AS THE WORLD TURNS: MARKETPLACE BATTLEFIELDS

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In "A Short History of Financial Euphoria", John Kenneth Galbraith comments: "The euphoric episode is protected and sustained by the will of those who are involved, in order to justify the circumstances that are making them rich. And it is equally protected by the will to ignore, exorcise, or condemn those who express doubts." (Chapter 1, "The Speculative Episode")

"'A Ti-tan iv Fi-nance,' said Mr. Dooley, 'is a man that's got more money thin he can carry without bein' disordherly. They'se no intoxicant in th' wurruld, Hinnissy, like money.'" (Finley Peter Dunne's "Mr. Dooley" commenting "On Wall Street"; spelling as in the original)

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CONCLUSION

United States inflation benchmarks such as the Consumer Price Index have receded toward the Federal Reserve's two percent objective. For at least the near term, the Fed's December 2024 Economic Projections encourage faith in many marketplace players that the Fed will reduce its Federal Funds policy rate further by the end of calendar 2025. These intertwined factors, accompanied by the move in the S+P 500 to a new record high (12/6/24's 6100), bullish optimism regarding US corporate earnings for 2025 and beyond, and hope that the incoming Trump Administration successfully will promote economic growth inspire belief that the American (and global) economy will keep expanding adequately (or at least have a "soft landing" and escape recession).

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However, despite ongoing moderate (but still too high) inflation as well as inflationary proposals embraced by the incoming American Administration (Inauguration Day is 1/20/25), the United States (and global) economy probably eventually will slow down substantially. It may not escape a recession. Forces warning of an American and international economic slowdown are widespread. What are some of these factors?

Fed monetary policy was significantly restrictive for an extended time span until recently, and it probably will remain mildly so for at least the near term. The Federal Reserve Board recently adopted a cautious strategy regarding further rate cuts, which will tend to encourage economic sluggishness. Though American inflation is more subdued, it has not disappeared. The Fed's two percent target has not been achieved. Shelter and services inflation remain lofty. The potential enactment of at least the essence (broad outlines) of tax, tariff, and immigration policies promoted by President-elect Trump represent noteworthy inflationary risks. Middle East unrest may spark a sustained rally in petroleum prices; that potentiality also tends to encourage the Fed to ease monetary policy gingerly.

In addition, the long term and arguably even the near term US fiscal situation and its management are dangerous. 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 American deficit spending and debt levels represent ongoing problems, and upcoming debates regarding them and the debt ceiling loom. Note that despite the Fed's easing, the UST 10 year note's yield's increase from 9/17/24's

3.60 percent low, as well as from 12/6/24's post-US national election trough at 4.13pc. America is not a developing/emerging marketplace country. Yet as in those other countries, mammoth and growing US federal debt, especially in conjunction with fierce ongoing US political conflict and other phenomena, could produce a further yield jump. With 12/26/24's 4/64 percent high, the UST 10 year note yield has neared 4/25/24's important top at 4.74pc, which is fairly close to 10/23/23's 5.02pc peak. Over the next few months, there is a substantial chance that the UST 10 year's October 2023 summit will be attacked and broken.

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.

Though the "overall" US 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 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, this price weakness in emerging marketplace securities is a bearish sign for US stock and bond prices (including UST instruments, unless there eventually is a "flight to quality" into them) and global GDP growth.

US existing single-family home prices dipped after 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 fall in the S+P 500. As the cryptocurrency Bitcoin and gold prices in recent years have often made significant price turns roughly around the same time as the S+P 500, continuation of their recent erosion will be an ominous bear sign for US stocks.

Until recently, the US Treasury yield curve was inverted (short term rates above long term ones); history reveals this phenomenon often has preceded a recession. Over the longer run, if the American economy slows substantially or enters a recession, the UST 10 year probably will challenge 9/17/24's 3.60 percent low.

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In contrast to the S+P 500's exuberance over the past year or so (and especially since 8/5/24's 5116 trough), recent measures of Main Street optimism are mediocre. Arguably many people on

Main Street already are living in recessionary times, partly because of the high inflation of the past few years. Some of former President Trump's enduring political appeal (and his recent election triumph) probably derives from the divergence between Wall Street (and other elite group) prosperity and Main Street economic realities. Given consumer uneasiness, the recent trend of rising US Treasury 10 year note rates, and the narrowness of the Republican majority in the new House of Representatives, the incoming Trump regime probably has only a narrow time window during which it can enact policies which it hopes will maintain or increase economic growth.

US INFLATION AND INTEREST RATES

In William Shakespeare's "Macbeth", Banquo demands of the three witches:
"If you can look into the seeds of time,
And say which grain will grow and which will not,
Speak, then, to me…" (Act I, Scene III).

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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 2.7 percent year-on-year in November 2024. Compare June 2022's year-on-year peak at 9.1 percent. However, the core CPI-U (less food and energy) advanced 3.3 percent year-on-year in November 2024 (Bureau of Labor Statistics; 12/11/24, next release 1/15/25).

