John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

No. 777 - YEAR-END SPECIAL COMMENTARY
Key Issues in the Past Year and the Year Ahead

December 30, 2015

A Heavily-Troubled 2015 Has Set Up 2016 for Disorders in the Financial Markets, Systemic Stability and the U.S. Political Arena

Formal "New" Recession Recognition Is Likely Early in the New Year

Real S&P 500 Sales -- Net of Stock-Buyback Distortions -- Showed No Post-2009 Recovery in the Economy, but Instead Showed Low-Level Stagnation that Shifted Recently to Intensifying Downturn

Deepening U.S. Contraction Should Hit the U.S. Dollar Hard, Where a Temporarily-Sidelined FOMC Touts an Economic Focus, and Federal-Deficit, Systemic-Solvency and Treasury-Funding Issues Come to the Fore

Federal Reserve and Other Central Banks Have No Way Out as Dangers from the Panic of 2008 Persist

Heavy Dollar Selling Should Generate Rallying Gold, Silver and Oil Prices

U.S. Electorate Likely Will Vote Its Pocketbook

This Year-End General Commentary *reviews a variety of issues for the year passed and the year ahead, specifically covering U.S. political and economic developments, along with implications for domestic fiscal and inflation conditions, Federal Reserve behavior and related global-market impact, including the U.S. dollar and the gold, silver and oil markets. It is not intended as a comprehensive update to the* Hyperinflation Reports*, but a comprehensive, one-document update is planned in first-quarter 2016.*

Underlying this General Commentary *as general background are* No. 742 Special Commentary: A World Increasingly Out of Balance *of August 10th, and* No. 692 Special Commentary: 2015 - A World Out of Balance of February 2, 2015, *which updated the* Hyperinflation 2014 *reports and the broad economic outlook. Previously, the long-standing hyperinflation and economic outlooks were updated with the publication of* 2014 Hyperinflation Report—The End Game Begins – First Installment Revised, *on April 2, 2014, and publication of* 2014 Hyperinflation Report—Great Economic Tumble – Second Installment, *on April 8, 2014. The two 2014* Hyperinflation Report *installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. In terms of underlying economic reality, one other reference is the* Public Commentary on Inflation Measurement. *The regular weekly* Commentaries *also update elements of the general outlook, as circumstances develop.*

Best Wishes to All for a Very Healthy, Happy and Prosperous New Year! — John Williams

EXECUTIVE SUMMARY - U.S. ECONOMY AND DOLLAR REMAIN IN SERIOUS PERIL

Instabilities from the Panic of 2008 Still Haunt the Global Financial System. The Federal Reserve's Federal Open Market Committee (FOMC) went through an extended period in what appeared to be an extremely painful and difficult decision to move interest rates off zero. Noted in various prior missives (see for example *Commentary No. 772* and *Commentary No. 774*) the FOMC's concerns had to involve systemic-liquidity concerns. The expressed concern on boosting the economy to justify the quantitative easings was no more than political cover for helping to bailout the banking system. The FOMC announcement even coincided with the Fed announcing unexpectedly-sharp monthly, quarterly and annual declines in November industrial production, all of which foreshadow a likely fourth-quarter 2015 GDP quarterly contraction. Yet, the FOMC emphasized in its rate decision all sorts of happy news on employment and general economic activity.

