<u>SHAKIN' ALL OVER: FINANCIAL AND POLITICAL TURMOIL</u>

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The Guess Who sing in "Shakin' All Over":
"That's when I get the chills all over me
Quivers down my backbone
I got the shakes in my thigh bone
I got the shivers in my knee bone
Shakin' all over".

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CONCLUSION

The United States (and global) economy probably will slow down substantially. The risk of a recession is substantial. Forces warning of American and international economic weakness are widespread. What are some of these factors?

United States inflation benchmarks such as the Consumer Price Index have receded toward the Federal Reserve's two percent objective, but they remain far enough above that target to preclude near term easing by the Fed in the absence of substantial economic weakness. The Fed has adopted a cautious strategy regarding further rate cuts. Moreover, this guardian may need to raise rates if inflation increases more than expected.

The optimistic rhetoric regarding and devoted faith in the strategies of "Make America Great Again" ("MAGA") and "America First" do not preclude substantial economic (and political) dangers resulting from the implementation of those programs. The essence (broad outlines) of President Trump's probable tariff plans (which currently appear more extreme than most had expected he would impose), will generate inflation, damage consumer and business confidence, and (at least for the near term) hamper domestic (and worldwide) economic growth. Substantial protectionism does not necessarily create beneficial outcomes. America's trading partners will retaliate. Everyone remembers that trade (tariff) wars encouraged the Great Depression to begin in 1929. In addition, the tax and immigration policies embraced by Trump and his allies represent noteworthy inflationary risks.

Also, the long term and arguably even the near term US fiscal situation and its management are dangerous. American deficit spending and debt levels represent ongoing problems. These challenges preceded Trump's inauguration on 1/20/25, but despite spirited talk of and hunts for fiscal savings, the current Administration's schemes probably will worsen the nation's debt situation. Massive fiscal expansionism over an extensive time span arguably at some point can begin to endanger rather than bolster economic growth, in part because the combination of substantial deficit spending and a very large government debt as a percentage of GDP tends to boost interest rates, especially longer term ones. Significant fierce debates regarding spending and the debt ceiling loom.

America is not a developing/emerging marketplace nation. Yet as in those other countries, mammoth and growing US federal debt, especially in conjunction with fierce ongoing US political conflict and inflationary phenomena (encouraged by massive US tariffs), could produce a further noteworthy yield jump. There is a substantial chance that the UST 10 year's October 2023 summit will be attacked over the next several months. However, if the American economy threatens to or actually enters a recession, the UST 10 year probably will assault 9/17/24's 3.60 percent low.

The essay "As the World Turns: Marketplace Battlefields" (1/1/25) emphasized: "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 9/17/24's 3.60 percent interim low, and especially alongside the recent runup stage from 12/6/24's 4.13pc to 12/26/24's 4.64pc probably warns of a significant decline in the S+P 500 from 12/6/24's 6100, especially since the Federal Reserve's real Broad Dollar Index has rallied in recent months and is now probably "too strong". The S+P 500 price probably will not exceed its December 2024 high by much, if at all."

Note the S+P 500's 5.4 percent initial dip from 12/6/24's elevation to 1/13/25's 5773. The UST 10 year yield nevertheless continued its climb after 12/6/24's 4.13pc interim low to reach 1/14/25's 4.81pc. The S+P 500 peaked not long thereafter, on 2/19/25 at 6147. This S+P 500 pinnacle surpassed 12/6/24's interim high by less than one percent. With 1/14/25's 4.81 percent high, the UST 10 year note yield traveled above 4/25/24's important top at 4.74pc and neared 10/23/23's 5.02pc peak. The S+P 500 collapsed from 2/19/25's pinnacle to 3/31/25's 5489, a 10.7pc slump in merely six weeks. The S+P 500's 3/31/25 low probably will be broken, even if Trump chooses to make his upcoming 4/2/25 Liberation Day tariff regime less burdensome in order to support stock prices. Though bullish optimism about corporate earnings for calendar years 2025 and 2026 persists, and even if the Trump Administration manages to engineer a noteworthy tax cut and reduce government spending to some extent, an eventual bear move in the S+P 500 of around 20 percent or more from February 2025's peak will be unsurprising. History shows that most US bear stock trends do not end in less than two months.

A substantial and persistent decline in the S+P 500 would warn of (or confirm) an economic downturn.

The increasing yield trend in the US T 10 year note since its September 2024 valley (and particularly its rise from 12/6/24's 4.13 percent low) allied with the sharp appreciation in the US dollar since September 2024 (to what is probably a "too strong" level) have undermined emerging marketplace stock and bond prices. Price and time divergence of course can exist between the securities trend of emerging (developing) nations and those of advanced nations such as the US. However, history shows that in an intertwined global economy, sustained price trends in emerging marketplace stocks and bonds can converge with (parallel) those in the stock and bond battlegrounds of advanced nations. Therefore, the price weakness in emerging marketplace securities is a bearish sign for US stock and bond prices (including UST instruments, unless there is a "flight to quality" into them) and global GDP growth.

For two years, until November 2024, the US Treasury yield curve was inverted (short term rates above long term ones). History reveals this inversion (negative slope) phenomenon often has preceded a recession. Over the past few months, the UST yield curve generally has been only slightly positive (and it is about 12 basis points negative as of 4/1/25).

US existing single-family home prices have fallen since June 2024, a portent of economic weakness. In addition, American unemployment, though still fairly low, has climbed since April 2023. 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 further falls in the S+P 500. As the cryptocurrency Bitcoin has in recent years often made significant price turns roughly around the same time as the S+P 500, continuation of its decline since its 1/20/25 Inauguration Day pinnacle represents an ominous bear sign for US stocks and also for the economy.

Moreover, despite the S+P 500's exuberance (especially since 8/5/24's 5116 trough) until around mid-February 2025, measures of Main Street confidence started to become mediocre before mid-February. Several of these indicators have deteriorated dramatically recently. Widespread federal government layoffs, growing concerns regarding the future scope and management of key programs such as Medicaid, Medicare, and Social Security, ongoing inflation, fears about the cost of Trump Administration's tariff program, and continued culture wars have disturbed Main Street and diminished consumer confidence. In any case, arguably many people on Main Street already are living in recessionary times, partly because of the high and unnerving inflation of the past few years.

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

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"As the World Turns: Marketplace Battlefields" noted: "Though the 'overall' United States dollar may remain strong for a while longer due to relatively lofty US interest rates, the "real Broad Dollar Index probably will begin to decline from around current levels, which have reached the major resistance barriers of autumn 2022. It eventually will retreat toward its key support at April 2020's 113.4 elevation (recall also December 2023's 113.8)."

The real Broad Dollar Index probably peaked in January 2025 and likely will continue to decline over the long run. Why?

First, America's shares of global GDP and of worldwide exports over the long run gradually have been declining. Moreover, the current Administration seems to favor a somewhat weaker US dollar in order to encourage the nation's economic growth.

Assessments of national leadership quality influence currency trends. Many of Trump's critical appointees have relatively limited relevant expertise and experience. Since Trump's 1/20/25 inauguration, not only has his popularity declined, but also reservations and worries regarding the quality of his leadership and that of many members of his team have increased. For example, note Trump's occasional shifts regarding his tariff policies since his inauguration. The Signalgate text scandal regarding America's attack on the Houthis in Yemen undermined confidence in America's leadership group. These concerns about the Trump Administration have grown both domestically and internationally.

In addition, the current government's relative hostility to traditional legal (including Constitutional) standards and traditions (and its hostility toward some lawyers and judges) makes the rule of law, one of the cornerstones of the dollar's attraction as the key global reserve currency, increasingly vulnerable. In this regard, note President Trump's authoritarian (autocratic) viewpoints, with which many of his fervent supporters agree. Also, the nation's substantial internal divisions persist, with cultural wars remaining vigorous; the spirit of compromise (and willingness to listen to opposing opinions) seems increasingly rare.

Moreover, America's inflation has persisted, massive fiscal troubles and fights over how to deal with them remain, and the government faces a debt ceiling (default risk) deadline in the next several months.

Faith that America will persist in its post-World War Two economic and political leadership role, and trust that it will behave as a consistently reliable partner, probably have slipped since President Trump took office in January 2025. Look at Trump's battles with international allies over tariffs (Canada, Mexico, the European Union, and others). See his reduced and shaky support for Ukraine in its battle with Russia. Note the Administration's less enthusiastic stance toward the NATO alliance. Agitating comments about grabbing Greenland, making Canada the 51st state, or reclaiming the Panama Canal have not encouraged faith in America's adherence to multilateral action or institutions, or in its decision-making quality. Also note America's notice of withdrawal from the World Health Organization and the global climate accord (Paris Agreement).

Growing American protectionism and isolationism and its increasing hostility to the prevailing liberal economic and political arrangements (including globalization) does more than make many other observers and nations anxious and angry. To the extent a country increasingly protects, separates, and isolates itself, (all else equal) other nations will have less inclination or ability to deal with it. This noteworthy attitude and behavior shift by the United States under the Trump Administration encourages many other nations to seek or expand trading and political arrangements with countries other than America. To the extent America talks and acts as less of an ally (or as a less reliable friend) or becomes more adversarial on the international stage, many countries will seek alternatives to the dollar. In any case, moving (even if only slowly) away from dealing with America thus will tend to reduce reliance on (interdependence with) America and thus engaging in relatively fewer US dollar-denominated transactions.

Competitive depreciation may mitigate the US dollar's long run decline, but it will not avert its fall.

America's wide-ranging culture wars arguably make the nation less able to solve its significant problems (not only the sizeable and growing federal debt one). Persistent major cultural conflicts at times can significantly influence interest rate, stock, foreign exchange, and other financial marketplaces. In America, enthusiastic partisans and factions trumpet the wisdom of contending viewpoints. These deep-seated and intense culture wars exist across (and often between) various economic, political, and social dimensions. The country's election year 2024 politics and the rhetorical aftermath evidence that these cultural battles probably will persist for quite some time. The nation's fierce cultural conflicts reflect and intertwine with political and economic uncertainty, animosity, and distrust, as well as with widespread concerns regarding leadership and institutional quality. America of course is not the only nation with internal cultural quarrels. However, in conjunction with other factors undermining US dollar strength and making it appear less desirable as a store of value, this ongoing American divisiveness probably will tend to weaken the dollar.

