

Dollar Break Down Continues

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The Swiss National Bank, Switzerland’s version of the Fed, has been a busy expanding its balance sheet and buying US equities. The SNB now owns over \$97 billion of stocks:

Security	ID	Position	Price PCS	FX Rate	Current	Principal	Accrued	
Totals							97,510,939,493.28	0.00
Cash		0.0000						
11) AAPL	AAPL	19,248,516.0000	173.21 EXCH	1.00000	3,334,073,953.39			
12) MSFT	MSFT	27,269,470.0000	92.63 EXCH	1.00000	2,526,039,179.77			
13) AMZN	AMZN	1,497,841.0000	1366.46 EXCH	1.00000	2,046,739,812.86			
14) FB	FB	8,873,800.0000	187.55 EXCH	1.00000	1,664,281,190.00			
15) JNJ	JNJ	10,778,264.0000	143.38 EXCH	1.00000	1,545,387,492.32			
16) XOM	XOM	16,501,336.0000	88.49 EXCH	1.00000	1,460,203,222.64			
17) GOOG	GOOG	1,151,266.0000	1168.82 EXCH	1.00000	1,345,622,726.12			
18) GOOGL	GOOGL	1,114,989.0000	1176.00 EXCH	1.00000	1,311,227,064.00			
19) UNH	UNH	3,882,488.0000	244.29 EXCH	1.00000	948,452,993.52			
20) V	V	7,568,228.0000	125.22 EXCH	1.00000	947,693,510.16			
21) T	T	25,409,758.0000	37.15 EXCH	1.00000	943,997,919.46			
22) HD	HD	4,582,115.0000	204.93 EXCH	1.00000	939,012,826.95			
23) VZ	VZ	16,893,830.0000	54.47 EXCH	1.00000	920,206,920.10			
24) CVX	CVX	7,021,823.0000	130.81 EXCH	1.00000	918,524,666.63			
25) PG	PG	10,346,488.0000	88.71 EXCH	1.00000	917,826,603.99			
26) PFE	PFE	23,632,889.0000	37.08 EXCH	1.00000	876,189,359.68			
27) KO	KO	16,477,390.0000	47.98 EXCH	1.00000	790,502,785.25			

SNB US Stock Portfolio

Chart courtesy of Bloomberg

\$97 billion works out to over \$11,000 for every citizen of Switzerland. It would appear that the SNB is as bullish on the US equity market as the majority of Americans:



Another interesting piece of data, courtesy of Bespoke, is that since 1993, if you bought SPY (SP500 ETF) on the open every day, and sold it on the close, the return would be -5.2%. But if you did the opposite and bought on close, then sold on open the next day, the return would be 568%. What's this mean? All of SPY's performance since 1993 came in after-hours, overnight trading.

The markets this past week saw the return of volatility with the volatility index (VIX) moving up 100% so far in 2018:



Source:
 StockCharts.com as of
 February 3, 2018

The yield on a 10-year Treasury bond (TNX) hit a 4-year high while TLT, the iShares 20+ Year Treasury Bond ETF is now down almost 5.5% for the year:

\$TNX CBOE 10-Year US Treasury Yield INDX

© StockCharts.com



Source:
 StockCharts.com as of
 February 3, 2018

TLT iShares 20+ Year Treasury Bond ETF Nasdaq GM

© StockCharts.com



Source:
 StockCharts.com as of
 February 3, 2018

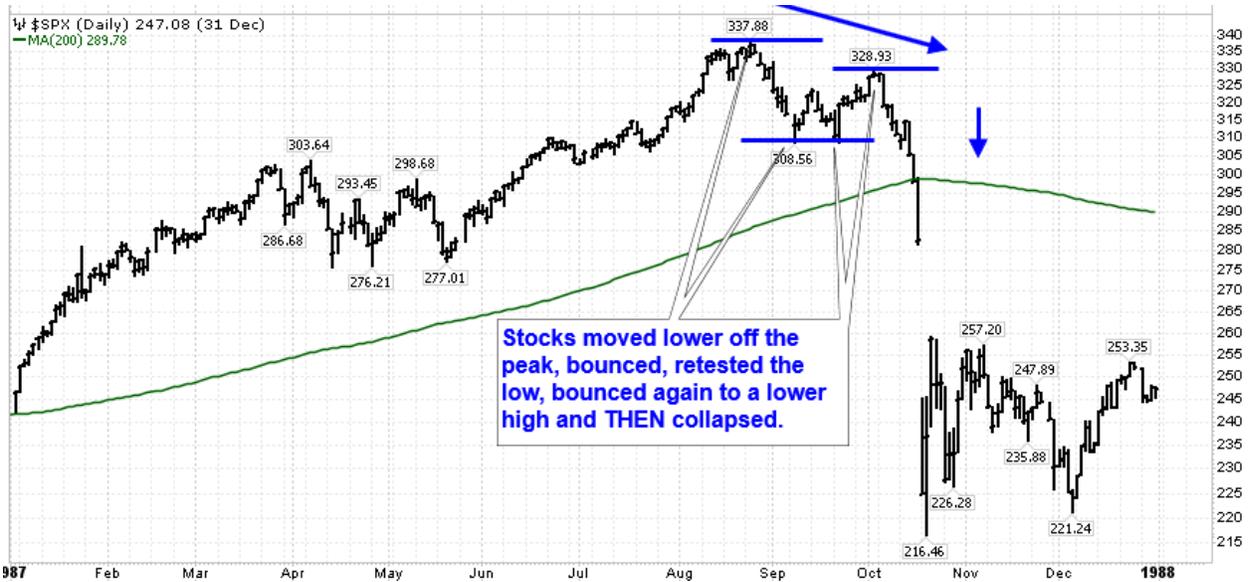
The US Dollar Index (USD or DXY) is also back to levels not seen since late 2014:



Source:
*StockCharts.com as of
 February 3, 2018*

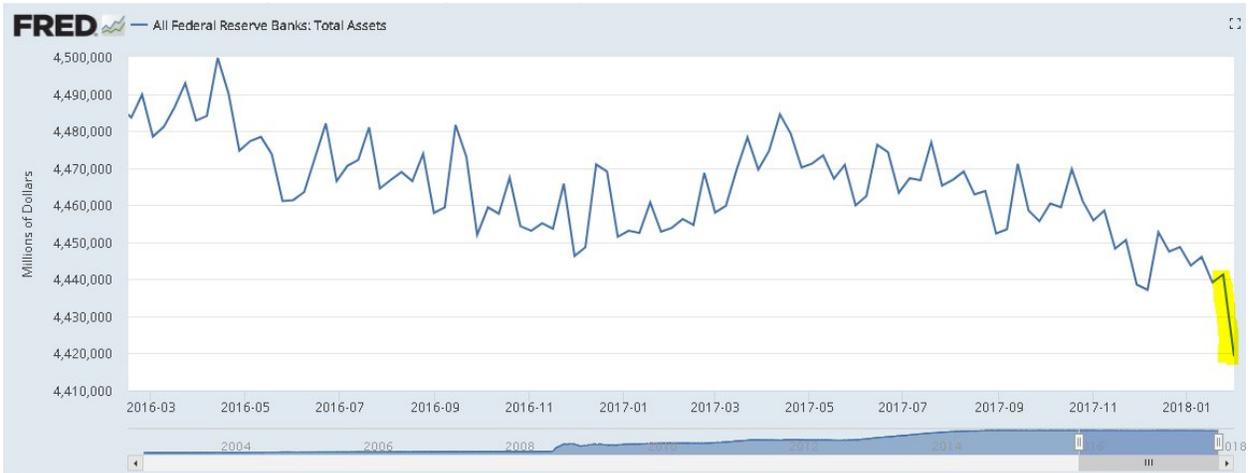
So what does this mean from an investment standpoint? The future is, of course, unknowable. Everyone has great insight when looking at the left side of the chart (hindsight) but looking at the far right edge, it's not so easy. As much as a fool's errand it is, I will make a couple of educated guesses as to what might happen.

It is a sign of the times when a 2% down day in the S&P500 brings out headlines discussing the 1987 crash. Historically, stocks don't crash from all-time highs. They usually correct lower, and then try to rally again, fail to surpass the highs, then start down in a more serious correction (or bear market). 1987 played out as the following chart shows:



Source: *StockCharts.com as of February 3, 2018*

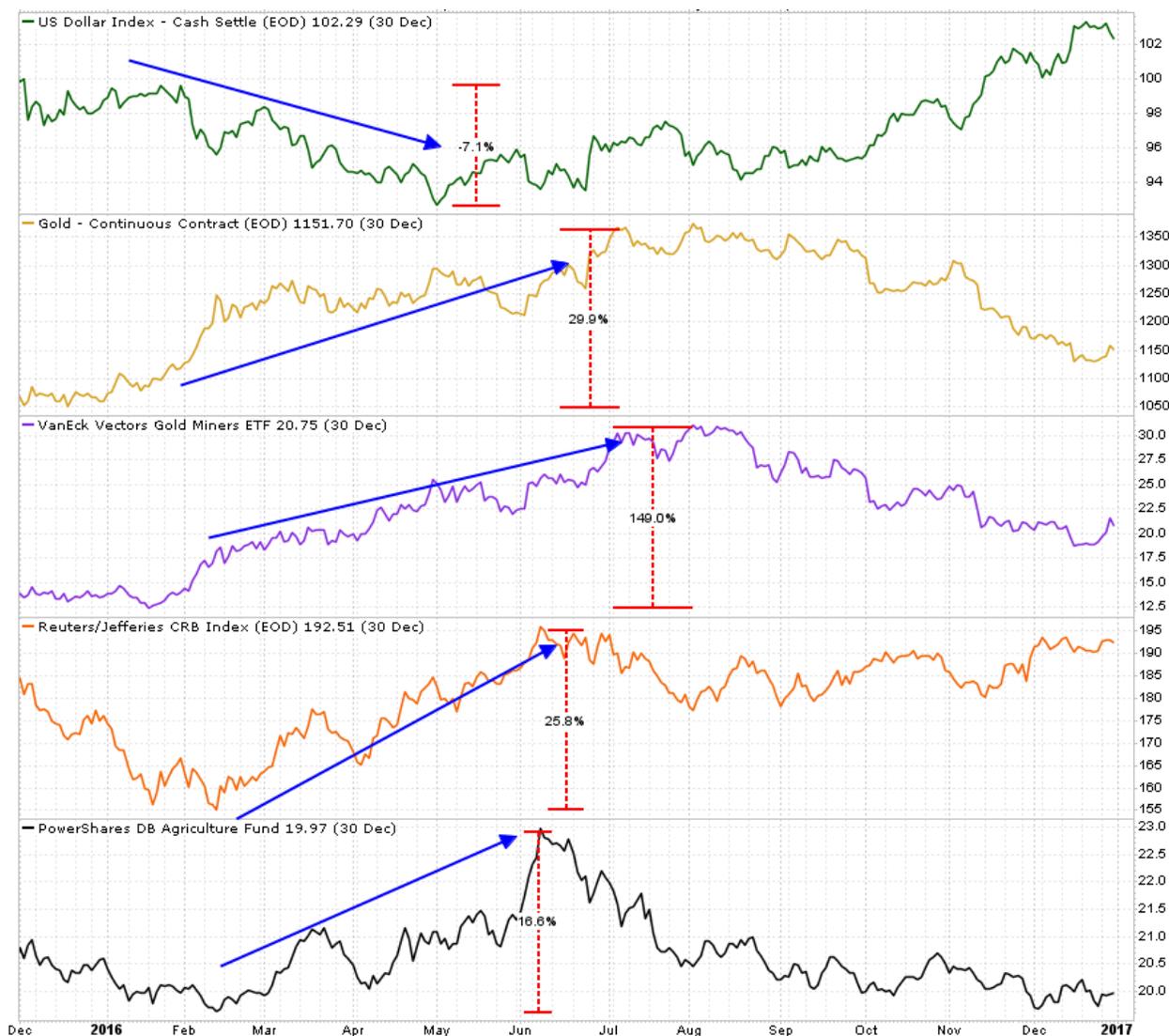
Of importance, I think, is that the Fed sold \$22B of the \$4.4 Trillion in assets it bought over the last 9 years. This is the largest one week sale since this experiment began with QE1/TARP. It will be interesting to see if continued balance sheet reduction by the Fed has a similar impact on stocks.



Source: St. Louis Fed, *fred.stlouisfed.org as of February 3, 2018*

If the stock market is topping out, which is a distinct possibility, then it won't be long before talk of Fed rate hikes turns into talk of Fed rate cuts and more QE. Is this what the dollar is anticipating with the slide that

began in early 2017? If so, then it's possible that the dollar continues its decline, putting a bid in inflation assets like gold, miners and food commodities, much as we saw in January through June 2016:



Source:
StockCharts.com as of
February 3, 2018

The future is unknowable, but a quote attributed to Mark Twain often rings true when discussing markets – “History doesn't repeat itself but it often rhymes.”

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