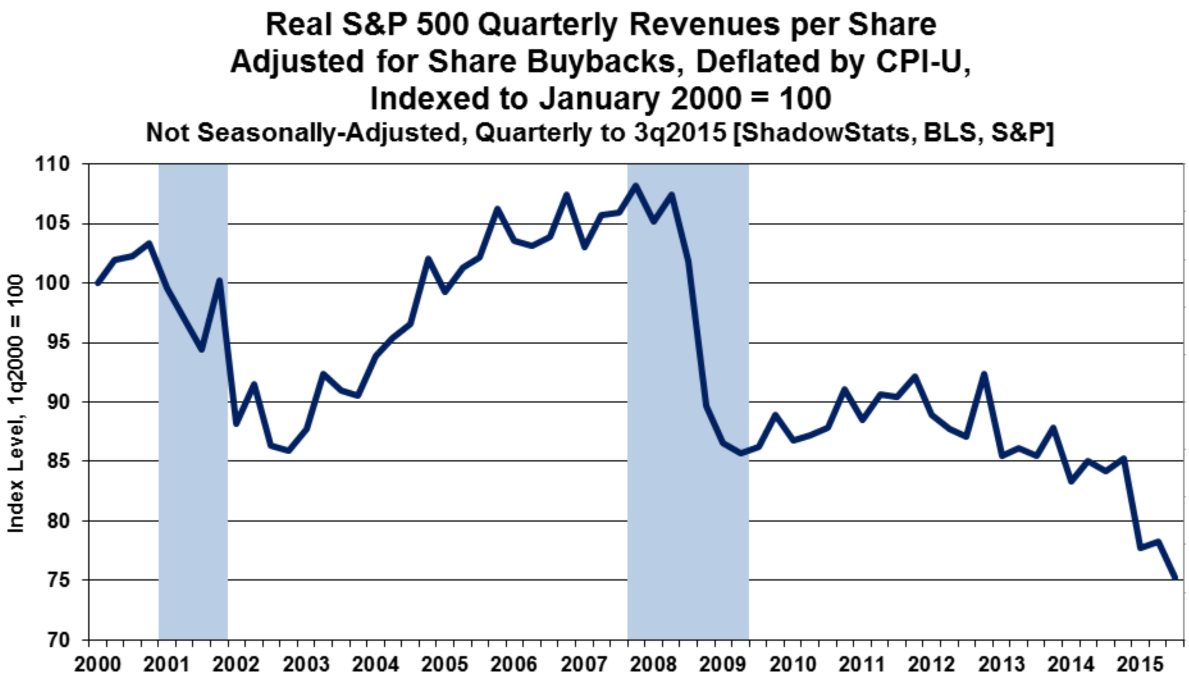
The Panic of 2008 likely still dominates central-bank concerns. With the U.S. banking-system then on the brink of collapse, the Federal Reserve and the U.S. Treasury did everything in their power to prevent a collapse, irrespective of short-term or long-term cost. Systemic collapse was not viewed as an option.

Whatever money had to be created, spent or loaned, whatever liabilities had to be guaranteed, whatever bad assets had to be absorbed, whatever entities has to be bailed out, whatever markets had to be manipulated, whatever had to be done as a stop-gap measure was done. What was not done was to address any of the underlying fundamental issues that led to the crisis, including the long-term sovereign-solvency issues of the United States, meaningful economic stimulus (such as addressing faltering consumer income and finances). Efforts were made to bailout the domestic banking system, and while the system remains afloat, it is far from having the strength and stability needed to support normal U.S. economic activity. These issues are expanded upon in the sections on *U.S. Economy—Non-Recovery, Stagnation, "New" Recession*, *Consumer Conditions—Liquidity Issues Plague the Electorate*, and *Federal Debt and Deficit—Out of Control and No Resolution Pending*.

The Problem Will Be Hyperinflation, Not Hyper-Deflation. Having taken little but stop-gap measures in 2008, the Federal Reserve and the U.S. Treasury still face problems of systemic insolvency or instability in the near future. Some forecasters look for the current situation to evolve into a deflationary collapse of debt. While likely meaningful insolvencies in the global financial system loom, the process becomes hyper-deflationary only in the circumstance where the banking system collapses and money supply disappears, as happened in the 1930s. With the precedent of the Panic of 2008 in hand, much more likely is a systemic bailout, very possibly in the extreme, with hyperinflationary consequences. Those controlling the system have already made clear their desire in answer to the question raised by Robert Frost in his poem *Fire and Ice*; their choice appears solidly to be for the world to end in fire (*2014 Hyperinflation Report—The End Game Begins* page 26).

"New" Recession Should Hit the U.S. Dollar Hard. Where the FOMC made clear that it bases its monetary policy on economic concerns, news on the economy will become increasingly bleak in the weeks and months ahead, presumably taking some pressure off the FOMC for a round of aggressive rate hikes. Speculation even could mount for a rate cut. If the Fed needs to provide liquidity to the banking system or to the U.S. Treasury, as it did with QE3, the political cover of a weak economy will around for some time to come. With Fed monetary policy in abeyance, at the moment, shifting market expectations towards a "new" recession should trigger meaningful selling pressure against the U.S. dollar. The term "new" is used in that ShadowStats contends that the intensifying downturn is no more than a continuation of the economic collapse that began in early 2006.