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Unease (dismay; anger) in the United States is widespread regarding the nation's economic and political situation. To what extent do Americans trust and have confidence in their political (and economic) leaders and institutions (and in their ability to ensure satisfactory economic and political outcomes for the majority of people)? If many Americans are increasingly disturbed about the nation's circumstances and prospects, what should foreigners think about America?

Suppose this current divided American economic, political, and social landscape continues. Also, keep current inflation, debt, tariff, and other marketplace and political factors in mind. All else equal, the United States and its assets in general, not only the US dollar, probably will become marginally less appealing to some investors (owners). At some point ownership of American debt securities as well as other dollar-denominated assets such as stocks and real estate may appear increasingly risky to many marketplace participants.

US INFLATION AND INTEREST RATES

"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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Although 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 2.8 percent year-on-year in February 2025. Compare June 2022's year-on-year peak at 9.1 percent. However, the core CPI-U (less food and energy) advanced 3.1 percent year-on-year in February 2025 (Bureau of Labor Statistics; 3/12/25, next release 4/10/25).

The personal consumption expenditures price index has neared but remains above the Fed's two percent objective. In February 2025, it grew at an annual rate of 2.5 percent. The core PCE (less food and energy) ascended at an annual rate of 2.8pc (Bureau of Economic Analysis; 3/28/25, next release 4/30/25).

Digging into February 2025 CPI-U statistics warns that the key CPI-U and PCE inflation measures probably will remain reluctant to fall beneath the Fed's beloved two percent target for "inflation" ("stable prices"). First, the "services less energy services" category (about 60.7 percent of the overall CPI-U increased 4.1 percent year-on-year in February 2025, significantly above the Fed's objective. The "shelter" subset of that services category (35.4pc of the total index) climbed 4.2pc year-on-year in February 2025.

Much of the significant plummeting in the overall CPI-U index since June 2022 derived from plummeting energy prices. In February 2025, the "energy" sector (6.3 percent of the CPI-U) fell only .2 percent year-on-year. A sustained reversal of the declining energy cost trend probably would increase inflation fears. Food prices (13.7pc of the CPI-U) advanced 2.6pc versus February 2024.

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Inflation around the globe, though it has declined from its peak, remains too elevated from both the central banking and consumer vantage points. According to the OECD, all-items CPI in January 2025 rose 4.7 percent year-on-year (Table 2, 3/5/25; next release 4/3/25), the same rate as in November and December 2024. CPI excluding food and energy increased 4.8pc year-on-year in January 2025. The OECD remarked that cumulative headline inflation has grown 31.6 percent since December 2019.

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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, having gained greater confidence that inflation was moving sustainably toward its two percent inflation objective, this guardian on 9/18/24 cut the Federal Funds rate 50 basis points to 4.75-5.00 percent. It followed this reduction with 25 basis point cuts in each of its next two meetings, leaving the Funds rate at 4.25-4.50 percent. The Fed since then has left the rate at 4.25-5.00pc (3/19/25).

However, in the 12/18/24 meeting's Press Conference, the Chairman said that "our policy stance is now considerably less restrictive. We can therefore be more cautious as we consider further adjustments to our policy rate." And: "from this point forward it's appropriate to move cautiously and look for progress in inflation"; "risks really are in balance and we need to see progress in inflation." Thus although on the basis of the Fed's Economic Projections many observers hopefully await further Fed Funds reductions over calendar 2025 and thereafter, recent Fed wordplay disappointingly warns that these may not occur anytime soon. In its 3/19/25 press release: "Uncertainty around the economic outlook has increased. The Committee is attentive to the risks to both sides of the dual mandate [of maximum employment and stable prices]." The 3/19/25 Press Conference discussed tariffs. The inflation risk may not be transitory. "Inflation expectations are mostly well-anchored." The Chairman added regarding rate cuts: "I think we're not going to be in any hurry to move…we're well-positioned to wait for further clarity."

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

The Fed does not meet in April 2025. It next gathers 5/6-7/25 and 6/17-18/25.

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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 2.10pc on 3/13/25 (2.12pc on 4/1/25). Since this weathervane has remained fairly close to two percent since spring 2022, optimism that the Fed will ease its policy persists.

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America's Presidential Inauguration Day was 1/20/25. The majority of experts agree that the enactment of many of Trump's signature policy proposals, all else equal, portend higher inflation. 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). Higher inflation of course tends to promote higher interest rates. These Trump strategies include not only assorted tax cuts, but also widespread higher tariffs and deportation of illegal (undocumented) immigrants.

The Trump Administration plans to announce an updated comprehensive array of substantial tariffs on a wide range of goods involving a great number of countries on 4/2/25, which he labels "Liberation Day". The Administration intends that its new "reciprocal" tariff program will combat unbalanced trade relationships and unfair taxes, subsidies and regulations. These Liberation Day tariffs (some were announced earlier) likely will involve automobiles, auto parts, steel, and aluminum, and perhaps pharmaceuticals, computer chips, copper, and lumber. Countries to which the Administration will apply tariffs include China, Canada, Mexico, many European nations (European Union), and numerous others. Tariffs of around 25 percent on various goods (countries) would not be surprising.

American consumers probably will bear most of the higher cost burden of the Trump tariff regime. This will tend to reduce consumer demand, thus risking slowing economic growth and even a recession. The tariffs of course will harm the poor and middle class far more than the upper class and wealthy. Compare means of generating US government revenues: suppose new revenue-generating tariffs are matched with equally sized income tax cuts. The shift to tariffs from income tax probably would be very regressive.

Although price cuts and currency depreciation by nations exporting to America may mitigate the inflationary impact on America of substantial US tariffs, such responses probably will not be substantial enough to eliminate the inflationary consequences. Though Trump and his allies hope for a boom in US manufacturing following the imposition of the new tariff regime, this manufacturing growth (if it occurs) likely will follow by an extended time the fall in consumer demand (spending) and economic feebleness responding to the higher prices derived from the tariffs.

In any event, the Administration currently now speaks of its determination to impose a wide array of substantial ones. Perhaps it will thereafter stand fast. Based on recent history, however, the Trump Administration probably will choose to negotiate on the scope and levels of its tariffs. It eventually, or perhaps even quickly, may lower (or raise) them.

In general, other nations will not quietly submit to Trump's threats on the trade front. Many countries, including China, presumably have weapons available and retaliatory countermeasures planned. Note not only China's control of the global rare earths supply; these materials are essential to many key industries. China has an anti-foreign sanction law to respond to actions taken by other countries, as well as an unreliable entities list for foreign companies who undermine its national interests (Financial Times, 11/15/24, p1). Remember also that China and Japan hold a massive amount of US Treasury debt (US Treasury International Capital report). US interest rates probably will rise if China, Japan, or other nations threatens to or actually do sell a large quantity of their UST holdings. If trade wars result from Trump tariffs, that increases the probability of reduced worldwide economic growth, or even a recession.

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On the deportation of undocumented immigrants front, reduced availability of workers generally bids up wages for unfilled positions. This will increase inflation.

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Trump has warned he may impose other tariffs to accomplish political goals if countries engage in economic or political behavior hostile to American interests. For example, he threatened BRIC nations with a 100 percent tariff if they created a new currency to rival the dollar (The Guardian, 12/1/24). On 3/24/25, he signed an executive order issuing "secondary tariffs" on countries that buy oil and gas from Venezuela (Financial Times, 3/25/25, p1). The Administration has hinted to impose levies on Chinese-made ships entering US ports (Financial Times, 3/27/25, p3). Some worry that “Tariffs on goods may be a prelude to tariffs on money [capital inflows into the United States]” (Financial Times, 3/15/25, p9).

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The International Monetary Fund indicated 2024 world GDP advanced 3.2 percent, with 2025 and 2026 both projected to increase 3.3pc (“World Economic Outlook Update”, Table 1; 1/17/25). The American economy has not yet weakened substantially. Calendar year 2024 GDP grew at a 2.8 percent annual rate (calendar year 2023 GDP expanded at a 2.9pc annual rate). First quarter 2024 GDP expanded 1.6 percent, with 2Q24 rising 3.0pc; 3Q24 grew 3.1pc, with 4Q24 rising 2.4pc (Bureau of Economic Analysis; 3/27/25; next release 4/30/25). However, as most of the US tariff charges likely will be passed on to American consumers, that risks cutting consumer demand and thus increases the chance of recession.

According to the Congressional Budget Office’s “The Long-Term Budget Outlook: 2025 to 2055” (3/27/25), US real GDP averaged annual growth of 2.5 percent over the past 30 years (1995-2024). However, over the next 30 years, the CBO expects the GDP growth rate to drop to 1.6pc/year.

US unemployment figures remain low, further suggesting the likelihood that the Fed’s current mildly restrictive inflation-fighting campaign will remain in place a while longer. Unemployment rested at 4.1 percent in February 2025, far beneath April 2020’s 14.8 percent coronavirus peak, but above April 2023’s 3.4pc low (Bureau of Labor Statistics; 3/7/25, next release 4/4/25).

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 4.3 percent in February 2025 (down from July 2022’s 6.7pc). Will labor unrest cause wage increases?

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The following table displays key movements in UST 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)
						Sept 2024 Yield Low
						3.60pc (9/17/24)

January 2025
Yield High
4.81pc
(1/14/25)

The long run trend of UST 10 year note yields since March 2020 generally has been upward. Although the October 2023 yield peak has not been surpassed, it has been challenged. 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. 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 on 9/17/24. Thereafter, the UST 10 year yield climbed, making an important trough with 12/6/24's 4.13pc (the date of the S+P 500's 6100 interim top) on its upward journey. The high since then is 1/14/25's 4.81 percent.