The personal consumption expenditures price index has neared but remains above the Fed's two percent objective. In November 2024, it grew at an annual rate of 2.4 percent. The core PCE (less food and energy) ascended at an annual rate of 2.8pc (Bureau of Economic Analysis; 12/20/24, next release 1/31/25).

Digging into November 2024 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 61.6 percent of the overall CPI-U increased 4.6 percent year-on-year in November 2024, far above the Fed's objective. The "shelter" subset of that services category (36.6pc of the total index) climbed 4.7pc year-on-year in August 2024.

Much of the significant plummeting in the overall CPI-U index since June 2022 derived from plummeting energy prices. In November 2024, the "energy" sector (6.6 percent of the CPI-U) dropped -3.2 percent year-on-year. A sustained reversal of this trend probably would increase inflation fears.

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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 October 2024 rose 4.5 percent year-on-year (Table 2, 12/4/24), with CPI excluding food and energy increasing 5.0pc year-on-year that month. The OECD remarks that cumulative headline inflation has grown 30.2 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.

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, the Press Conference disappointingly warns that these may not occur anytime soon. As a sign of similar caution regarding rate policy cuts, the Financial Times headlines the “OECD warns central banks against hasty rate cuts while threats persist;” the OECD worries about elevated services inflation, and says many countries have higher than desirable rates of core inflation (12/5/24, p4).

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

The Fed meets 1/28-29/25 and 3/18-19/25.

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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 2.15pc on 12/5/24 (2.30pc on 12/31/24). 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 is 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 widespread higher tariffs, deportation of illegal (undocumented) immigrants, and assorted tax cuts. Although the Administration may alter its tariff schemes from the heated pre-inauguration broadcast levels, current rhetoric speaks of a 10 to 20 percent boost for many countries, with some on China up to 60 percent. Trump has threatened BRIC nations with a 100 percent tariff if they create a new currency to rival the dollar (The Guardian, 12/1/24). 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. In general, reduced availability of workers bids up wages for unfilled positions.

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The American economy has not weakened substantially. Calendar year 2023 GDP grew at a 2.9pc annual rate. First quarter 2024 GDP expanded 1.6 percent, with 2Q24 rising 3.0pc; 3Q24 grew 3.1pc (Bureau of Economic Analysis; 12/19/24; next release 1/30/25). The International Monetary Fund forecasts 2024 world GDP at 3.2 percent, with 2025 also 3.2pc ("World Economic Outlook Update", Table 1.1; October 2024).

US unemployment figures remain low, further suggesting the likelihood that the Fed's current mildly restrictive inflation-fighting campaign will remain in place for a while longer. Unemployment rested at 4.2 percent in November 2024, far beneath April 2020's 14.8 percent coronavirus peak, but creeping up from April 2023's 3.4pc low (Bureau of Labor Statistics; 12/6/24, next release 1/10/25). 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 November 2024 (down from July 2022's 6.7pc). Will labor unrest cause wage increases?

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The UST 10 year note yield climbed up from 3.78 percent on 12/27/23 to 4.74 percent on 4/25/24, not very far from 10/23/23's 5.02pc yield peak. However, as inflation benchmarks descended, the UST 10 year yield eroded. From 7/24/24's interim high at 4.30 percent, it dove to 3.60pc. 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 high). The high since then is 12/26/24's 4.64 percent.

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

	1Q20 Yield Bottom	**1Q21 Yield High**	**Aug 2021 Yield Low**	**Following Yield Highs**	**Next Yield Lows**	**Autumn 2023 Yield High**
UST 10 Year Note	.31pc (3/9/20)	1.77pc (3/30/21)	1.13pc (8/4/21)	3.50pc (6/14/22)	3.32pc (1/19/23)	5.02pc (10/23/23)
				4.01 (9/28/22)	3.33 (2/2/23)	
	Mid-2020 Yield Lows		**Aug 2022 Yield Low**	4.34 (10/21/22)	3.28 (3/24/23)	**Dec 2023 Yield Low**
	.54pc (4/21/20)		2.51 (8/2/22)	4.09 (3/2/23)	3.25 (4/6/23)	3.78pc (12/27/23)
	.50 (8/6/20)				3.29 (5/4/23)	**April 2024 Yield High**
						4.74pc (4/25/24)
						Sept 2024 Yield Low
						3.60pc (9/17/24)

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Suppose the Federal Funds rate over the next couple of years moves in the path the Fed's 12/18/24 "Economic Projections" indicate. For year-end 2024, the midpoint of the "central

tendency" is 4.50 percent. The central tendency midpoint for Fed Funds for end 2025 is 3.85 percent (ascending from 9/18/24's 3.35pc forecast). The Fed Funds central tendency midpoint walks down to 3.35pc by end 2026 (9/18/24's outlook was 3.10pc). The murky "Longer run" midpoint for the Fed Funds rate is 3.20 percent, up from September 2024's 3.0pc 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 (12/27/23's 3.78 yield low) depth for any significant length of time. Suppose the Fed Funds rate equals the inflation rate (CPI-U, PCE, or however else defined) and that marketplace 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 3.20 percent, that points to a UST 10 year note yield of 3.70 percent (compare 9/17/24's 3.60pc trough). 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 3.85 percent plus a 50 basis point real return gives a 4.35pc UST 10 year yield. The year-end 2026 midpoint of 3.35pc plus 50 basis points equals 3.85pc. The Congressional Budget Office believes the UST 10 year note yield will average 4.00pc in 4Q25 ("CBO's Current View of the Economy From 2025 to 2027"; 12/18/24).