Graph 1: ECONOMY – Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2015), Indexed to January 2000 = 100

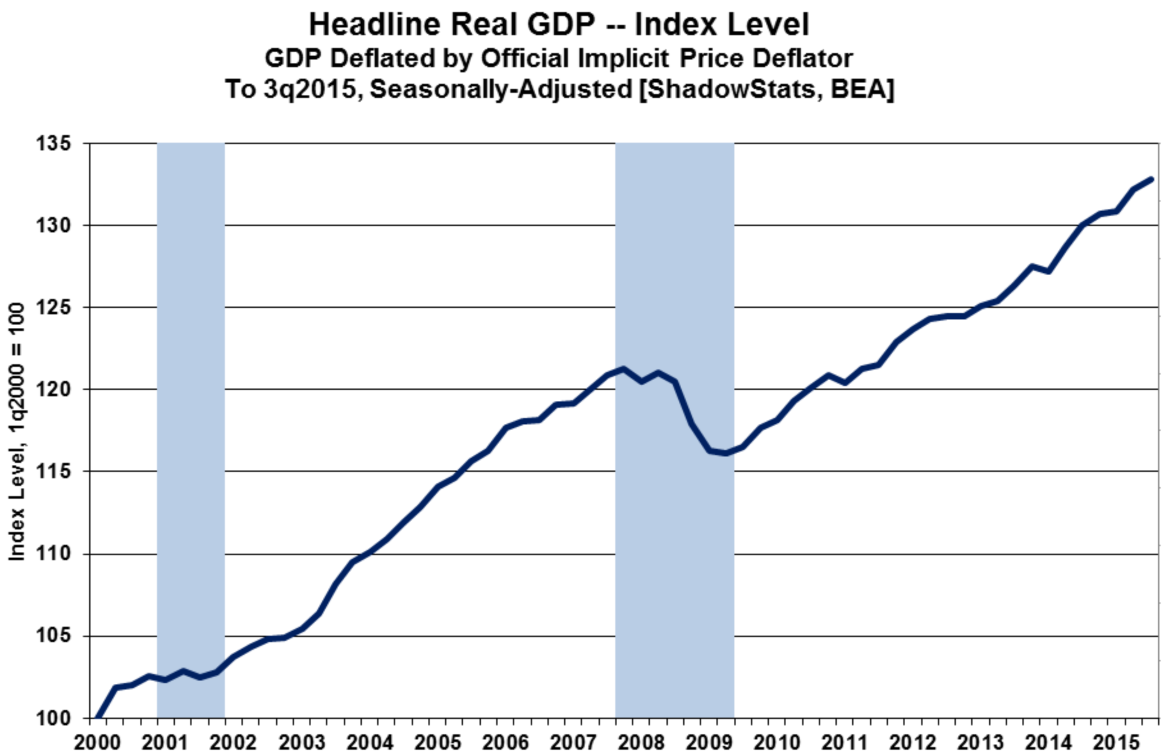


Consider *Graph 1* of S&P revenues per share that have been adjusted for headline CPI-U inflation and for the heavy share buyback activity of recent years in corporate America. Reduce the number of shares outstanding and factors such as earnings per share and revenue per share are inflated artificially when viewed with per-share performance before any buyback.

