EMERGING MARKETS ARE SLOWING
DON'S BLOG 2018.08.27

The giant monetary bubble we have been watching for the last ten years or so is beginning to show signs of real stress. Please note chart #1 below which displays the world monetary base as computed by Charles Gave. Monetary bubbles almost always go south from the outside in (lesser economies to the major). In this case, it is Argentina, Brazil, Turkey, and South Africa on the way to the United States. Dollar shortages in lesser economies lead to pressure on their currency and the refunding of their external debt. Under such circumstances, one would expect commodity prices to head south—please note chart #2. Along with the weakness in emerging economies, one would expect world trade to decline as very few of the major export countries have any internal domestic demand. Chart #3 reflects exactly that situation.

As the world economies are appearing to slow down, the press is full of positive news concerning the long bull market which has turned out to be the longest in history as measured by the S&P 500. Please note chart #4 which was prepared 08/22/2018. Needless to say, this bull market started near the trough of the Great Recession 03/09/2009. The recovery and expansion since then have been slow but persistent. All along the way I had felt that a recession might take place due to the very slow 2% real GDP growth. I was wrong due to the unprecedented action of the Federal Reserve. In essence the Fed has taken control of the markets. Please note charts 5, 6, and 7. Note the contrast between the U.S. & Japan versus England. Where the central banks have printed, the markets have done well. Where they have not, they haven't.

At this point in the business cycle, I would suggest that the Fed will maybe raise rates one more time (September). How about December? I am actually thinking they might return to easing rather than raising rates. The next several months of economic data will tell the tale.

Chart #1

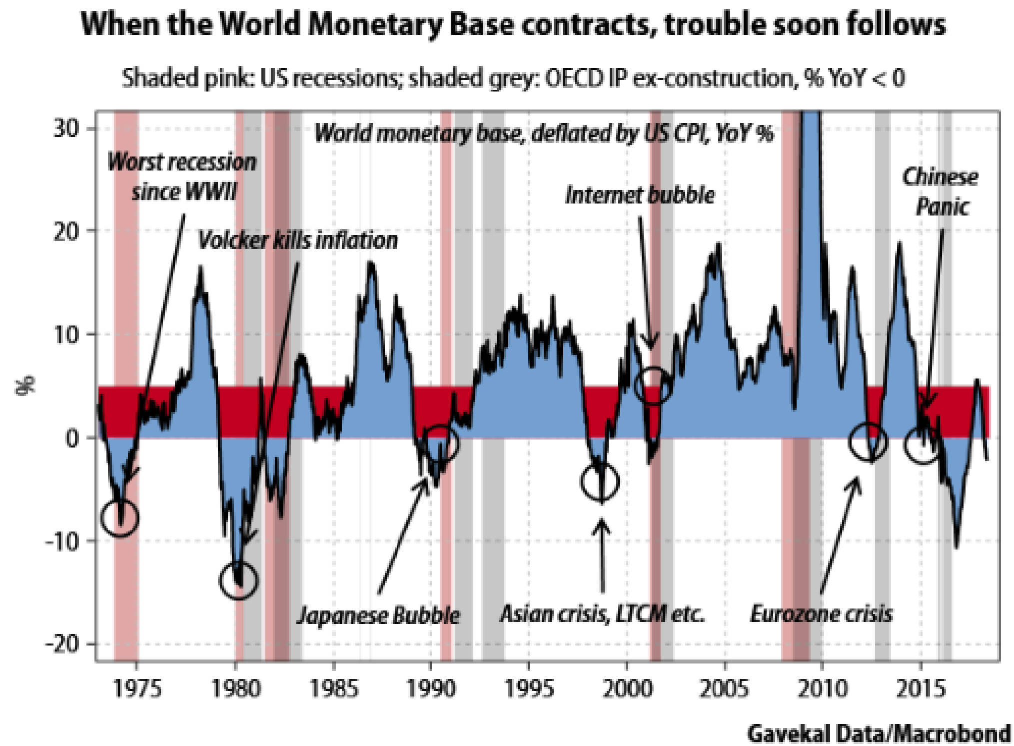


Chart #2

Chart #3

Chart #4

Bull runs on Wall Street

Duration and change of S&P 500 during bull runs since 1957

START	END	DAYS	CHANGE
March 9, 2009	Current	3,452	+323%
Oct. 9, 2002	Oct. 9, 2007	1,826	+101%
Oct. 11, 1990	March 24, 2000	3,452	+417%
Dec. 4, 1987	July 16, 1990	955	+65%
Aug. 12, 1982	Aug. 25, 1987	1,839	+229%
Oct. 3, 1974	Nov. 28, 1980	2,248	+126%
May 26, 1970	Jan. 11, 1973	961	+74%
Oct. 7, 1966	Nov. 29, 1968	784	+48%
June 27, 1962	Feb. 9, 1966	1,323	+80%
Oct. 22, 1957	Dec. 12, 1961	1,512	+86%