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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" (12/4/24). The UST Bill yield exceeded the US 10 year note yield (monthly basis) from November 2022 until recently. 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. The daily level on 12/31/24 is about 25 basis points positive.

Why the sharp shift in the UST yield curve's slope from positive to negative in recent months? Lower short term yields probably derived substantially from the combination of the decline in inflation from its peak in conjunction with Fed policy easing. However, rising UST 10 year note yields from 9/17/24's 3.60 percent low, and especially after 12/6/24's 4.13pc interim trough, played a key role in the yield curve shift. This climb in note (and bond) yields probably results from growing concerns about American fiscal policy (budget deficit and debt level risks) both during the incoming Trump Administration as well as over the longer run. The UST 10 year yield's recent upward march also may portend greater future inflation than many clairvoyants perceive. Trump's tax proposals, tariff strategies, and deportation schemes likely will be inflationary, and perhaps substantially so.

<u>WARNING SIGNALS: US FEDERAL DEFICITS, DEBT LEVELS, AND INTEREST RATES</u>

In "The Clouds", an ancient Greek comedy by Aristophanes, the philosopher Socrates asks: "What did you come for?"

Strepsiades replies: “To learn to speak. I am wracked and ruined and dispossessed
By most malignant debts and usury.”
Socrates: “How could you fall into debt without knowing it?
Strepsiades: “It was the galloping consumption, a voracious plague.
But teach me the other of your Logics, the nonpaying one.
Whatever your fee is, I swear by the gods I’ll pay it.”

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

Debt held by the public as a percentage of GDP will be around 99.0 percent of GDP in fiscal 2024 and 101.6pc in 2025. According to the CBO, when debt held by the public as a percentage of GDP reaches 107 percent in 2029, it will exceed its prior historical high (106pc in 1946, right after World War Two). It attains a monumental 122.4 percent of GDP by 2034, ascending to a colossal 166 percent of GDP by 2055 (and 2055’s pc debt estimate is probably even higher if one applies 6/18/24’s Update to March 2024’s “Long-Term Budget Outlook”. Debt held by the public balloons from $26.2 trillion in 2023 to $48.3 trillion in 2034. The CBO’s analysis reflects current law. But what if the individual income tax cuts scheduled to expire at the end of calendar year 2025 are extended? All else equal, that will exacerbate the deficit problem. (See also “The Budget and Economic Outlook: 2024 to 2034”; 2/7/24; “The Long-Term Budget Outlook: 2024 to 2054”; 3/20/24. The CBO will release a Budget Outlook for 2025 to 2035 on 1/17/25.)

Based on the CBO’s “Monthly Budget Review” reports, the Committee for a Responsible Federal Budget estimated the American federal budget’s 12 month rolling deficit stood at $2.1 trillion as of November 2024 (12/9/24), or 7.1 percent of GDP. The Committee (12/23/24) said that in calendar year 2024, Congress and the President approved one trillion dollars in new debt for a ten year forward period ($600 billion via legislation and $400bb in executive action), with more than half of the debt increase in legislation occurring on the final December meeting day of the 118th Congress (the President signed the bill 12/21/24).

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Proposed Republican policy proposals probably will exacerbate the federal deficit problem. According to Penn Wharton studies (8/26/24), Trump’s proposals increase primary deficits by $5.8 trillion over the next 10 years.

What are Trump’s assorted tax ideas with substantial budgetary implications? For example, Trump wants 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. 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 longer term expulsion program of one million persons per year will cost almost one trillion dollars over a decade.

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Trump and many of his allies have big plans and high hopes for a reduction in government spending in various areas via the anticipated Department of Government Efficiency (DOGE). Cost reductions in annual spending of two trillion dollars have been mentioned (Financial Times, 12/31/24, p4). However, many spending decisions will necessitate Congressional approval, so much of the savings proposals DOGE recommends may not become law. Though Trump may seek to resuscitate an impoundment procedure to reduce government procedure, this theory is of questionable legality. Litigation may block or slow the imposition of DOGE, impoundment, and deregulation agendas.

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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 terrifying long run fiscal threats, and judging the politicians by their actions, most people nowadays do not worry about such dangers much. Maybe things will work out for the best somehow. Maybe everyone's grandchildren will manage to solve the menacing long run troubles. In any event, the majority of American political leaders have not acted to significantly reduce, or even address, the major long term budget and deficit issues. To what extent and when will the extravagant borrowing and large and growing public debt darken the nation's economic present (and future)? Even though the United States is not the only notable debtor nation, to what extent will its fiscal extravagance endanger the dollar's role as the leading reserve and trading currency?