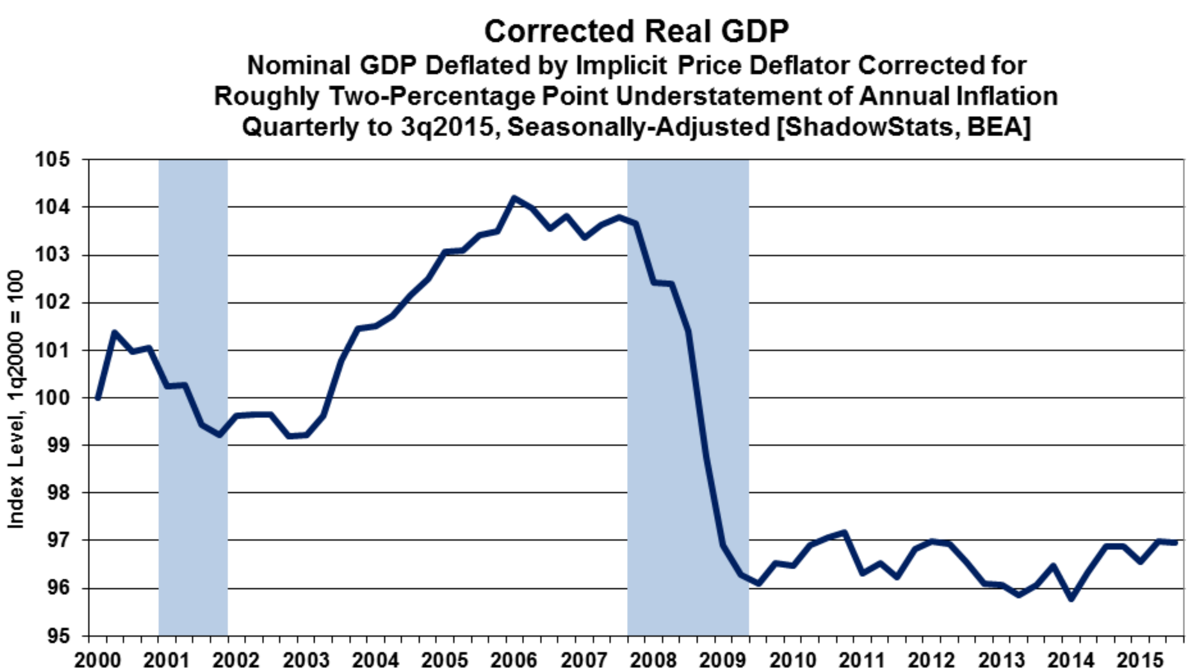
When real sales of corporate America decline, so too does the broad U.S. economy. The S&P 500 plot is not seasonally-adjusted. Allowing for that, it still does not follow closely the headline GDP, shown in *Graph 2*, but it does bear a striking resemblance to the "corrected" GDP in *Graph 3* (described in *Commentary No. 775*, corrected the for the understatement of GDP inflation). Even so, the GDP in

Graph 3 is not falling off sharply "anew" yet in the latest activity, but the drop in S&P 500 revenues is consistent with declining headline industrial production and headline weakness in real retail sales.

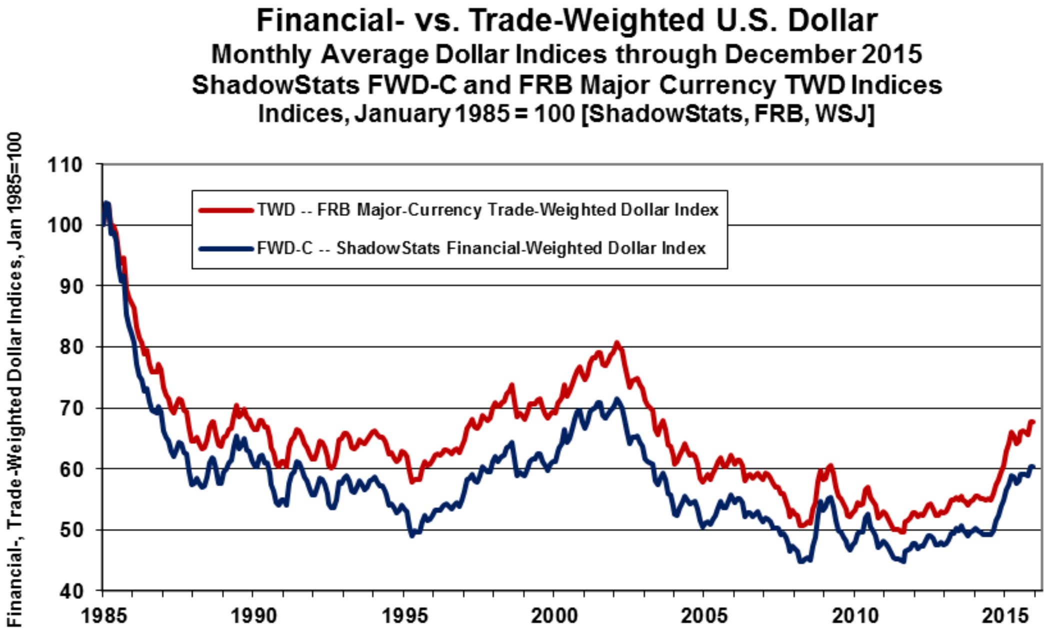
Graph 2: ECONOMY – Headline Real GDP (2000 - 2015), Indexed to January 2000 = 100



