GSCI climbed to 592.2 on 7/5/24. After Brent/North Sea crude oil tumbled to 7676 on 6/4/24, it rallied significantly to 8795 on 7/5/24. The GSCI and Brent/North Sea then fell together; the GSCI's low since then is 9/10/24's 502.5 (a 15.1 percent fall from 7/5/24), with Brent's that day at 6868 (21.9pc decline). Saudi Arabia recently indicated it will increase its crude oil production.

The collapse in the broad GSCI from 3/8/22's 853.3 to 9/10/24's 502.5 is 41.1 percent. The crash in Brent/North Sea crude oil (nearest futures continuation) from 3/7/22's 13913 peak to 9/10/24's 6868 is 50.6 percent. The S+P 500's 9/26/24 record high at 5767 exceeds 1/4/22's 4819 peak by 19.7 percent. The S+P 500's bull charge from 10/13/22's 3492 to 5767 is 65.1 percent.

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Will an expansion of the Middle East conflict currently involving Israel and Hamas/Hezbollah/Houthis as well as Iran cause Brent/North Sea crude oil to spike toward 8795 (7/5/24's high), 9218 (4/12/24), or 9769 (9/28/23)? According to the Financial Times (9/27/24, p1), Saudi Arabia is ready to abandon its unofficial price target of $100 per barrel as it prepares to gradually boost daily output beginning in December 2024 (for a grand total increase by December 2025 of one million barrels per day). Will Middle Eastern politics postpone this planned crude oil production increase?

Will the Brent/North Sea crude oil price venture exceed $100 per barrel again? Will the current Middle East war spread further around the region, or beyond? Will any petroleum producing nations impose an oil embargo to help reverse the humanitarian crisis in Gaza or for other policy reasons? A year ago, 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).

Recall the recent price divergence between commodities in general (and the petroleum complex) and the S+P 500 ("bearish commodities, bullish S+P 500"). Thus a notable and fairly sustained price spike (reversal) in petroleum (and therefore probably in the broad GSCI) probably would encourage the S+P 500 to fall.

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Of course various commodities do not always follow the same trend or necessarily converge/diverge (lead/lag) with other marketplaces in the same fashion. And marketplace history does not always repeat itself, either entirely or even partly.

Many analysts agree that gold has both currency (monetary) and commodity aspects. Cryptocurrencies such as Bitcoin arguably represents money, but numerous players also view it as an alternative asset via which "investors" and other owners can "search for yield".

The essay "Great Expectations: Marketplace Fireworks" (7/3/24) discussed price and time trends for Bitcoin, gold, and the S+P 500 in recent years. Since first quarter 2020, Bitcoin and the S+P 500 sometimes have displayed roughly similar price and time shifts (trend changes). Gold and the S+P 500 also occasionally manifested related price and time turns in recent years. Let's review a handful of current patterns.

Bitcoin peaked on 3/14/24 at 73734; the S+P 500 made a minor high on 3/28/24 at 5265. The S+P 500 established an important interim high on 7/16/24 at 5670; compare the timing of Bitcoin's

7/29/24 interim top at 69984. Bitcoin collapsed to its 8/5/24 low at 49112; the S+P 500 attained a significant trough on 8/5/24 at 5119. Bitcoin climbed to 66521 on 9/27/24, around the same day as the S+P 500's record high to date, 9/26/24's 5767.

Recall COMEX gold's 11/3/22 bottom at 1615 (nearest futures continuation). This occurred not long after the S+P 500's 10/13/22 bottom at 3492. Gold made a key trough with 10/6/23's 1809; remember the S+P 500's very significant 10/27/23 bottom at 4104. The S+P 500 made a minor high on 3/28/24 at 5265, about two weeks prior to gold's one on 4/12/24 at 2429. The S+P 500's important interim top on 7/16/24 at 5670 parallels gold's 7/17/24 one at 2473. Compare gold's lows on 7/25/24 at 2352 and 8/5/24 at 2367 with the S+P 500's take-off point low on 8/5/24 at 5119. Finally, gold's high to date is 9/27/24's 2672, a 65.4 percent rally from its 11/3/22 depth, alongside 9/26/24's 5767 S+P 500 elevation.

These price and time relationships between the S+P 500, gold, and Bitcoin warn that price declines (or rallies) in these marketplaces will tend to confirm each other.

CULTURE WARS, POLITICAL AGITATION

"So much trouble in the world...
The way earthly thin's are goin'
Anything can happen". Bob Marley and the Wailers, "So Much Trouble in the World"

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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.