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.

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

Partisan warfare, including internecine party conflict (particularly within the Republican camp) and election year 2024 politics have generated occasional fears and moderate excitement, but national leaders 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.

Theatrical legislative performances related to the fiscal 2025 (and 2026) appropriations process probably will resurface 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.

In New Year 2025, the America's federal quarrels over government funding and deficit spending will encompass 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 scheduled to expire 1/2/25. The US Treasury Secretary informed Congress on 12/27/24 that if lawmakers do not increase or suspend the debt limit as soon as 1/14/25, then the Treasury likely will need to begin enlisting "extraordinary measures", which are 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 unknown. Some believe this most likely would occur sometime during summer 2025. 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 probably 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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America 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 recently 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 says 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"). There has been rising debt in many emerging marketplaces. For example, note Brazil's troubles (Financial Times, 12/23/24, p4).

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 also 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, the 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" (November 2024), American household debt now is about $17.9 trillion dollars, up about 40.9 percent in nominal terms from the Global Financial Crisis $12.7tr peak in 3Q08. The report says: "While growth in income has outpaced debt, elevated balance levels continue to reveal stress for many households." September 2024's aggregate delinquency rate (debt in some stage of delinquency) relative to outstanding debt edged up to 3.5 percent from 2Q24's 3.2pc.

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. The 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?

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.

US DOLLAR MARCHES

The Duke of Gloucester concludes in Shakespeare's Henry VI, Part II (Act II, Scene 4):
"Thus sometimes hath the brightest day a cloud;
And after summer evermore succeeds
Barren winter, with his wrathful ripping cold:
So cares abound, as seasons fleet."

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The Federal Reserve releases a real Broad Dollar Index (H.10; January 2006=100; monthly average; 12/2/24 is the latest release, next early January 2025) as well as a nominal Broad Dollar Index (daily data; 12/30/24 release; 12/27/24 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 Fall 2022 High**
Nominal Broad Dollar Index	126.1 (3/23/20)	110.9 (1/6/21)	12.4pc	124.1 (7/14/22)	16.2pc
		110.5 (6/1/21)		123.6 (8/22/22)	**Oct23 + 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)
					Recent BDI High 128.9 (12/19/24)

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

Thus to the extent the Fed police officer 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, 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 incoming Trump Administration nor the Fed probably want a "too-strong" US dollar. Trump typically desires lower interest rates. However, Trump's tariff threats and the Fed's willingness to keep the Federal Funds rate relatively high help to keep the dollar very strong.

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The Federal Reserve's real Broad Dollar Index ("BDI") had a titanic ascent from the price and time perspective from its major bottom at 83.9 in July 2011. Over the next 11 years, the Broad Dollar Index traveled a long distance, 44.3 percent, to reach October 2022's 121.1 peak. In its critical last stage of 21 months from January 2021's 103.2 interim low, the real BDI jumped a substantial 17.2 percent to its summit.

The real Broad Dollar Index established a crucial initial top in April 2020 at 113.4. It dropped 9.0 percent to 103.2 in January 2021. With May 2022's 114.3, it surpassed April 2020's key resistance barrier. The real Broad Dollar Index ("BDI") was triumphantly strong (arguably "too strong") in the several months running up to and including its October 2022 pinnacle. From August 2022's lofty 116.7, it appreciated to 119.5 in September 2022 and 121.1 in October 2022, smashing 6.8 percent over April 2020's 113.4 summit. The nominal BDI in mid-July and late August 2022 approached its late March 2020 high, eventually accelerating above it to reach 9/27/22's and 10/19/22's 128.4 zenith.

"Marketplace Crossroads" (9/4/23) concluded: "Suppose the real BDI stays beneath October 2022's 121.2 high. If it nevertheless continues to rest above or even 'around' April 2020's 113.4 prior top, it still will be quite powerful from the long run historic perspective."

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

Also highlight the timing of the nominal BDI's low following its September/October 2022 highs around 128.4, 7/14/23's 117.4, an 8.6 percent slide. Compare the timing of July 2023's interim top in the S+P 500 (7/27/23 at 4607) with the 7/14/23 low in the nominal BDI. Note the nominal BDI's subsequent rally and the S+P 500's fall. 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 113.9 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 112.4 in July 2023 (a 7.2 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 113.8 (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 not only hovered well above April 2020's 113.4 summit support, but also arguably was too strong. Though it inched down to 115.6 in September 2024, it thereafter rallied, reaching 117.2 in October 2024 and 119.8 in November 2024. November 2024's real BDI stands only about 1.1 percent beneath October 2022's 121.1 resistance. Judging from nominal BDI and key cross rate statistics, the real BDI probably has remained very strong in calendar December 2024.