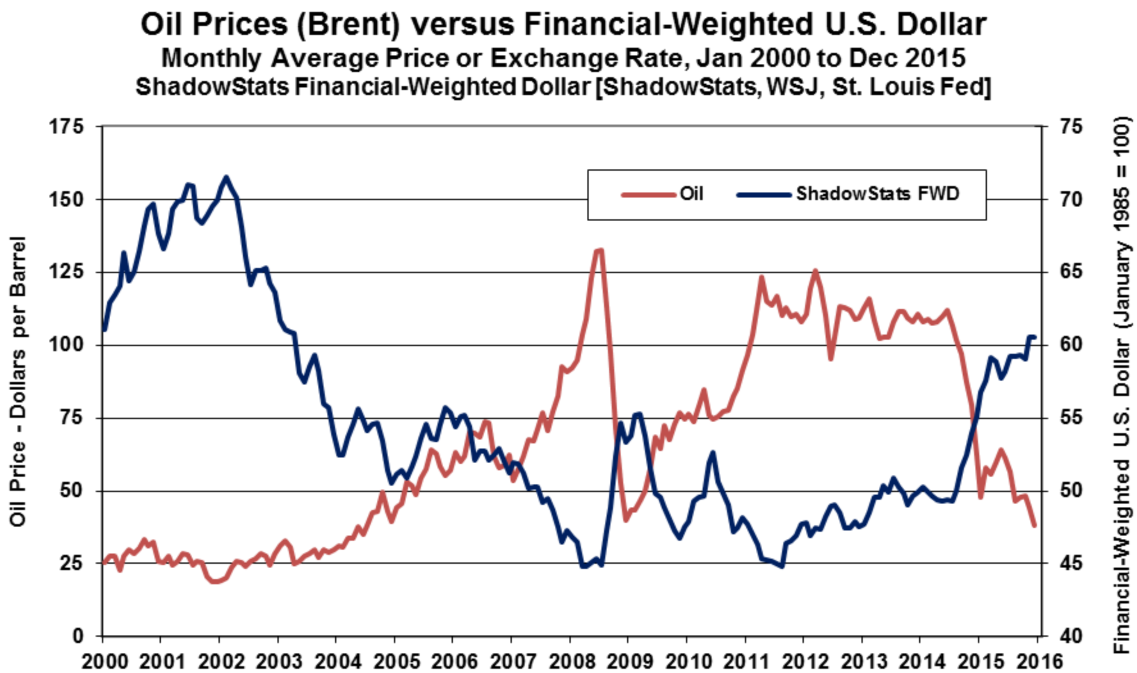
Graph 3: ECONOMY – Corrected Headline Real GDP (2000 - 2015), Indexed to January 2000 = 100



Graph 4: U.S. DOLLAR – Financial- versus Trade-Weighted U.S. Dollar Indices (1985 - 2015)



Graph 5: U.S. DOLLAR – Oil Prices versus Financial-Weighted U.S. Dollar Index (2000 - 2015)



Declining Economy Should Hit the Dollar and Spike Inflation. Shown in *Graph 4*, the U.S. dollar generally has rallied sharply since mid-2014 when United States appears to have taken covert actions to strengthen the U.S. dollar and to weaken oil prices as a method of creating financial stress for Russia, in the wake of the situation in Ukraine.

Shown in *Graph 5*, movement in the U.S. dollar has a negative correlation of 83.1% versus oil prices in the fifteen years since 2015, which means that when the U.S. dollar has declined in value, oil prices have risen 83% of the time, and vice versa.