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Suppose the Federal Funds rate over the next couple of years moves in the path the Fed's 3/19/25 "Economic Projections" indicate. The midpoint of the "central tendency" midpoint for Fed Funds for year-end 2025 is 4.15 percent (ascending from 12/18/24's 3.85pc forecast). The Fed Funds central tendency midpoint walks down to 3.50pc by end 2026 (12/18/24's outlook was 3.35pc). The murky "Longer run" midpoint for the Fed Funds rate is 3.10 percent, about the same as December 2024's 3.20pc viewpoint. 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 warriors 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 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 participants 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 3.10 percent, that points to a UST 10 year note yield of 3.60 percent (compare 9/17/24's 3.60pc trough). Recall 12/27/23's 3.78 yield low. 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 2025 Fed Funds midpoint of 4.15 percent plus a 50 basis point real return gives a 4.65pc UST 10 year yield. The year-end 2026 midpoint of 3.50pc plus 50 basis points equals 4.00pc. The Congressional Budget Office believes the UST 10 year note yield will average 4.10pc in 2025 ("The Long-Term Budget Outlook: 2025 to 2055"; 3/27/25).

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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 those 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" (3/6/25). The UST Bill yield exceeded the US 10 year note yield (monthly basis) from November 2022 through November 2024. Perhaps this sustained negative slope portends a recession. For August 2024, subtracting the three month T-Bill yield from the UST 10 year yield gave a negative 132 basis points, falling to negative 53bp in October 2024 and negative 17bp in November 2024. Although the curve generally shifted to a positive slope after November, it has not been strongly positive. February

2025 averaged merely 13 basis points positive. The daily level on 4/1/25 is about 12 basis points negative.

WARNING SIGNALS: US FEDERAL DEFICITS, DEBT LEVELS, AND INTEREST RATES

The band Traffic sings in “The Low Spark of High-Heeled Boys”:
“The percentage you're paying is too high priced
While you're living beyond all your means
And the man in the suit has just bought a new car
From the profit he's made on your dreams”

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To gain perspective on the dangerous US federal budget and public debt situation and outlook, let’s review Congressional Budget Office releases, “The Budget and Economic Outlook: 2025 to 2035 (1/17/25) and “The Long-Term Budget Outlook: 2025 to 2055 (3/27/25). The Long-Term Budget Outlook assumes that existing laws remain generally unchanged. Thus the baseline forecast assumes that the 2017 tax cuts affecting individuals expire at the end of calendar 2025, and it does not incorporate Trump’s assorted actual or potential tariffs.

The fiscal year 2023 budget deficit totaled a massive amount, about $1.7 trillion, equaling 6.3 percent of Gross Domestic Product. The federal budget deficit for fiscal 2024 likewise was huge, around $1.9 trillion and 6.6pc of GDP. The CBO predicts the fiscal year 2025 deficit will be $1.9tr (6.2pc of GDP), with that for fiscal 2026 $1.9tr (5.5pc of GDP). The average deficit from 1975 through 2024 was 3.8pc of GDP. The budget deficit averages 6.3 percent of GDP from 2025-2055, more than 1.5 times the average of the past 50 years.

Federal debt held by the public as a percentage of GDP rose to 97.8 percent of GDP in fiscal 2024, with that for 2025 expected at 99.9pc of GDP and 2026 at 101.7pc of GDP. Compare the 49.7 percent average for the 1975-2024 half-century. 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).

The CBO predicts the federal budget deficit will grow to almost $2.7 trillion in 2035 (6.1pc of GDP), with debt held by the public as a percentage of GDP at 118.5 percent. Debt held by the public was about $28.2 trillion at the end of fiscal 2024, with that for fiscal 2025 expected at $30.1 trillion; this skyrockets to a monumental $52.1 trillion in fiscal 2035. The 2045 budget deficit will be 6.4pc of GDP, with debt held by the public ballooning to about 136.0pc of GDP. The 2055 budget shortfall will reach 7.3 percent of GDP, bringing debt held by the public to a terrifying 156pc of GDP.

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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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Politicians, Main Street, and Wall Street marketplace participants generally have manifested confidence in the ability of US national leaders to postpone the short term fiscal problems indefinitely. As for the fearsome 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?

Yet despite this complacency, all else equal, ravenous demand for credit and related substantial federal debt risks (and potential fiscal crises) tend to boost United States 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.

Though 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 generally have underestimated the severity and risks of the problems.

Partisan warfare (including internecine feuds within the Republican camp) and election year 2024 politics generated occasional fears and moderate excitement regarding actual deficit disasters, but national leaders thus far have escaped near term problems by repeatedly kicking the can down the road. The bipartisan budget deal reached in November 2023 as well as the more recent one on 12/21/24 accomplished little of substance. Although America in December 2024 avoided a federal government shutdown by approving a short-term spending bill to fund the government until mid-March 2025, breaking through the appropriations logjam merely evaded the enactment of substantive solutions regarding deficit reduction.

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In New Year 2025, America's federal quarrels over government funding and deficit spending encompasses the need to raise or suspend (remove) the country's debt limit in order to protect the full faith and credit of the United States. The debt limit was suspended in June 2023, with that postponement having expired on 1/2/25. Since lawmakers have not yet increased or suspended the debt limit, the Treasury has enlisted "extraordinary measures", accounting maneuvers designed to prevent America from defaulting on its debt (NY Times, 12/27/24). The actual "X-date", when extraordinary tactics no longer will be operable and the nation really could default, is uncertain. The Congressional Budget Office believes the government will exhaust its ability to use extraordinary measures in August or September 2025. But if the government's borrowing needs significantly exceed the CBO's forecast, the Treasury's resources may be used up by late May or sometime in June 2025 ("Federal Debt and the Statutory Limit"; 3/26/25). The Bipartisan Policy Center projects the X-date most likely will fall between mid-July and early October 2025 ("Debt Limit Analysis"; 3/24/25).

According to the Government Accountability Office, since 2011 the US government was within days of a potential default in six of the most recent "debt limit impasses" (debt limit impasse starts when outstanding debt reaches the debt limit), including the one in calendar 2023 ("Debt

Limit: Statutory Changes Could Avert the Risk of a Government Default and Its Potentially Severe Consequences", Figure 4; 12/11/24).

If US legislators did not quickly remedy the default by raising or eliminating the debt ceiling, the adverse consequences for financial marketplaces and the US and global economy likely will be severe. See the GAO report's listing of potential effects of a US default. These include increased US Treasury yields, dollar weakness, recession, and a decline in household wealth.

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The United States is not the only land with substantial and growing indebtedness. Significant government (and other) debt and related risks are not just an American problem.

According to the International Monetary Fund's "Fiscal Monitor" (10/23/24), global public debt will exceed $100 trillion by end 2024, with total government borrowing approaching the dangerously high level of 100 percent by the end of this decade ("Executive Summary" and Chapter 1). The Executive Summary displays great concern, emphasizing that "risks to the debt outlook are heavily tilted to the upside." For the Fiscal Monitor, general government debt includes all units of government (central, state, and local) as well as nonmarket, nonprofit institutions controlled and mainly financed by government units. General government gross debt of advanced economies grows from 109.4 percent of GDP in 2024 (compare 2015's 102.8pc of GDP and 2020's coronavirus era high of 121.8pc of GDP) to 114.2 percent of GDP in 2029 (Table A7). General government gross debt of emerging market and middle-income economies increases from an average of 70.8 percent of GDP in 2024 (compare 44.3pc of GDP in 2015 and 65.5pc in 2020) to 80.6pc in 2029 (Table A15).

The Bank for International Settlements in December 2024 warned that high and rising government debt levels will cause turbulence for the global economy unless political leaders deal with them soon (Financial Times, 12/11/24, p2).

The European Central Bank said that lofty budget deficits and elevated sovereign debt levels risk a debt crisis for the bloc if its member nations cannot boost their growth (Financial Times, 11/21/24, p2; citing the ECB's "Financial Stability Review"). However, in Germany and elsewhere in the Eurozone, many leaders now approve of some reduction in fiscal restraint.

There has been rising debt in many emerging marketplaces. Consider China. Reading the fine print about Chinese debt underlines that China probably confronts more fiscal dangers and risks to its ability to generate adequate economic growth than many believe (despite the country's large economy and substantial household savings). Keep in mind China's repeated economic rescue efforts in recent months, not only the financial carnage in its property sector and its concerns about potential Trump tariffs. Chinese economic growth and social stability may be increasingly fragile. Recall the September 2024 monetary stimulus and stock market support fight. Remember the $1.4 trillion fiscal package to help bail out local governments (Financial Times, 11/9-10/24, p4), as well as its planned issue in 2025 of $411 billion of special Treasury bonds (Reuters, 12/24/24).

The International Monetary Fund offers a broad perspective on China's overall debt. The IMF indicates that China's overall nonfinancial sector debt is massive; it stood at 254 percent of GDP in 2019. It ballooned to 312 percent of GDP in 2024, with the IMF predicting 2029's will fly up to 344pc of GDP. This overall debt estimate 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). Augmented debt (government, government-guided funds, and local government debt) was 86.3 percent of GDP in 2019, and 124.0pc in 2024. The IMF forecasts that augmented debt will rise to 148.2pc of GDP in 2029. See the People's Republic of China "2024 Article IV Consultation" (August 2024; Table of "China Selected Economic Indicators", 2019-2029). See also the IMF's 5/28/24 "2024 Article IV Mission" which underlined that "China faces significant fiscal challenges, especially for local governments."

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In recent years, deficit spending around the globe has been a favored governmental method to deal with Main Street populist pressures. However, in America and many other nations, large corporations and wealthy individuals have long benefited from tax-related entitlements.