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 then it rallied sharply, 6.3 percent to a new high at 128.9 on 12/19/24. The rally in the BDI since Election Day probably is 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 valley (and 12/6/14's 4.13pc trough). This December 2024 height jumps up 16.7 percent from June 2021's 110.5 low. Moreover, 12/19/24's level exceeds autumn 2022's highs around 128.4. The BDI thus appears to be "too strong" (although of course it may remain so).

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

Recall the ascent in the UST 10 year note from 3.78 percent on 12/27/23 (3.81pc 2/1/24) to its initial highs around 4.35 percent on 2/23/24 and 3/18/24. The UST 10 year note broke above these with 4/2/24's level around 4.41pc, reaching 4.74pc on 4/25/24, fairly close to 10/23/23's 5.02pc peak. The rally in the US dollar from late December 2023 (real Broad Dollar Index trough 113.8) until late June 2024 (real Broad Dollar Index 117.4; nominal BDI high 7/1/24 at 124.8) paralleled (confirmed) the interest rate yield increases and the Fed's ongoing tight policy.

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

The decline in the UST 10 year note yield to 9/17/24's 3.60 percent and the retreat in the nominal BDI to its late September 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 toward 4/25/24's 4.74pc interim high and the major high at 5.02pc on 10/23/23. 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 the United States dollar has generally been "strong". A persistent reversal of US dollar strength probably will signal or confirm US stock marketplace weakness.

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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.

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

Despite the 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 by countries, institutions, and individuals of gold and Bitcoin due to concerns about long run dollar depreciation as well as international (or local/regional) political upheaval.

WATCHING FOR PATTERNS: US STOCKS AND UST NOTE YIELDS

"The thing that hath been, it is that which shall be; and that which is done is that which shall be done: and there is no new thing under the sun." Ecclesiastes 1:9 (King James Version)

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

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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 intertwined with an initial decline in and then sideways pattern in the real (and nominal) Broad Dollar Index.

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

The fall in the UST 10 year note yield from 10/23/23's 5.02 percent summit as well as 4/25/24's 4.74 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.

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 12/6/24 elevation is fairly close to 10/23/23's 5.02 percent high.

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The S+P 500's high since 10/27/23's low at 4104 is 12/6/24's 6100, a 48.6 percent upward explosion, substantially exceeding 7/27/23's interim top and flying 26.6 percent beyond 1/4/22's 4819 major high. The glorious 74.7 percent rally in the S+P 500 from 10/13/22's 3492 to 12/6/24's elevation undoubtedly has excited and pleased the US stock investment (ownership) communities and their enthusiastic Wall Street and media allies. Underscore the exuberant 178.3 percent ascent from 3/23/20's 2192 dismal coronavirus era depth to December 2024's high. The Dow Jones Industrial Average's record high is 12/4/24's 45075. The Nasdaq Composite Index's high in its bull move is 12/16/24's 20205.

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Many marketplace captains watch other interest rate trends alongside those in the UST marketplace. For example, the German Bund's recent yield trend shifts occurred close in time to that of the UST 10 year note. The Bund's yield top occurred 10/4/23 at 3.02 percent, with its second lower high at 2.97pc on 10/23/23 (the day of the UST 10 year peak). The Bund yield dived to 1.89 percent on 12/28/23 (which remains the low; UST 10 year low 3.78pc on 12/27/23), adjacent to 6/16/22's 1.89pc summit. The recent yield high in the Bund is 5/31/24's 2.71 percent (UST interim high 5/29/24 at 4.64pc), with 10/1/24's 2.01pc the subsequent low (UST low 9/17/24 at 3.60pc).

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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 today's international and intertwined economy, rather high UST 10 year note yields and a "too strong" US dollar are 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 16.1 percent S+P 500 nosedive from December 2024's 6100 high to 8/5/24's 5119, or a dreadful 32.7pc cratering from 6100 back to 10/27/23's 4104 bottom. This scenario 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 12/6/24's 6100 high is 5795. The tumble from 6100 to 12/20/24's 5832 was 4.4 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 12/6/24's elevation equals 5490. Recall the vicious 10.9pc drop from 7/27/23's 4607 to 10/27/23's 4104. The slump from 7/16/24's 5670 to 8/5/24 voyaged 9.7pc. A bear move of twenty percent from 6100 gives 4880, with a 25pc bloodbath 4575; a murderous 33 percent crash equals 4063.

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.

EMERGING MARKETPLACE TRENDS: WATCHING TRAJECTORIES

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

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

A mighty dollar and price slumps in emerging marketplace securities helped to undermine the S+P 500 and create its 1/4/22 pinnacle at 4819. The too strong United States dollar intertwined with ongoing price declines in both emerging marketplace equities and US dollar-denominated sovereign debt securities (both emerging marketplace stock and debt prices peaked in first quarter 2021). A very strong US dollar encouraged the relationships of higher US Treasury yields, descending stock prices, and nosediving prices for commodities in general.