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

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. Thus the nation and its assets (including the dollar) have become marginally less appealing to some investors.

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 28.4 percent believe America is moving in the right direction, with 61.3pc claiming the nation is moving on the wrong track (net wrong track 32.9pc; date range for polls 8/23-9/13/24). According to a Gallup survey (9/3-15/24), only 22 percent of Americans are satisfied with the way things are going in the US at this time, with 76pc dissatisfied (two pc have no opinion), for a net dissatisfaction of 54 percent.

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

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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, about its current yield) a reasonable ("good") wager for the long run?

Though November 2024's national election is only one month 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 Harris show a close battle. A great percentage of voters wish there were competent electable alternatives to these two leaders. Political professionals also 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 in this close race makes the 2024 electoral vote outcome even more unclear. Perhaps the Presidential outcome will not be known for at least several days after 11/5/24 as mail-in ballots are counted, or if challenges to vote counts develop. The Congress meets in joint session to count the electoral votes on 1/6/25. Inauguration Day is 1/20/25.

And perhaps much can happen in the aftermath of Election Day. 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? Suppose Trump and his allies and partisans encouraged and engaged in notable civil unrest. Would a substantial number of Trump's opponents accept an outcome in which he won the Electoral College?

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See "Endgame: The Risk of a Trump Coup and How to Prevent It" by Jonathan Winer in "The Washington Spectator" (9/17/24).

According to the World Justice Project, "Overall, around one-third of respondents said they would not accept 2024 presidential election results as legitimate if their favored candidate did not win" ("U.S. Rule of Law Trends & the 2024 Election", Chart 12, p20; 9/17/24). Forty-six percent of Republicans and 27 percent of Democrats said they will not accept election results as legitimate if the other party's candidate won. These percentages include the 14 percent of all Republicans and about 11pc of all Democrats who said they would take "action" to overturn election results if the other party triumphed (the survey question did not specify the type of action, whether legal or illegal).

Note the PRRI's "2023 American Values Atlas" survey (2/28/24). How many Americans agree with the statement: "Because things have gotten so far off track, true American patriots may have to resort to violence in order to save our country"? Nineteen percent of all Americans agree with this statement; of these, five percent completely agree, and fourteen pc mostly agree. See Figure 15 (p24) and Figure 20 (p30).

PRRI states that "Christian nationalists…are more likely than other Americans to see political struggles through the apocalyptic lens of revolution and violence." For the "Christian Nationalist" category in the PRRI study labeled as "Adherents", 38 percent agree with the survey statement regarding potential resort to violence; 33 percent of the Christian Nationalist group called "Sympathizers" agree with the comment. PRRI indicates the average for Christian Nationalist

Adherents and Sympathizers combined agreeing with the statement is 35 percent. Of that 35 percent, eight percent completely concur with the assertion, and 27 mostly agree.

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What consequences would likely or actual significant turmoil probably have for the US dollar, US Treasury yields, and the S+P 500? All else equal, the dollar and the S+P 500 probably would weaken. Though the UST 10 year note yield might fall in a "flight to quality", a jump in yields also may occur due to a drop in confidence in the desirability of owning US assets in general (due to fears regarding economic and political stability and leadership quality).

Legal (even Constitutional) fights might generate turmoil in interest rate, stock, foreign exchange, and commodities fields. The Supreme Court ruled that states cannot keep Trump off the ballot based on an interpretation of the Constitution's 14th Amendment.

Suppose Trump is victorious in the overall Electoral College vote. A New York State court convicted Trump, and he awaits sentencing on 11/26/24 (if the judge does not set aside the verdict before then). Will US laws block him from taking office? Federal pardons issued by the President apply only to federal offenses, not to state crimes. If Trump receives a criminal conviction involving a jail sentence, 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?

Court delays have eliminated the possibility that Trump will be tried (and perhaps convicted) prior to the election in the other federal and state cases (Georgia) in which he is a defendant. The Supreme Court's recent immunity ruling (and interpretations of it) perhaps will make some of these trials less likely to occur.

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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) and "To Win Votes, Trump Floats an Array of Expensive Tax Cuts" (9/18/24).

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Anyway, America is not the only important nation with debt or internal political problems. The very substantial rallies in gold and Bitcoin probably reflected not only US dollar depreciation concerns and global 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.

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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: "Great Expectations: Marketplace Fireworks" (7/3/24); "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).

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