As selling pressure mounts against the dollar, upside pressures should begin to surface for U.S. dollar-denominated oil prices, as well as for gold and silver prices, in particular.

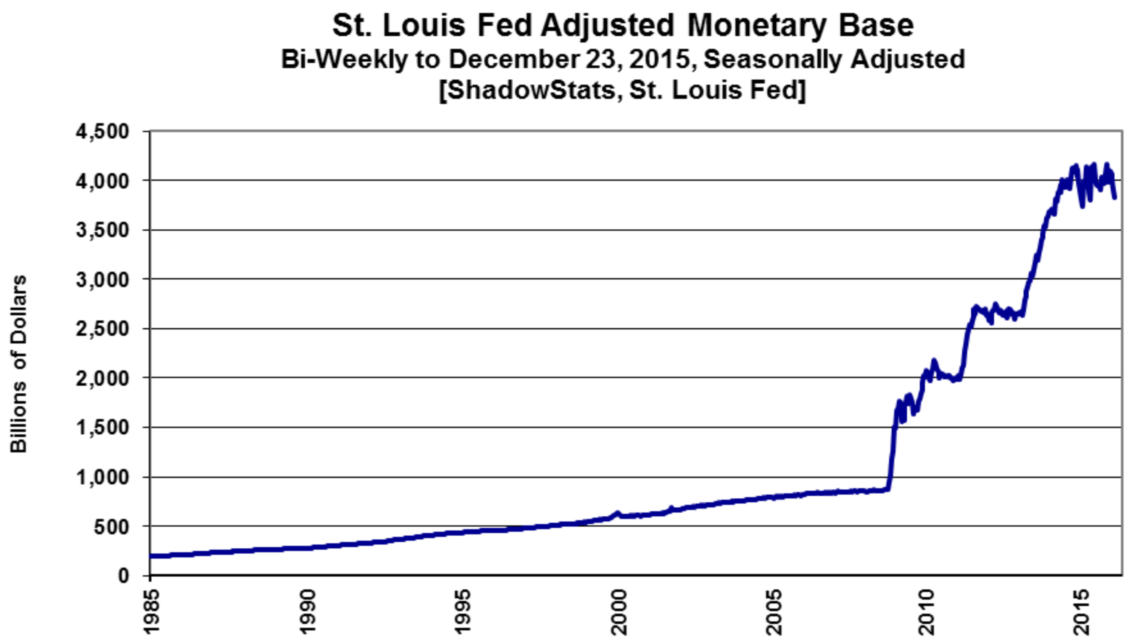
The Federal Reserve Can Create Inflation Whenever It so Desires. Again, the quantitative easings (which continue other than for the new, aggressive buying of securities), were designed to liquefy the banking system and to provide liquidity for the U.S. Treasury, not to stimulate U.S. economic activity directly.

Consider that the Federal Reserve, through its net purchases of U.S. Treasuries in quantitative easing (QE3) actually ended up monetizing 77.6% of the headline, cash-based 2014 Federal Deficit. The Fed then more than refunded the related interest earned to the U.S. Treasury. These actions are nothing more than pure money printing, with eventual horrendous implications for the financial markets and inflation.