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"EEM" is the iShares MSCI (BlackRock) emerging stock markets ETF. This weathervane covers over 800 large and mid-size companies. Despite Mainland China's global economic power, most analysts classify it as an emerging market nation from the economic perspective. It possesses a 27.8 percent portion of the EEM (BlackRock's iShares website, 9/30/24). China's Shanghai Composite Index's price and time picture generally resembles that of the EEM. Taiwan has a 17.5 percent share in the EEM. India represents 19.5pc, with South Korea having 10.4pc. 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 11.9 years (9/30/24). The EMB is quoted in price terms, so falling prices reflect

rising yields. Keep price trends for the S+P 500 and other stock marketplaces in view, as well as an eye on price trends for commodities in general.

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

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

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

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

The EEM's 10/7/24 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 has suffered an 11.9pc correction, touching 41.79 on 12/31/24.

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 6100 record. The EMB's 12/31/24 low at 88.85 retreats 5.8pc 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 trends in the United States dollar and the UST 10 year note. Highlight the timing of the appreciation in the already strong US dollar (real Broad Dollar Index rally from 115.6 in September 2024 to 119.8 in November 2024 (December 2024 real BDI probably has remained strong). The nominal BDI rallied 6.3 percent from 9/26/24 to a new high on 12/19/24. The UST 10 year's yield increased substantially since 9/17/24's 3.60 percent and 12/6/24's 4.13pc lows. 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 terrifying 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 5/20/24's 3174 high (10/18/24 minor low 3153), 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.

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

The oil driller Daniel Plainview declares in the 2007 movie, "There Will Be Blood" (Paul Thomas Anderson, director): "Ladies and gentlemen…Now, you have a great chance here, but bear in mind, you can lose it all if you're not careful." Perhaps Biblical passages inspired this film's title. For example, see the Old Testament's Book of Joel (2:30) and the New Testament's Book of The Acts of the Apostles (2:19); also note the Book of Exodus (7:17-21).

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LSEG estimates the S+P 500's forward four quarter P/E ratio at 23.1 ("S&P 500 Earnings Scorecard"; LSEG I/B/E/S; 12/13/24, next release 1/3/25). Views on "overvaluation" ("expensive"), "undervaluation" ("cheap"), and "fair (or reasonable; average) value" and similar notions reflect opinion. Yet the overall S+P 500 arguably looks somewhat "high" relative to this measure. On 9/27/24, FactSet stated that the five year average for the forward 12 month Price/Earnings ratio for the S+P 500 was 19.5, with 18.0 the ten year average ("Earnings Insight").

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 November 2024 CAPE was 37.4, with an early December 2024 estimate of about 38.1. Those recent CAPE levels border 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 November/December 2024 CAPE levels do not match the 44.2 pinnacle achieved about 25 years ago in December 1999, they exceed September 1929's pre-Depression high around 32.6.

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Joyous rallies in the “technology” stock sector, partly encouraged in recent times by hopefulness regarding anticipated financial benefits and profits from artificial intelligence innovation, have played a major role in the S+P 500’s thrilling 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.

FactSet says 3Q24 earnings for the S+P 500 grew 5.9 percent year-on-year (12/20/24; next release 1/3/25). It expects 4Q24 earnings will rise 11.9pc year-on-year. It indicates calendar 2024 year-on year earnings for the S+P 500 will advance 9.4 percent. FactSet prophesizes calendar 2025 earnings will blast 14.9 percent higher year-on-year.

LSEG predicts a 10.2 percent year-on-year spike in calendar year 2024 S+P 500 corporate earnings (12/13/24). LSEG forecasts year-on-year increases of 9.1 percent in 3Q24 and 9.6pc in 4Q24. They assert 1Q25 earnings will climb 12.8pc in 1Q25, with 2Q25’s up 12.4pc versus 2Q24. LSEG anticipates calendar 2025 earnings will skyrocket up 14.3 percent year-on-year.

Will actual United States calendar 2025 corporate earnings match these optimistic expectations? Since price/earnings ratios from the historical perspective appear elevated, to what extent are these bullish earnings viewpoints “built into” the S+P 500’s 12/6/24 high at 6100? 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 rapid one-month rally to 12/6/24’s 6100 high was substantial, about 5.5 percent. Or will opinions regarding these future earnings and substantial deregulation darken, thereby disappointing many stock investment bulls? Suppose American or global growth falls short of expectations.

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. However, hope persists that the American and worldwide economy will achieve a “soft landing”, not a “hard” one. The stratospheric flight in the S+P 500 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 (see the Center on Budget and Policy Priorities, “Record Stock Buybacks Bolster Case for Raising Corporate Tax Rate”; 6/24/24) probably have contributed significantly to the S+P 500’s long run bull trend as well as widespread optimism regarding its future prospects.

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

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), and it has meandered around 140bp since then. The S+P 500's attained its recent 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 will tend to confirm or warn of an important high in the S+P 500.