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Depending on factors such as economic growth and employment, as well as interest rate yield and stock marketplace price trends, currently substantial US household debt may emerge as a problem. According to the Federal Reserve Bank of New York's "Quarterly Report on Household Debt and Credit" (February 2025), American household debt now is about $18.0 trillion dollars, up about 41.7 percent in nominal terms from the Global Financial Crisis $12.7tr peak in 3Q08. Elevated balance levels probably stress many households. December 2024's aggregate delinquency rate (debt in some stage of delinquency) relative to outstanding debt of 3.6 percent edged up from 3.5 percent in 3Q24 and 2Q24's 3.2pc. Though estimates vary, a great number of Americans say they "live paycheck to paycheck" and do not have substantial emergency savings.

According to the New York Fed, student loan debt is about nine percent of total debt (mortgage debt represents about 70 percent of total debt). Missed federal student loan payments were not reported to credit bureaus between 2Q20 and 3Q24. Thus less than one percent of aggregate student debt was reported as being 90 or more days overdue (in serious delinquency) in 4Q24. However, this delinquency rate should begin to increase sharply in credit reports beginning in 1Q25. Student loans in a state of serious delinquency exceeded 10 percent prior to start of the forbearance period.

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Substantial lending by private credit firms to highly indebted businesses willing to pay high rates may also represent financial risk. See the New York Times (12/27/24). This financing used to occur via public marketplaces. Private credit organizations acquire their funds for lending from large institutions such as insurance companies and pension funds. Over the past few years, about $1.8 trillion has been raised by private credit firms. Compared to traditional bank lending this lending by private credit institutions has many fewer regulatory restrictions and less government oversight and public reporting. These loan arrangements generally offer less protection against defaults than those offered via mainstream corporate lending. Many of the private credit lenders have substantial flexibility regarding how they mark-to-market their loan portfolios.

Does this eager lending by private credit firms to indebted (vulnerable) businesses to any extent recall the subprime mortgage lending situation before the emergence of the 2007-09 Global Financial Crisis?

Moody's (Asset Management Research group) recently stated (3/4/25) that the average one year expected probability (risk) of default for United States public companies reached a high of 9.2 percent at the end of 2024. It predicts this level will remain elevated through 2025, so the realized default rate probably will be around nine percent by the end of 2025. This is significantly above the 7.8pc high during the Covid pandemic, as well as the 4.0pc low in 2021 which followed the federal government policy response to the pandemic.

According to the Financial Times (citing Moody's; 12/30/24, p6), defaults in the global leveraged loan marketplace (the bulk of which is in the United States) rose to 7.2 percent in the 12 months to October 2024, the highest rate since the end of 2020. Higher interest rates played a key role in this.

LOOKING FORWARD: FURTHER BUDGET AND TARIFF CONSIDERATIONS

"Who's in a bunker?...We're not scaremongering This is really happening…Take the money and run". Radiohead's song, "Idioteque"

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Regarding the United States budget and debt situation, theatrical legislative performances related to the fiscal 2025 and 2026 appropriations process have resurfaced in calendar 2025, even though the Republican party captured the Presidency, the Senate, and House of Representatives. Democrats in general strongly oppose many of Trump's policies. The Republicans have a very narrow majority in the House. The 2024 election outcome probably did not diminish the internal divisions and feuds within the House Republican caucus.

Some of former President Trump's enduring political appeal (and his November 2024 election triumph) probably derived from the divergence between Wall Street (and other elite group) prosperity and Main Street economic realities. Given increasing consumer uneasiness and the narrowness of the Republican majority in the new House of Representatives, the Trump regime probably has only a narrow time window during which it can enact policies (such as a huge tax cut) which it hopes will maintain or increase economic expansion and enhance Republican political power.

What are Trump's assorted tax ideas with substantial budgetary implications? For example, Trump seeks to make permanent individual and corporate tax cuts enacted in 2017 (Tax Cuts and Jobs Act), and also to add another tax cut for businesses and individuals. He wants to reduce the corporate tax rate from 21 percent to 15 percent. Trump at times has recommended that Social Security payments and tips become fully nontaxable, and that the deduction for state and local taxes (SALT) be boosted. Is there sufficient political support and budget flexibility for all these alluring tax benefits proposals to become law?

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American legislators, in close consultation with the Trump Administration, will debate issues relating to the federal government budget for fiscal 2026 and beyond. Let's review some guideline spending proposals as well as issues relating to budgetary spending cuts, potential tariffs, and the Administration's quest to reduce the size of the Federal workforce and alleged improper spending and fraud.

The Trump Administration and Republicans in general want to extend the individual income tax cuts enacted in 2017 which expire at the end of calendar 2025. The Congressional Budget Office believes (CBO Blog; 3/24/25; see also the CBO's 3/21/25 letter to the House Joint Economic Committee) that Republican proposals extending the individual income (and estate) tax cuts which expire at the end of calendar 2025 (plus the enactment of some corporate measures) will increase the deficit by a total of around $4.5 trillion dollars over the next 10 years. This outlook assumes no other changes to fiscal policy occur. It will increase government debt by $37.2 trillion over the next 30 years, thereby raising debt held by the public as a percent of GDP to over 200 percent by 2054, much higher than the current baseline estimate. (This blog release preceded the CBO's 3/27/25 "Long-Term Budget Outlook: 2025 to 2055", hence its 2054 end date.) In real (2031) dollars, the $4.5 trillion dollars over the next ten years equals $4.3tr; the $37.2 trillion increase in 30 years is $23.5 trillion in real terms. As noted above, keep in mind that Republicans currently have some other potential tax cuts which may emerge on their menu (for example, not taxing tips or overtime pay).

The House Budget Resolution has a declared goal of $2.0 trillion in spending cuts over the next 10 years, but specific instructions to committees total only $1.5 trillion. It directs the Energy and Commerce Committee to propose spending changes which would lower outlays by $880 billion over the next 10 years. Medicare and Medicaid are the major programs under this Committee. Most people believe significant cuts in Medicaid are much more likely than large reductions in Medicare.

Admittedly, the ultimate spending and revenues for 2026 and beyond remain uncertain. But over the next 10 years, if there are roughly $2.0 trillion in enacted spending reductions alongside the $4.5 trillion in tax cuts, the deficit grows by about $2.5tr beyond the already current risky baseline levels. All else equal, the net tax cut (increased deficit spending) probably will tend to be inflationary.

Most experts believe that the extension of the individual tax cuts currently expiring at the end of calendar 2025 via enactment of the budget reconciliation bill will primarily (disproportionately) benefit America's high-end money earners, not the majority of taxpayers.

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In any case, not only does the current CBO baseline depicts huge existing and gigantic prospective federal budget deficits and public debt levels as a percentage of GDP. All else equal, even if one looks only at the next 10 years, another $2.5 trillion added to the federal deficit is a substantial sum. Interest rates probably would tend to rise, which in turn (all else equal) might slow economic growth.

Let's not forget the immigration issue. If widespread efforts to deport substantial numbers of illegal (undocumented) immigrants are made, how will they be financed? According to the American Immigration Council (10/2/24), a long term expulsion program of one million persons per year will cost almost one trillion dollars over a decade.

Therefore the Trump Administration and other promoters of substantial net tax cuts have considered other revenue raising and spending reduction measures to bolster enthusiasm for their tax cut program.

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One field for federal saving is reduction in alleged improper payments and fraud. According to the US Government Accountability Office, the federal government made $162 billion in payment errors in fiscal 2024 (3/11/25). That raised the total of "improper payments" since fiscal year 2003 to about $2.8 trillion. Earlier GAO estimates of substantial improper payments preceded the arrival of the current Trump Administration (see the 9/10/24 report). The GAO estimates direct annual losses to the government from "fraud" (based on data from fiscal years 2018 through 2022) to be between $233 and $521 billion (4/16/24). Even if the estimates for the two types of erroneous payments overlap, even if the conjectures are rather lofty, and even if some of funds are recovered, such multi-billion dollar claims give many confidence that diligent investigators can reduce such unnecessary expenditures.

Hence many partisans eagerly promoting the slashing of federal spending express enthusiasm regarding Elon Musk's Department of Government Efficiency. The DOGE website speaks of "fraud and improper payment deletion", workforce reductions, and other savings. DOGE claims $140 billion in savings as of 3/31/25, but its presentation of these savings is not comprehensive, and outside assessments have shown some of these savings claims to be unjustified.

What financial savings might the federal government achieve from substantial layoffs and forced (encouraged) retirements? The following analysis presents a rough estimate.

The total government civilian workforce as of November 2024 was about three million people; 600,000 of these worked for the US Postal Service, so 2.4 million are other federal employees. See Pew Research ("What the data says about federal workers" (1/7/25) and USA Facts. Pew Research, citing the US Office of Personnel Management, says the average annual pay across the entire federal workforce as of March 2024 was $106,382, with 50.8 percent making between $50,000 and $109,999.

According to the Congressional Budget Service (April 2024), in 2022 benefits constituted a larger share of total compensation for federal workers (40 percent). than for employees in the private sector (30 percent). The Bureau of Labor Statistics (3/14/25) says that in December 2024, wages and salaries accounted for 70.5 percent of employer costs, with benefits at 29.5pc. For state and local government employees, wages and salaries account for 61.8pc of employer costs, with benefits constituting 38.2pc. The private sector percentages for wages (salaries) and benefits from the BLS resemble those of the CBO estimate; BLS's state and local government breakdown between wages and salaries resemble those of the CBO regarding federal employees. So if 40 percent is the average benefits aspect of the total compensation of US federal workers, total compensation averages $177,303 (106,382/X equals 60/100; X is 177,303).

Focus on layoffs from the 2.4 million government employees apart from the Postal Service. Suppose the government dismisses/retires and does not replace five percent of the 2.4 million workers. That equals 120,000 employees. To get an admittedly conjectural view regarding savings from dismissals and retirements, assume severance packages and other costs are not included in the calculation of yearly payroll savings. Also exclude payment of any retirement obligations.