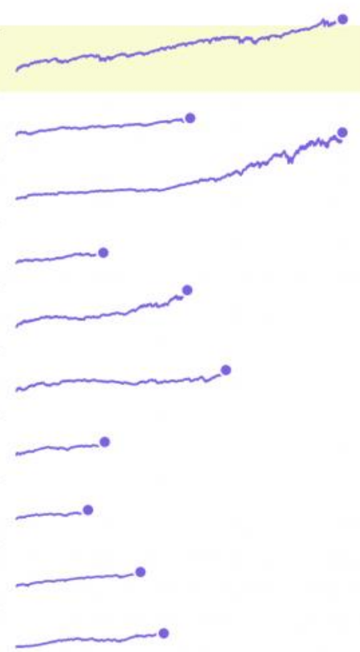


Chart #5

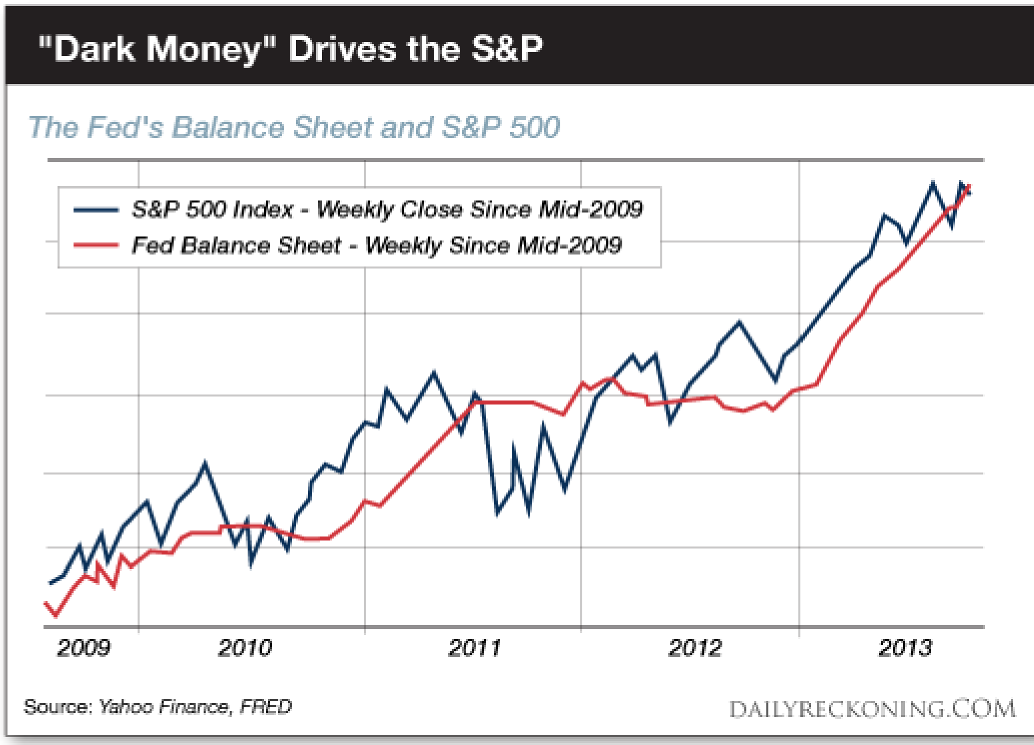


Chart #6