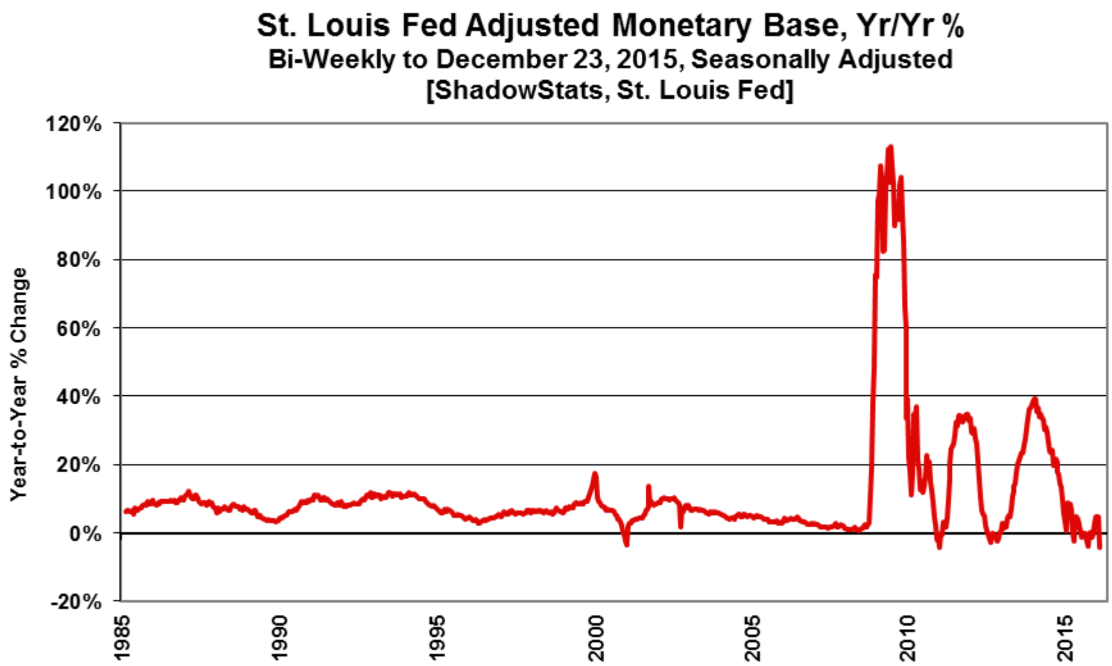
Shown in *Graphs 6* and *7*, the monetary base largely has been stable since the Fed stopped increasing its holdings of U.S. Treasuries. Still, a sharp drop in the base during the most-recent two week period bears some watching, in that the numbers of December 23rd followed the FOMC rate hike by one week.

Nonetheless, the extreme level of the monetary base has reflected the Fed's purchases of Treasuries being recycled by the banks back to the Fed, as excess reserves, as opposed to the banks lending excess cash into the normal flow of commerce. That latter circumstance would have spiked broad money supply growth and pushed inflation higher. If the Fed wants inflation, it can encourage bank lending and money growth at any time. At present, as shown in *Graph 7*, annual growth in broad money supply is slowing at a pace that appears to be accelerating to the downside in December.

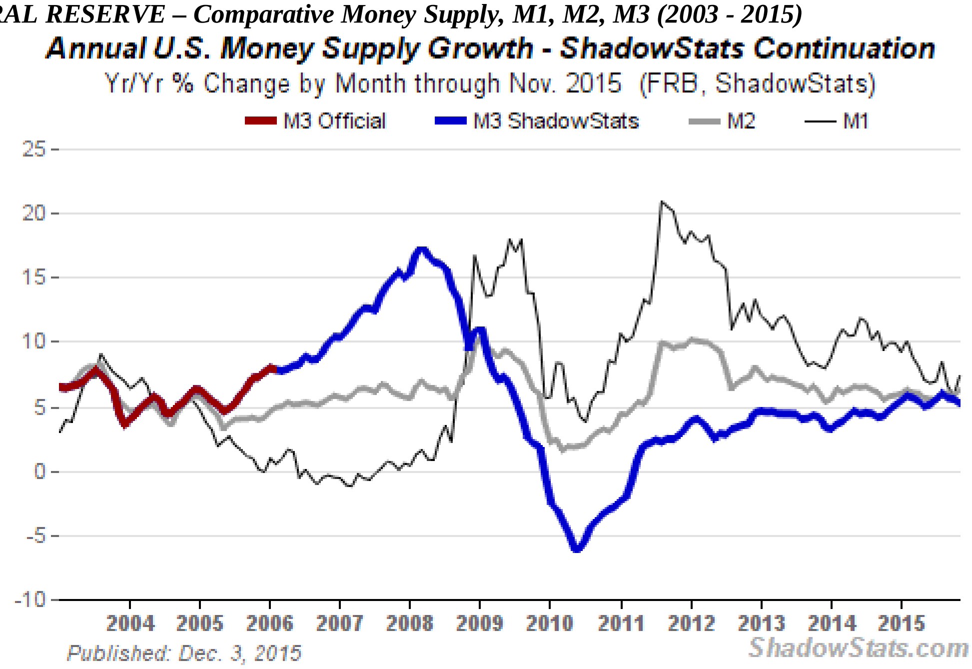
Graph 6: FEDERAL RESERVE – Monetary Base, Level (1985 - 2015)