Therefore 120,000 employees times $177,303 equals just under $21.3 billion per year. So hypothetically speaking, reducing federal headcount from a 2.4 million baseline by five percent over ten years lowers spending by a grand total of $213 billion. Relative to the potential net guideline tax cut of about $2.5 trillion over the next 10 years discussed above ($2.0 trillion in enacted spending reductions alongside the $4.5 trillion in tax cuts), this workforce reduction savings of $213 billion is fairly significant. If the federal workforce declined by ten percent, and all else equal, the annual saving (reduced spending in the federal budget) will be about $42.6 billion. The savings over 10 years will be about $426 billion.

(See also the current and anticipated government work force reductions estimated by the New York Times (4/1/25): "The Federal Work Force Cuts So Far, Agency by Agency".)

Maybe the Trump Administration will try to reduce the size of the US Postal Service as well.

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President Trump will unveil his latest tariff regime on goods on 4/2/25. He proudly labels that day as Liberation Day. This revenue raising scheme may add or implement programs after that date. Trump, as always, retains the freedom to modify or transform his viewpoints and actions on economic and political policies and priorities. Given Trump's occasionally changing (arguably erratic) behavior in the recent past on the choice and application of particular tariffs, as well as his frequent inclination to negotiate with others, aspects of America's Liberation Day era tariff arrangement may change (perhaps quickly) over time.

Of course national and global economic and political conditions may encourage modifications of Trump's tariff program. In any case, many nations will retaliate against America's new Liberation Day tariffs. These foreign reprisals may relate not only to goods, but also to services. A persistent trade (tariff) war likely is bearish for the American and global economy, as experts as well as recent consumer confidence and S+P 500 stock trends indicate.

Several previous Administration announcements spoke of tariffs on nations or classes of goods as high as twenty-five percent. Nevertheless, many tariff details of course remain unknown pending Liberation Day announcements and the passage of time. Yet what are guideline hypothetical tariff income consequences from the new tariffs?

According to Peter Navarro, the White House senior counselor for trade and manufacturing, the automobile and parts tariffs will raise $100 billion (Interview, Fox News Sunday, 3/30/25). Navarro did not say whether the auto and parts tariffs would raise $100 billion in one year or over 10 years, but his reference to the 10 year period for the other goods arguably (though not clearly) indicates that they will raise $100bb each year. See also the Associated Press news story which says the White House expects to raise $100 billion annually from 25 percent tariffs on auto imports (3/27/25) "In addition, the other tariffs are going to raise about $600 billion a year, about six trillion dollars over a 10 year period, and we're going to have tax cuts. It's the biggest tax cut in American history for the middle class, for the blue collar".

According to the United States International Trade Commission (Office of Analysis and Research Services, Table 1; May 2024) in calendar 2023 the average of duties collected by the US as a percentage of total imports was 2.4 percent; the average tariff on dutiable imports stood at 7.4 percent. Duties collected in calendar 2023 totaled about $72.5 billion (2022 collection was $90.1 billion). Thus Navarro's estimate of $700 billion per year for the Administration's ultimate array of Liberation Day-related tariffs boosts dutiable revenues relative to calendar 2023 by almost 10 times. That is a major shakeup. As an average of duties collected as a percentage of total imports, the assortment of Liberation Day tariffs probably will far surpass calendar 2023's 2.4 percent level.

Navarro's reference to "the biggest tax cut in American history" suggests that he (and the President) believe that tariffs represent a cut. Earlier in the interview, he asserted: "Tariffs are tax cuts, tariffs are jobs, tariffs are national security, tariffs are great for America, tariffs will make America great again."

Yet in contrast with Navarro's proclamation, most economists and others believe that in practice tariffs represent a tax increase on consumers.

Opinions differ as to whether tariffs are good or bad. Trump and Navarro are married to the vision that American tariffs are good.

In 2024, the United States had a trade deficit in goods of about $1.2 trillion, with 2023's almost $1.1tr (Census Bureau and Bureau of Economic Analysis, "US International Trade in Goods and Services", Exhibit 1; 3/6/25). The Trump Administration views that huge deficit in goods as unfair. The US typically runs a surplus in services, with calendar 2024's at about $295 billion.

Suppose the ultimate amount of Liberation Day tariffs are indeed $700 billion per year. Suppose all of this figure is passed on to consumers in the form of higher prices, though in practice not all of it will be. The current US population is about 341.6 million (US Census Bureau, 4/1/25). Thus the per person yearly charge will be about $2050. Even half this figure ($1025) will burden many households.

Even if one does not agree with Navarro's viewpoint that tariffs are tax cuts, one can interpret his comments regarding them to show they are a part of a metaphorical structure in which he and the President believe. If tariffs "are" (equal to), tax cuts, jobs, and national security, they can be worthy means to those other desirable ("great for America") objectives. Thus the Liberation Day tariffs eagerly promoted by Trump and his comrades (since they will raise massive revenue) are integral to the achievement of their desired economic and political objectives, particularly major tax cuts. These tax cuts include not only the extension of the individual tax cuts expiring this year, but also potential additional new individual and corporate tax reductions.

Underlining that these "great" tariffs will raise massive revenue for the Trump Administration's allegedly praiseworthy tax plans is part of a rhetorical structure that aims not merely to persuade the American people of the merit of Trump's America First (Make America Great Again) program, but also (especially) to get Congress to enact the huge individual tax cut (rollover of the 2017 tax law) currently under consideration. The tariffs will help pay for this tax cut (and maybe other individual and corporate ones down the road).

By pointing at the gargantuan potential tariff revenues, perhaps seven trillion dollars over 10 years (if one has faith in Navarro's estimates), passing the reconciliation tax bill under Congressional consideration seems like a "good" plan. People should not worry too much about large deficit spending and massive public debt, right?

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The Liberation Day tariff revenue-raising regime thus in practice intertwines with the Administration (Republican) efforts to cut government spending by drastically reducing expenditures for Medicaid (and other social welfare programs), engaging in substantial layoffs of government workers, reducing improper payments and fraud losses, and so forth. The claimed revenue-raising via tariffs and the money saved by cutting expenditures thus aim to justify a massive tax cut. The extension of the 2017 individual estate and tax cut primarily will benefit affluent and rich Americans. In contrast, tariffs likely represent a tax increase on consumers in general, reductions in Medicaid and other social programs primarily impact the poor and middle class, and federal government layoffs overall probably focus on the middle class. The bottom line is that to a substantial extent (by means of tariffs, reduction in social welfare, and federal job cuts), the middle class and poor segment of America is paying for tax breaks for the affluent and wealthy.

The implicit claim by Navarro and the Administration that the net effect of the overall Trump Administration's income tax, tariff levies, social welfare cuts, and government layoffs in practice will be "the biggest tax cut in American history for the middle class, for the blue collar" is of questionable accuracy. Note that Navarro does not speak as to how large the benefits of the proposed rollover of the income tax cuts will be for the well-to-do. Interestingly, he also does not specifically mention the poor, who pay very little or no income tax (so will receive little help from tax cuts), but who often receive social benefits, and who presumably will pay more for some goods as a result of the wonderful tariffs.

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The Congressional Budget Office warns that Congress may consider trying to measure their budget reconciliation bills relative to a "current policy baseline" to mask the debt impact of deficit-financed tax cuts. A current policy baseline approach assumes all policies in place in the current year will continue regardless of scheduled expirations or phase-outs. If this is allowed under Senate reconciliation rules (and it may not be), "this would represent a massive budget gimmick that would justify and allow trillions of new borrowing" ("'Current Policy Baseline' Gimmick Could Explode the Debt"; 2/27/25). The CBO says adopting a current policy baseline would permit an extra $3.4 to $4.6 trillion of deficit increases through 2024, and that it would "Not reflect reality and instead reflect an unsustainable debt outlook that cannot continue." This potential budget gamesmanship which the Republicans may embrace relates closely to the desire to extend the 2017 individual (and estate) tax cuts. The CBO emphasizes that though this "gimmick" does not prevent legislators from reducing deficits via spending cuts, it makes spending cuts "much less likely" to occur since budget offsets would no longer be necessary to prevent debt increases.

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Many government spending decisions or changes from existing law necessitate Congressional approval. Other legal rules so also influence affect spending policy. Some savings proposals that DOGE or others in the Trump Administration recommends may not become law. Litigation may block or slow many spending (and deregulation) agendas. Though Trump may seek to resuscitate an impoundment procedure to reduce government spending, this theory is of questionable legality.

US DOLLAR SWINGS

Remember the jazz legend Duke Ellington's "Money Jungle".

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The Federal Reserve releases a real Broad Dollar Index (H.10; January 2006=100; monthly average; 4/1/25 is the latest release) as well as a nominal Broad Dollar Index (daily data; 3/31/25 release; 3/28/25 most recent datapoint) covering both goods and services. The following table displays nominal Broad Dollar Index trends since March 2020.

.	**1Q20 High (date)**	**Key Low Level (date)**	**Percent Decline from 1Q20 High**	**Next Highs (date)**	**PC Rally from 2021 Low to Jan 2025 High**
Nominal Broad Dollar Index	126.1 (3/23/20)	110.9 (1/6/21)	12.4pc	124.1 (7/14/22)	17.8pc
		110.5 (6/1/21)		123.6 (8/22/22)	**Oct23 + July24 BDI Highs**
				128.4 (9/27/22)	124.2 (10/5/23) 124.3 (10/26/23)
				128.4 (10/19/22)	124.8 (7/1/24) 124.6 (7/30/24)

Jan 2025 High
130.2 (1/13/25)

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After US and international consumer price inflation leaped in 2022, the Federal Reserve was a leader in the feverish 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 sheriff 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), sustained yield declines probably will weaken the dollar.

Similarly, all else equal, to the extent the Fed maintains a restrictive monetary scheme, the dollar will tend to move sideways or appreciate. Although Fed commentary has become less hawkish in recent months, the Fed has not completely abandoned its restrictive policy. Lowering the Federal Funds rate significantly from its current level probably will tend to stop further substantial dollar rallies.