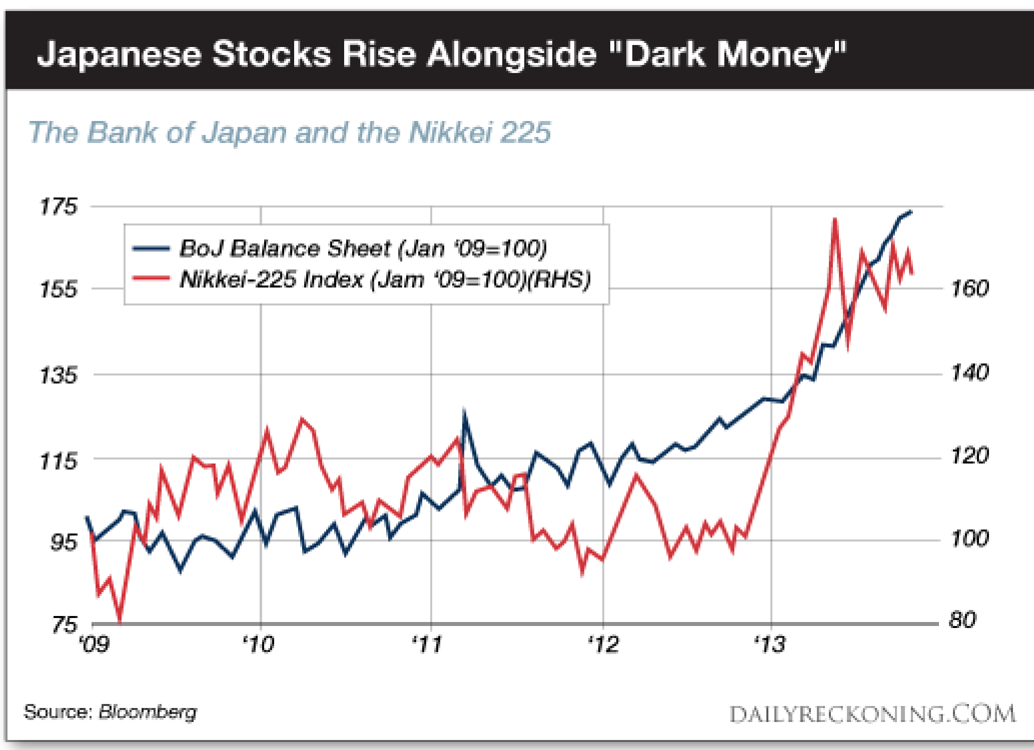
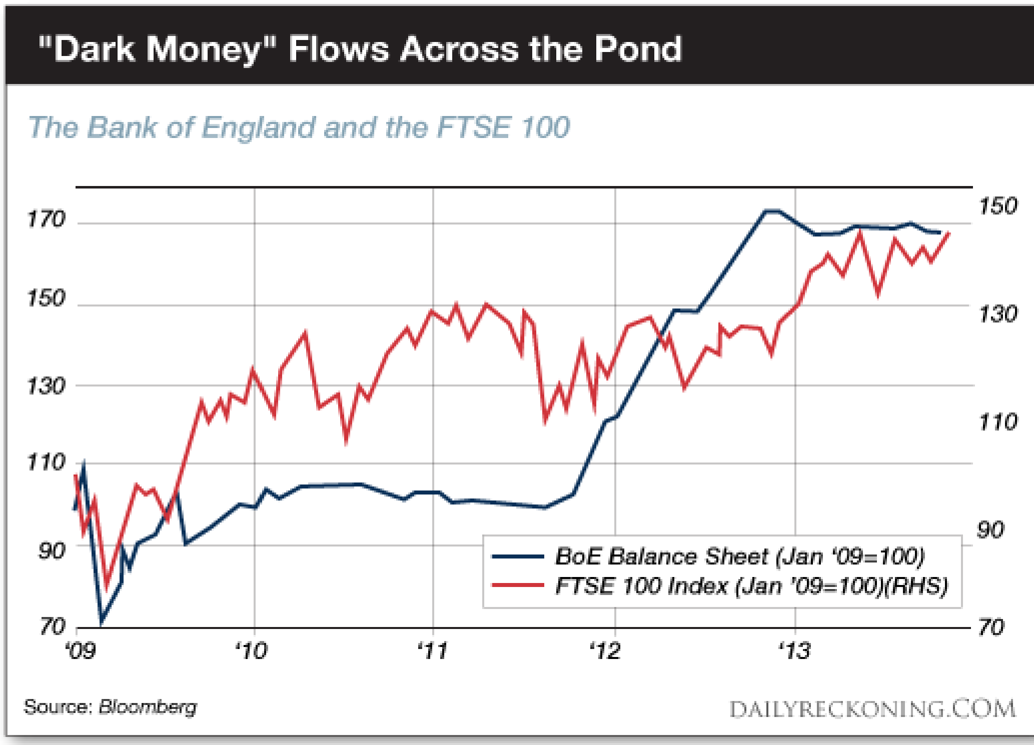


Chart #7



Adapted from zerohedge.com