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Wall Street's confidence in "the economy" (as evidenced by the magnificent bull move in the S+P 500 to celestial highs and Wall Street's sunny outlook for future US corporate earnings) probably is not mirrored by Main Street consumers in general. The Conference Board's Consumer Confidence Index fell to 104.7 in December 2024 from November 2024's 112.8 (1985=100; 12/23/24). Its Expectations Index collapsed sharply in December 2024 to 81.1 (November 2024 93.7), just above the 80.0 threshold that usually signals a looming recession.

The University of Michigan's Index of Consumer Sentiment was 101.0 in February 2020, right before the coronavirus pandemic worsened; notable inflation eventually emerged as well. It slumped to 50.0 in June 2022 (US Consumer Price Index peaked in June 2022 at 9.1 percent). The Index of Consumer Sentiment remains relatively depressed from the historical perspective. Not only does it rest well under February 2020's level. Although the Index advanced from July 2024's 66.4 to December 2024's 74.0 (71.8 in November 2024), the December 2024 figure dwells beneath March 2024's 79.4. The University of Michigan's measure for Consumer Expectations dropped from 76.9 in November 2024 to 73.3 in December 2024.

What about the "small business" world on Main Street, as opposed to "big business" and Wall Street? The NFIB's Small Business Optimism Index for November 2024 leaped up eight points from October 2024's level to 101.7, the highest point since June 2021's 102.5 (compare July 2019's 104.7). The Index's November 2024's height 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) following Trump's November 2024 election victory and the Republican sweep of both Houses of Congress.

HOME ON THE RANGE

"Moreover, it is just not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress." Former Federal Reserve Chairman Alan Greenspan's response to "Question: Is There a New Economy?" (Remarks at the University of California, 9/4/98)

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Many Americans peacefully expect home prices to keep rising.

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 (12/19/24). However, November 2024's $410,900 median price slips 5.1 percent from June 2024's level. This price fall, though modest, contrasts with the ongoing rally in the S+P 500.

As mortgage rates have remained lofty, single-family home sales have tumbled in recent years, from 5.41 million in 2021, 4.48mm in 2022, to 3.66mm in 2023, with September 2024's at a 3.46 mm annual rate. November 2024's annual rate grew modestly to 3.76mm. Inventory (months supply) on balance has moved up relative to February 2024's 2.8 months, reaching 4.1 months in August 2024, eroding moderately to 3.7 months in November 2024.

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

China's housing crisis has not disappeared.

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A substantial amount of commercial real estate debt obligations in America and elsewhere probably has become difficult to repay. Examine credit quality. According to the Financial Times (6/24/24, p6), mortgage veterans assert that "Credit agencies have mis-rated more than $100bn of commercial real estate debt in an increasingly popular segment of the market… in which deals are backed by one loan or mortgage on a single large office building."

COMMODITIES AND THE S+P 500

The poet Percy Bysshe Shelley in "Queen Mab" declares: "Gold is a living god, and rules in scorn All earthly things but virtue" (Canto V, lines 62-63).

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

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

Many marketplace 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-December 2024, 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 12/6/24'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. Arguably 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 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 9/10/24's 6868 low is 50.6 percent. The S+P 500's 12/6/24 record high at 6100 exceeds 1/4/22's 4819 peak by 26.6 percent. The S+P 500's ferocious bull charge from 10/13/22's 3492 to 6100 is 74.7 percent.

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

However, the massive decline in the broad GSCI price and its divergence from the S+P 500 (especially 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. In that regard, note the recent price and time intertwining between emerging stock marketplace trends and those in commodities. Recall the

important top in emerging marketplace stocks in early October 2024, with the EEM reaching 47.44 on 10/7/24. The broad GSCI established a minor high on 10/8/24 at 567.8, ICE Brent/North Sea crude oil did likewise on 10/7/24 at 8116.

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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 3Q24 (see OPEC's "Monthly Oil Report", Table 11-3; 12/11/24).

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

The GSCI high following 10/7/23 is 10/20/23's 607.7, but it fell to 516.4 on 12/13/23 (around prior troughs; a 39.5 percent dive from 3/8/22's summit). Although Brent/North Sea crude motored up to 10/20/23's 9379, it tumbled substantially to 12/13/23's 7229, close to 3/20/23's and 6/28/23's depths. From 12/13/23's 7229, Brent leaped up 27.5 percent to 9218 on 4/12/24. The GSCI rallied 17.5 percent from 12/13/23's 516.4 to 606.8 on 4/12/24.

From its low at 6/4/24 at 555.8, the broad GSCI climbed to 592.2 on 7/5/24. After Brent/North Sea crude oil tumbled to 7676 on 6/4/24, it rallied significantly to 8795 on 7/5/24. The GSCI and Brent/North Sea then fell together; the GSCI's low since then is 9/10/24's 502.5 (a 15.1 percent fall from 7/5/24; high since 9/10/24 is 10/8/24's 567.8), with Brent's that day at 6868 (21.9pc decline).

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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 will postpone its plan to gradually increase production (by up to 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?

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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 view it as an alternative asset via which "investors" and other owners can "search for yield".