Neither the Trump Administration nor the Fed probably want a "too-strong" US dollar. Trump typically desires lower interest rates. However, though the dollar probably recently commenced a long term decline, Trump's tariff threats and the Fed's willingness to keep the Federal Funds rate fairly high may help the dollar to maintain fairly strong levels from the long run historical perspective.

However, a yield spike due to a US fiscal crisis could coincide with a notable decline in the dollar.

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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 important interim high at 121.1. Its move from July 2011's major low to January 2025's 122.6 peak was 46.1 percent.

In conjunction with other factors, the very extended duration (about 13 and one-half years) and substantial distance of the bull move in the real BDI beginning in July 2021 probably warns that notable long run depreciation for the US dollar probably has begun or soon will do so. Also, the BDI's move from its important interim low in January 2021 at 103.2 to its January 2025 high is a substantial four year diagonal bull charge; this too hints at the significant possibility that the dollar will change its trend to bearish.

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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 114.2, 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 never decisively broke 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. An important 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 7/1/24, 124.8, exceeded that of October 2023.

The real Broad Dollar Index staggered downhill to 114.0 in January 2023. But the real BDI nevertheless generally has held around or above April 2020's 113.4 top. It motored up slightly to 114.8 in March 2023. The real BDI slipped to 112.5 in July 2023 (a 7.1 percent decline from autumn 2022's high), but it steadied at 114.1 in August 2023.

The real BDI rallied to 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. Though the real BDI slipped to December 2023's 113.9 (UST 10 year note low 12/27/23 at 3.78 percent), it bounced up to 115.1 in February 2024.

June 2024's real Broad Dollar Index at 117.4 hovered well above April 2020's 113.4 summit support, arguably making it too strong. Though it inched down to 115.7 in September 2024, it thereafter rallied, reaching 117.3 in October 2024, 119.9 in November 2024, and 121.2 in December 2024, achieving a new high at 122.6 in January 2025. January 2025's real BDI breaks slightly (1.3 percent) above October 2022's 121.1 resistance. The real BDI dipped slightly from January 2025's 122.6 peak to 121.8 in February 2025 and 120.4 in March 2025. However, March 2025's real BDI level still appears to be "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. A key interim high thereafter was 7/1/24's 124.8.

Though the nominal BDI slipped to 121.3 on 9/26/24, it subsequently rallied substantially. On US national Election Day 11/5/24, it stood at 124.8. Since 9/26/24, it rallied sharply, 7.3 percent to a new high at 130.2 on 1/13/25, shortly before Inauguration Day on 1/20/25. The 4.3pc rally in the BDI since Election Day probably was partly due to the threat of Trump Administration tariffs, though a comparatively restrictive Fed policy and a relatively strong American economy probably assisted the rally. Note the trend of rising UST 10 year yields since 9/17/24's 3.60 percent valley (and 12/6/14's 4.13pc trough) up until 1/14/25's 4.81pc high.

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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 113.9) 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 2024 low probably helped to propel the S+P 500 higher. However, the UST 10 year yield made a sustained move above 4.00 percent since 10/16/24, with a noteworthy yield jump since 12/6/24's 4.13pc low above 4/25/24's 4.74pc interim high (reaching a high at 4.81pc on 1/14/25), not far from the major high at 5.02pc on 10/23/23. "As the World Turns: Marketplace Battlefields" (1/1/25) stated: "This higher UST 10 year yield trend, assisted by the sharp appreciation of the US dollar (BDI) over that time span, probably are leading to a peak in the S+P 500 and other advanced nation stock marketplaces. In that context, note the price declines in recent months in emerging marketplace stocks and bonds."

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A sustained fall in the UST 10 year note yield toward or 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 heads close to or 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 though the United States dollar has generally been "strong". "As the World Turns: Marketplace Battlefields" underlined: "A persistent reversal of US dollar strength probably will signal or confirm US stock marketplace weakness."

Note the 3.5 percent decline in the nominal BDI from its 1/13/25 pinnacle at 130.2 to its 3/17/25 interim low at 125.6. A recent low in the S+P 500, 3/13/25's 5505 (since broken by 3/31/25's 5489), occurred close in time to the nominal BDI's 3/17/25 trough. The nominal BDI closed at 126.6 on 3/28/25.

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America's taking an increasingly smaller share of global GDP encourages some long run movement away from the US 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. What about the "America First" and "Make America Great Again" ideology espoused by President Trump and his allies? Over the long run, increasing US political and economic isolationism (independence), including its higher tariff scheme, probably reduces the inclination of many nations and businesses to rely as extensively on America as a partner for and the dollar as the means of the conduct of 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.

What if at some point Trump decides to significantly challenge the Fed's independence?

Despite the US dollar's having been strong for several years from the historical perspective, including since around late December 2023, there may have been substantial buying of gold and Bitcoin by countries, institutions, and individuals due to concerns about long run dollar depreciation as well as international (or local/regional) political upheaval.

WATCHING FOR PATTERNS: US STOCKS AND UST NOTE YIELDS

Listen to "Agitation", jazz music from the great Miles Davis.

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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.

Marketplace history of course is not marketplace destiny. The economic past does not necessarily repeat itself, either entirely or even partly. Marketplace patterns can and do change, sometimes dramatically.

However, 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 interrelated 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 high on 7/27/23 at 4607 (a pleasing 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 4.74 percent 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. The S+P 500 stumbled down 10.9pc from 7/27/23's 4607 to 10/27/23's trough. Important highs in the real and nominal Broad Dollar Indices occurred in calendar October 2023.

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. Following its low on 4/19/24 at 4954, 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 4.30 percent alongside the S+P 500's important interim low on 8/5/24 at 5119. The S+P 500 fell 9.7pc from 7/16/24 to 8/5/24.

Therefore "As the World Turns: Marketplace Battlefields" (1/1/25) declared: "The UST 10 year note's yield climb from 9/17/24's 3.60 percent trough and 12/6/24's 4.13pc low (12/26/24's 4.64pc the high since then) probably signals 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. Remember that the UST 10 year note's 12/26/24 elevation is fairly close to 10/23/23's 5.02 percent high."

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The UST 10 year note yield ascended further, reaching a high of 4.81 percent on 1/14/25.

The S+P 500's summit since 10/27/23's 4104 low occurred not long after the UST 10 year note's 1/14/25 high. The S+P 500 peak is 2/19/25's 6147, a 49.8 percent upward explosion from 4104, and a 27.6 percent flight beyond 1/4/22's 4819 major high. The thrilling 76.0 percent rally in the S+P 500 from 10/13/22's 3492 to 2/19/25's heavenly elevation delighted the US stock investment (ownership) communities and their enthusiastic Wall Street and media allies, causing them to jump for joy. Underscore the exuberant 180.4 percent ascent from 3/23/20's 2192 dismal coronavirus era depth to February 2025's pinnacle. The Dow Jones Industrial Average's record high is 12/4/24's 45074 (lower high 1/31/25 at 45054). The Nasdaq Composite Index's high in its bull move is 12/16/24's 20205 (20119 on 1/24/25; 20110 on 2/18/25).

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Many marketplace fans 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 3.78pc on 12/27/23), adjacent to 6/16/22's 1.89pc summit. The Bund made an important interim high with 5/31/24's 2.71 percent (UST interim high 5/29/24 at 4.64pc). The Bund's subsequent trough is 10/1/24's 2.01pc the subsequent low (UST low 9/17/24 at 3.60pc).

Note Germany's mid-March 2025 agreement to change the constitutional borrowing limit and spend massive new sums on its military and infrastructure. Highlight the Bund's striking climb up to 3/14/25's 2.94pc, close to its autumn 2023 highs.

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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 a global monetary easing trend). And suppose US and worldwide corporate earnings prospects change direction from optimistic to gloomy. Alternatively, stock and other marketplace combatants know the dollar can appreciate alongside a rally 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 the intertwined international economy, rather high UST 10 year note yields and a "too strong" US dollar recently have been on the field. In this context, suppose substantial and sustained price falls in the S+P 500 and related stock marketplaces occur. For example, picture a dismal 16.7 percent S+P 500 nosedive from February 2025's 6147 high to 8/5/24's 5119, or a shattering 33.2pc collapse from 6147 back to 10/27/23's 4104 bottom. These scenarios probably will be a recipe for (or confirmation of) a substantial slowdown or recession, especially if price falls in corporate debt arenas (and other search for yield interest rate territories) and further weakness in home prices accompany the notable stock marketplace decline.

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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 2/19/25's 6147 high is 5795. The trip from 12/6/24's 6100 top to 1/13/25's 5773 was 5.4 percent. 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 2/19/25's elevation equals 5532 (see the 5489 low on 3/31/25, a 10.7
pc slump). Recall the vicious 10.9pc drop from 7/27/23's 4607 to 10/27/23's 4104. The tumble from 7/16/24's 5670 down to 8/5/24's 5120 reached 9.7pc. A bear move of twenty percent from 6147 gives 4918, with a mournful 25pc bloodbath 4610; a murderous 33 percent crash equals 4094 (remember 10/27/23's 4104 bottom).

History shows that the Fed sentinel 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 use its monetary policy ammunition to ease economic conditions substantially; recall its rescue actions during the carnage of 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. Thus if a notable S+P 500 bear trend started on 2/19/25, it probably has quite a bit more time to run.

EMERGING MARKETPLACE TRAJECTORIES

In "Life During Wartime", the Talking Heads sing: "This ain't no party, this ain't no disco, this ain't no fooling around."

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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 interrelationships 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 27.7 percent portion of the EEM (BlackRock's iShares website, 12/31/24). China's Shanghai Composite Index's price and time picture generally resembles that of the EEM. Taiwan has a 19.8 percent share in the EEM. India represents 19.4pc, with South Korea having 9.0pc. 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 11.7 years (12/31/24). 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.

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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 10/7/24 high at 47.44 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. In addition, note that the EEM's October 2024 high preceded the S+P 500's December 2024 one, a bearish warning sign for the S+P 500. The EEM thereafter suffered a 14.4pc correction, touching 40.61 on 1/3/25.

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). Like the EEM's October 2024 top, the EMB's September 2024 summit preceded that in the S+P 500. Also note that the EMB made a second and lower high on 12/6/24 at 92.59, the same day as the S+P 500's initial peak at 6100. The EMB's 1/13/25 low at 88.44 retreats 5.9pc from 9/18/24's top.

In the context of this recent emerging marketplace stock and bond price weakness evidenced by the EEM and EMB, underline price and time paths in the United States dollar and the UST 10 year note. Highlight the timing of the 6.1 percent appreciation in the already strong US dollar (real Broad Dollar Index rally from 115.6 in September 2024 to 122.6 in January 2025. The nominal BDI rallied 7.3 percent from 9/26/24 to a new high at 130.2 on 1/13/25. The UST 10 year's yield increased substantially since 9/17/24's 3.60 percent and 12/6/24's 4.13pc lows up to 1/13/25's 4.81pc summit. These current interrelationships (patterns) between emerging marketplace securities and US dollar and UST 10 year note are bearish danger signals for the S+P 500 and other advanced nation stock marketplaces.

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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 initial 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 nerve-wracking 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 frantic financial rescue program/stimulus package to engineer a stock price rally and to assist the property sector. The Shanghai Composite shot up to 3674 on 10/6/24, an astonishing 36.6 percent rally.

However, since 10/6/24, the Shanghai Composite has made lower tops, first on 11/8/24 at 3510, with a second one on 12/10/24 at 3495 (near the time of the S+P 500’s 12/6/24 high). Renewed attacks by the Shanghai Composite on support around 3175/3140 (5/20/24’s 3174 high; 10/18/24 minor low 3153; 1/13/25 low 3141), and especially 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.

REALITY AND RISK: S+P 500 VALUATION AND CORPORATE EARNINGS

“‘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…
‘No reason to get excited,’ the thief he kindly spoke
‘There are many here among us who feel that life is but a joke
But you and I, we’ve been through that, and this is not our fate
So let us not talk falsely now, the hour is getting late’”. Bob Dylan, “All Along the Watchtower

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On 3/28/25, FactSet (“Earnings Insight”) estimated the forward 12 month Price/Earnings ratio for the S+P 500 as 20.5, above the five year average of 19.9 and the ten year average of 18.3. LSEG assessed the S+P 500’s forward four quarter P/E ratio at 21.2 as of 3/27/25 (“S&P 500 Earnings Scorecard”; LSEG I/B/E/S; 3/28/25). Views on “overvaluation” (“expensive”), “undervaluation” (“cheap”), and “fair (or reasonable; average) value” and similar notions reflect opinion. Yet despite the S+P 500’s recent decline, the S+P 500 arguably remains a bit “high” relative to this measure.

Let’s look at Professor Robert Shiller’s famed Cyclically Adjusted Price-Earnings Ratio (CAPE, P/E 10; ten year average of real (inflation-adjusted) earnings as the denominator). According to his website, the December 2024 CAPE was 37.7, with an early March 2025 estimate of about 35.6. The December 2024 CAPE level borders the notable former high attained three years earlier, November 2021’s 38.6 (having risen from March 2020’s 24.8; recall the S+P 500’s major bottom on 3/23/20 at 2192). That November 2021 summit occurred not long before the S+P 500’s 1/4/22 peak at 4819. The S+P 500 collapsed about 27.5 percent to its 10/13/22 major low at 3492. October 2022’s CAPE was 27.1. Although the November 2021 and December 2024 CAPE highs do not match the 44.2 pinnacle achieved about 25 years ago in December 1999, they exceed September 1929’s pre-Depression peak around 32.6.

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Joyful rallies in the “technology” stock sector, encouraged in recent times by hopefulness regarding anticipated financial benefits and profits from artificial intelligence innovation, played a major role in the S+P 500’s exciting price rise. Will this widespread enthusiasm persist?

Many US stock marketplace generals as well as devoted stock investment troops express optimism regarding the potential for robust US corporate earnings for the next couple of years. Will the reality match the hope?

FactSet says calendar 2024 year-on year earnings for the S+P 500 advanced 10.6 percent year-on-year (3/28/25). It predicts S+P 500 earnings for 1Q25 will grow 7.3pc year-on-year, with 2Q25 increasing 9.3pc year-on-year, 3Q25 up 11.9pc year-on-year, and 4Q25 rising 11.4pc year-on-year. FactSet prophesizes calendar 2025 earnings will blast 11.5 percent higher year-on-year. However, this estimate for calendar 2025's increase is less than the end December 2024 prediction of 14.2pc year-on-year growth. It conjectures calendar 2026's S+P 500 earnings will fly up 14.3pc year-on-year.

LSEG notes a 12.1 percent year-on-year climb in calendar year 2024 S+P 500 corporate earnings (3/28/25). LSEG asserts 1Q25 earnings will climb 8.0pc year-on-year, with 2Q25's up 10.2pc versus 2Q24; 3Q25's are expected to rise 12.4pc year-on-year, with 4Q25's increasing 11.0pc. LSEG anticipates calendar year 2025 earnings will increase 10.6 percent year-on-year, but this represents a reduced estimate from its early January 2025's forecast of 14.0pc year-on-year growth. LSEG says 1Q26 S+P corporate earnings will leap 17.8pc versus those of 1Q25, with 2Q26's ascending 14.9pc year-on-year.

Will actual United States calendar 2025 corporate earnings match these optimistic expectations? To what extent were even more bullish earnings viewpoints "built into" the S+P 500's 2/19/25 high at 6147? To what extent has optimism regarding potential for enactment of tax cuts or massive deregulation during the Trump Presidency been incorporated into America stock prices? The S+P 500 closed on Election Day 11/5/24 at 5783; the boisterous one-month rally to 2/19/25's 6147 pinnacle was substantial, about 6.3 percent.

In any case, will opinions regarding future earnings and substantial deregulation darken, thereby disappointing many stock investment bulls? Suppose American or global growth falls notably short of expectations. Suppose there is a recession. Picture a landscape with higher tariffs and persistent tariff (trade) wars and declining consumer confidence.

As the battle by the heroic Federal Reserve (and many of its central banking comrades) 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. Yearning persists that the American and worldwide economy will achieve a "soft landing", not a "hard" one. The stratospheric flight in the S+P 500 from take-off point lows such as 10/27/23's 4104, 4/19/24's 4954, 8/5/24's 5119, and 11/4/24's 5697 perhaps persuaded many stock owners that no landing will occur at all.

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Massive stock buybacks in the S+P 500 probably contributed significantly to the S+P 500's long run bull trend as well as widespread optimism regarding its future prospects. For full year 2024, S+P 500 buybacks set an annual record of $942.5 billion, leaping up 18.5 percent from 2023's $795.2bb. Share repurchases in 4Q24 of $243.2bb marched up 11.0pc from 4Q23's level (S&P Global, 3/19/25).

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The International Monetary Fund's "Global Financial Stability Report" stated that "asset valuations appear lofty in equity and corporate credit markets" (October 2024; Introduction, p2).

The IMF's "Global Financial Markets Update" (1/17/25) mentioned the "current lofty valuations" of "risk assets".

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Review the yield spread relationship between Moody's seasoned Baa corporate bond relative to the US Treasury 10 year note in the context of the S+P 500's trends (data from Federal Reserve Bank of St. Louis). This credit quality spread peaked at 431 basis points on 3/23/20 during the coronavirus pandemic. The S+P 500 established a major bottom on 3/23/20 at 2192.

The Baa/UST spread commenced an important narrowing stage commencing with 7/28/22's interim high of 242 basis points (7/1/22 high also 242bp). In its long bull run, the S+P 500 made an important trough on 10/13/22 at 3492, fairly close to the credit spread high. After sliding to 140 basis points on 4/10/24 (interim high S+P 500 slightly earlier, on 4/1/24 at 5264), the Baa/UST spread ascended to 185bp on 8/5/24; note the S+P 500's important interim low that day at 5119. The subsequent low in the credit spread is 11/12/24's 136 basis points (137bp on 12/18/24). The S+P 500's attained its initial high, 12/6/24's 6100, around the time of these lows in the Baa/UST spread. A significant widening of (increase in) the Baa versus UST spread tends to confirm or warn of an important high in the S+P 500. That spread gradually has ascended to a high of 176 basis points (3/31/25), confirming 2/19/25's S+P 500 top.

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Wall Street's bullish outlook regarding "the economy" (and faith in alleged beneficial effects from Trump's policies) and equities probably has declined in recent weeks, as represented by the shocking reversal of the magnificent bull move in the S+P 500 since mid-February 2025, as well as by Wall Street's somewhat less sunny outlook for future US corporate earnings. Highlight that Main Street consumers in general have showed declining confidence for several months. The Conference Board's Consumer Confidence Index has been shaky recently, falling for the fourth consecutive month to 92.9 in March 2025 from February 2025's 100.1 (1985=100; 3/25/25). Its Expectations Index collapsed 9.6 points to 65.2 in March 2025 (the lowest level in 12 years), well beneath the 80.0 threshold that usually signals a looming recession.

The University of Michigan's Index of Consumer Sentiment (3/28/25) was 101.0 in February 2020, right before the coronavirus pandemic worsened; notable inflation eventually emerged as well. It slumped dismally to 50.0 in June 2022 (US Consumer Price Index peaked in June 2022 at 9.1 percent). Although the Index advanced from July 2024's 66.4 to December 2024's 74.0 (which still was beneath March 2024's 79.4), it unhappily crashed during Trump's Presidency, reaching 64.7 in February 2025 and 57.0 in March 2025. Thus the current Index of Consumer Sentiment is depressed from the historical perspective. Not only does the March 2025 level rest far under February 2020's elevation, March 2025's depth borders that of June 2022. The University of Michigan's measure for Consumer Expectations plummeted to 52.6 in March 2025 from 64.0 in February 2025 (compare March 2024's 77.4 and December 2024's 73.3).