The essay "Great Expectations: Marketplace Fireworks" (7/3/24) discussed price and time trends for Bitcoin, gold, and the S+P 500 in recent years. Since first quarter 2020, Bitcoin and the S+P 500 sometimes have displayed roughly similar price and time shifts (trend changes). Gold and the S+P 500 also occasionally manifested related price and time turns in recent years. Let's review 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 108378 on 12/17/24 (a euphoric rally 47.0 percent above 3/14/24's top, and about 27.6 times 3/13/20's bottom at 3926), less than two weeks after the S+P 500's record high to date, 12/6/24 at 6100.

Bitcoin's low on US Election Day 11/5/24 was 67009. Following Trump's triumph, its rocket trip up to 12/17/24's celestial height was about 61.7 percent. There has been a boom in the price of many meme coins since Trump's election (Financial Times, 12/4/24, p8). Does this meme coin rally phenomenon warn of "irrational exuberance" in cryptocurrencies in general, including even the beloved Bitcoin?

Recall COMEX gold's 11/3/22 bottom at 1615 (nearest futures continuation). This occurred not long after the S+P 500's 10/13/22 bottom at 3492. Gold made a key trough with 10/6/23's 1809; remember the S+P 500's very significant 10/27/23 bottom at 4104. The S+P 500 made a minor high on 3/28/24 at 5265, about two weeks prior to gold's one on 4/12/24 at 2429. The S+P 500's important interim top on 7/16/24 at 5670 parallels gold's 7/17/24 one at 2473. Compare gold's lows on 7/25/24 at 2352 and 8/5/24 at 2367 with the S+P 500's take-off point low on 8/5/24 at 5119. Finally, gold's high to date is 10/30/24's 2789 (a gigantic 72.7 percent rally from its 11/3/22 bottom) is not too far distant in time from the S+P 500's 12/6/24 high at 6100, and its

second top on 12/11/24 at 2734 neighbors the time of the S+P 500's high. Note the timing of the recent interim low in the UST 10 year yield, 12/6/24's 4.13 percent.

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

CULTURE WARS AND ECONOMIC AND POLITICAL AGITATION

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

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

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

America's culture wars arguably make the nation less able to solve its significant problems (not only the sizeable and growing federal debt one). The country's election year 2024 politics and the rhetorical aftermath evidence that these cultural battles probably will persist. The nation's fierce culture wars and its near term and long run federal fiscal irresponsibility intertwine with political uncertainty and animosity, as well as with concerns regarding leadership quality, and probably will continue to do for a long time. Thus the United States and its assets probably will become marginally less appealing to some investors (owners). Given US political divisions and conflicts, at some point ownership of the US dollar and American debt securities (and other dollar-denominated assets such as stocks and real estate) may appear increasingly risky to many marketplace participants.

Unease (dismay; anger) in the United States is widespread. To what extent do Americans trust and have confidence in their political leaders and institutions (and in their ability to ensure satisfactory economic outcomes for the majority of people)?

A substantial majority of the nation is displeased with the direction of the country. According to polling summarized in RealClearPolitics, only 26.7 percent believe America is moving in the right direction, with 61.9pc claiming the nation is moving on the wrong track (net wrong track -35.2pc; date range for polls 11/13/24-12/26/24). This is about the same net wrong track percentage of -35.9 on US Election Day 11/5/24. Compare the net wrong track low around -6.0pc on 4/19/21 (early in President Biden's term) and the lofty -57.7pc on 7/12/22 (US CPI-U all items inflation peaked in June 2022). According to a Gallup survey (12/2-18/24), only 19 percent of Americans are satisfied with the way things are going in the US at this time, with 79pc dissatisfied (two pc have no opinion), for a net dissatisfaction of 60 percent. According to Gallup, people were somewhat less dissatisfied shortly before US Election Day; its 10/14-27/24 survey had net dissatisfaction of 46 percent. On 2/3-16/20, prior to the ravages of coronavirus and inflation, the Gallup poll had a net dissatisfaction of only 10 percent.

Higher prices, perhaps induced by Trump's imposing substantial tariffs or engaging in substantial deportation of illegal (undocumented) immigrants, will upset many US consumers.

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

Other nations will not necessarily peaceably agree to Trump's threats on the trade front. Presumably, many countries, including China, have weapons available and 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 holds a massive amount of US Treasury debt. As of October 2024, Mainland China holds about $760 billion in US Treasury securities, with Hong Kong possessing $248bb (US Treasury International Capital report, Table 5). US interest rates probably will rise if China threatens to or actually does sell a large quantity of its UST holdings. If trade wars result from Trump tariffs, that increases the probability of reduced worldwide economic growth, as well as a recession.

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Congress meets in joint session to count the electoral votes on 1/6/25. Inauguration Day is 1/20/25. The incoming Trump Administration promises it will actively pursue its policy agenda. However, many of its campaign goals will be vigorously contested. American legal (even Constitutional) fights might generate turmoil in interest rate, stock, foreign exchange, and commodities fields.

America is not the only important nation with very significant debt or internal political problems. The gigantic 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: "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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