What about the "small business" world on Main Street, as opposed to "big business" and Wall Street? Surely partly inspired the Republican Presidential triumph and Congressional sweep of both Houses of Congress in the early November 2025 national elections, NFIB's Small Business Optimism Index for December flew up 11.4 points from October 2024's 93.7 level to December's 105.1, the highest point since February 2020's 104.5. The Index's November 2024's height at 101.7 followed 34 consecutive months spent below the 50-year average of 98. Thus small business confidence, like the S+P 500, had a "Trump bounce", probably reflecting hope of lower taxes and less regulation. However, the Optimism's Index's moderate slide to 102.8 in January

2025 and 100.7 in February 2025 warns of declining confidence regarding economic conditions and Trump's policies.

HOME SWEET HOME

In Mario Vargas Llosa's novel "The War of the End of the World" (Part III, chapter II), the Baron de Canabrava declares: "'The times are out of joint…Even the most intelligent people are unable to make their way through the jungle we're living in.'"

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Most Americans peacefully expect home prices to keep rising over the long run.

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. June 2024's $432,900 median sales price increased 13.1 percent versus the January 2024 low. See National Association of Realtors (3/20/25; next release 4/24/25). However, January 2025's $398,100 median price slips 8.0 percent from June 2024's level. This price fall contrasted with the ongoing rally in the S+P 500 through mid-February 2025 and was a bearish signal for stocks. The increase in the median sales price to $402,500 in February 2025 was small.

As mortgage rates generally have remained lofty, single-family home sales have tumbled, from 5.41 million in 2021, 4.48mm in 2022, to 3.66mm in 2023, with 2024's at a 3.67 mm annual rate. February 2025's annual rate grew modestly to 3.89mm. Inventory (months supply) on balance has moved up slightly relative to February 2024's 2.9 months, reaching 4.1 months in August 2024, eroding to 3.1 months in December 2024, with February 2025's at 3.4 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 (interconnect 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

In the film, "Sweet Smell of Success" (Alexander Mackendrick, director), an executive secretary tells a ruthless press agent: "You're so immersed in a theology of making a fast buck."

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United States dollar levels and trends of course will continue to interconnect 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 leaders and their trusty lieutenants promote commodities as an "alternative investment (or asset)" class, a worthy territory 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 arena 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 entrancing petroleum complex constitutes the largest share weight of the broad S&P GSCI. Petroleum had a roughly 55 percent weight for calendar 2024, and it also will have a 55pc weight in calendar 2025 (S+P Global, 11/8/24).

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However, price and time trends for the overall commodities battlefield 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 subsequently climbed for several months.

However, for the late 2023 period through around mid-February 2025, there has been noteworthy "overall" divergence between the S+P 500 and commodities in general. Whereas the S+P 500 was in a bull trend (despite a handful of price dips) until 2/19/25's high, the GSCI was in a sideways (or sideways to down) trend. Whereas the GSCI slumped from interim highs on 4/12/24 at 606.8 and 7/5/24 at 592.2) to make a new low at 502.5 on 9/10/24 (under the 12/13/23 one), the S+P 500 continued to climb to new highs. Note the S+P 500's upward jumps from 4/19/24's 4954, 8/5/24's 5119, and 11/4/24's 5697. The bear trend for the GSCI which started on 3/8/22 persisted after 12/13/23's low.

Let's take a broad perspective on the divergence between price trends in the S+P 500 and commodities, going back to first quarter 2022. The collapse in the broad GSCI from 3/8/22's 853.3 to its low since then, 9/10/24's 502.5, is 41.1 percent. The awesome crash in ICE Brent/North Sea crude oil (nearest futures continuation) from 3/7/22's 13913 peak to its initial low on 9/10/24 at 6868 was 50.6 percent. However, Brent/North Sea made a new low 3/5/25 at 6833, down about 50.9pc from the March 2022 apex. The S+P 500's 2/19/25 record high at 6147 exceeds 1/4/22's 4819 peak by 27.6 percent. The S+P 500's ferocious bull charge from 10/13/22's 3492 to 6147 is 76.0 percent.

"As the World Turns: Marketplace Battlefields" (1/1/25) stressed: "the massive decline in the broad GSCI price and its divergence from the S+P 500 (especially over the past year or so) probably warn that an important top in the S+P 500 as well as an economic slowdown exists or will appear soon."

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

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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 violently 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. Nevertheless, days coverage for OECD on land industry stocks has not declined much (if at all) from 3Q22 through 4Q24 (see OPEC's "Monthly Oil Report", Table 11-3; 3/12/25).

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 key trough since then is 9/10/24’s 502.5 (a 15.1 percent fall from 7/5/24); with minor lows at 525.4 on 10/29 and 11/13/24). The GSCI’s high since 9/10/24 is 1/16/25’s 584.0, with Brent’s high following 9/10/24’s 6868 low 1/15/25’s 8263. Brent established a new low on 3/5/25 at 6833, a 22.3 fall from 7/5/24; the GSCI made another minor low on 3/5/25 at 542.2.

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The GSCI attained a second (and lower) high following 1/16/25’s 584.0 interim top on 2/19/25 at 580.9, the same day as the S+P 500’s 6147 peak. Will the GSCI and S+P 500 price trends converge and begin to fall together?

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Will the Brent/North Sea crude oil price venture exceed $100 per barrel again? Will an expansion of the Middle East conflict 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)? 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?

Will a reduction in Iranian crude oil supplies resulting from quests to preclude Iran’s development of nuclear capability induce a notable rally in the petroleum complex?

OPEC+ announced on 12/5/24 (“Press Releases”; opec.org) that it would postpone its plan to gradually increase production (by about two million barrels per day) from January 2025 until at least April 2025. In addition to price declines in the petroleum complex, to what extent did Middle Eastern politics play a part in the postponement of this planned OPEC+ crude oil output boost? On 3/3/25, OPEC+ broadcast that starting on 4/1/25 it would proceed with that production increase, but it added that “this gradual increase may be paused or reversed subject to market conditions.”

According to the Dallas Federal Reserve Bank’s “Energy Survey” (3/26/25), exploration and production firms on average need an average of $65 per barrel for West Texas Intermediate crude oil to drill a new well in the US in the top two areas in which they are active.

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Another consideration exists in regard to the extended price and time divergence between commodities in general (and the petroleum complex) and the S+P 500 (“bearish commodities, bullish S+P 500”). A very notable and sustained price spike (reversal) in petroleum (and therefore probably in the broad GSCI) probably will 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.

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Many analysts agree that gold has both currency (monetary) and commodity aspects. Cryptocurrencies such as Bitcoin arguably represents money, but numerous players also love 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). These price and time relationships between the S+P 500 and Bitcoin warn that price declines (or rallies) in these marketplaces will tend to confirm each other. Let's review an array of current patterns.

Bitcoin established an important interim top 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 109350 on 1/20/25 (its high to date; a euphoric rally 48.3 percent above 3/14/24's top, and about 27.8 times 3/13/20's bottom at 3926), about one month before the S+P 500's record high to date, 2/19/25's at 6147. Bitcoin fell 29.9 percent to its subsequent low on 3/11/25 at 76561.

Bitcoin's low on US Election Day 11/5/24 was 67009. Following Trump's triumph, encouraged by the incoming President's fervent policy embrace of cryptocurrencies, Bitcoin's rocket trip up to 1/20/25's celestial height was about 63.2 percent. A boom in the price of many meme coins followed Trump's election (Financial Times, 12/4/24, p8). Did that meme coin rally phenomenon alongside the Bitcoin price spike warn of "irrational exuberance" in cryptocurrencies in general? The rally in meme coins, like that in Bitcoin, has subsided. According to CoinGecko, President Trump's meme coin slumped from about $72 on 1/19/25 to around $10 nowadays.

Compare the trends in the nominal Broad Dollar Index and Bitcoin from US Election Day (11/5/24) up to around US Inauguration Day (1/20/25). Remember that the nominal BDI was at 124.8 on Election Day. The nominal BDI rallied 4.3 percent since then, and its high occurred shortly before Election Day, on 1/13/25 at 130.2.

Gold and the S+P 500 also occasionally manifested related price and time turns in recent years. These price and time relationships between the S+P 500 and gold warn that price declines (or rallies) in these marketplaces will tend to, although not always, confirm each other. 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.

Gold rallied following its post-US Election Day low at 2554 on 11/14/25. It made a minor top on 2/24/25 at 2958, close in time to the S+P 500's 2/19/25 pinnacle. Gold slid down to 2834 on 2/28/25.

However, in recent weeks the gold trend has diverged from that of the S+P 500. Whereas the S+P 500 established a peak on 2/19/25 and declined about ten percent thereafter, gold continued to rally after late February 2025, with its high to date 4/1/25's 3150, a big bounce, about 11.2 percent, from 2/28/25's low (and a monstrous 95.0 percent rally from its 11/3/22 bottom).

Perhaps the continued gold rally reflects not only a shortage in the free supply of gold and ongoing international turmoil. Concerns regarding global financial stability and growing national debt burdens have helped gold to climb for quite some time. However, the recent gold ascent, particularly since late February 2025, probably also warns of even greater anxiety about international financial stability and political conflict, especially in an era during which fierce trade (tariff) wars loom. For example, agitation about the quality of US national leadership and concerns about its federal indebtedness have increased. And America's economic, political, and other cultural battles are ongoing. Inflation has not disappeared. In addition, gold's upward rush perhaps signals increasing worries that the US Dollar may begin to depreciate significantly. Whether gold maintains its rally will partly depend not only on the continued persistence of such concerns, but also whether a recession emerges in America and around the globe.

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America is not the only important nation with very significant debt or severe internal political problems. The formidable rallies in gold and Bitcoin probably reflected not only longer run US dollar depreciation concerns, a search for a global safe haven amid political unrest (war; violence), and hunt for yield considerations, but also reduced faith in many quarters that important countries and global institutions can manage economic, political, and social 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: "As the World Turns: Marketplace Battlefields" (1/1/25); "Financial Marketplace Adventures: Back to the Future" (10/2/24); "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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