Graph 7: FEDERAL RESERVE – Monetary Base, Year-to-Year Change (1985 - 2015)



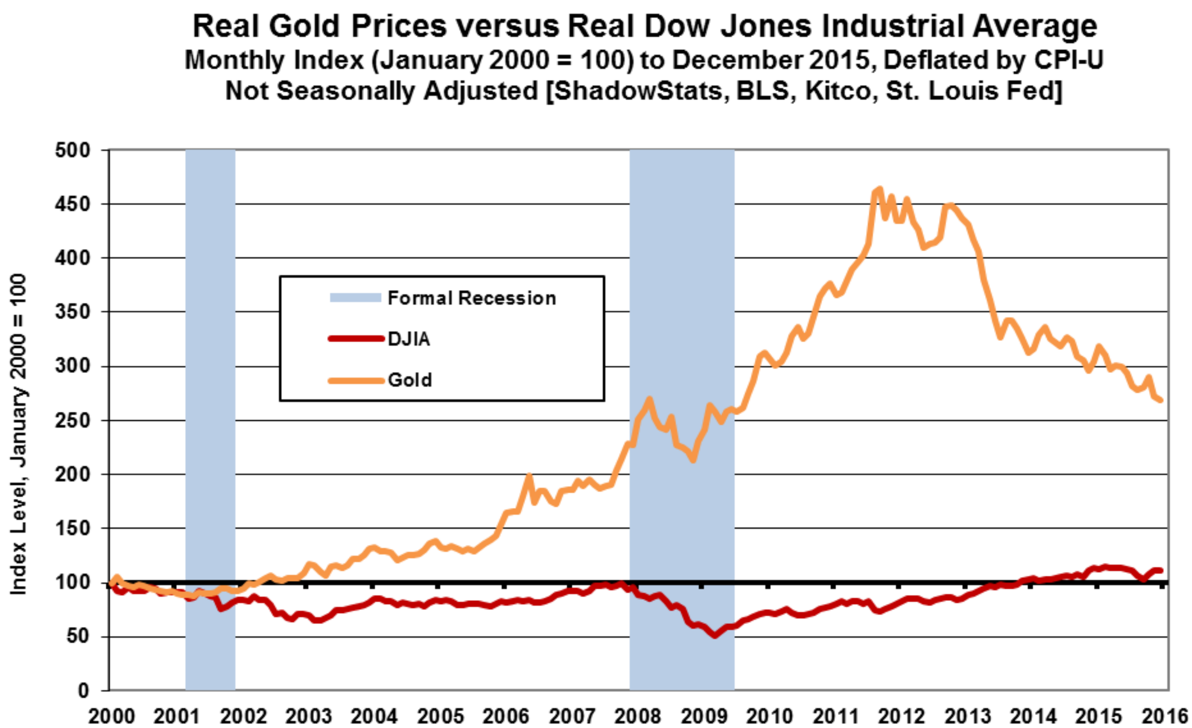
Graph 8: FEDERAL RESERVE – Comparative Money Supply, M1, M2, M3 (2003 - 2015)



One effect desired by the Fed was to have the quantitative easings flow through to the stock market, with some hope that higher equity prices might stimulate economic activity through some wealth effect. In reality, the impact was negative on personal income, killing what at one time had been stable interest-rate income. It also has been a factor in exacerbating income variance, which can help to trigger economic collapses and financial panics—and has done so in the past—without having hit the current extremes. See the *Consumer Conditions—Liquidity Issues Plague the Electorate* section.

Separately, central banks hate rallying gold prices. Rising gold prices usually are sign of monetary policy failures. Irregular massive, electronic gold-market interventions, orchestrated by central-bank or closely-related entities, have successfully been pummeling the gold price. The actions have been frequent and massive enough that regulatory authorities normally would be investigating the circumstance, if private foul play were suspected.

Graph 9: MARKETS – Real Price Indices of Gold versus the DJIA (2000 - 2015)



That said, *Graph 9* plots the relative price of gold versus the Dow Jones Industrial Average since 2000, with monthly average prices deflated by the CPI-U.

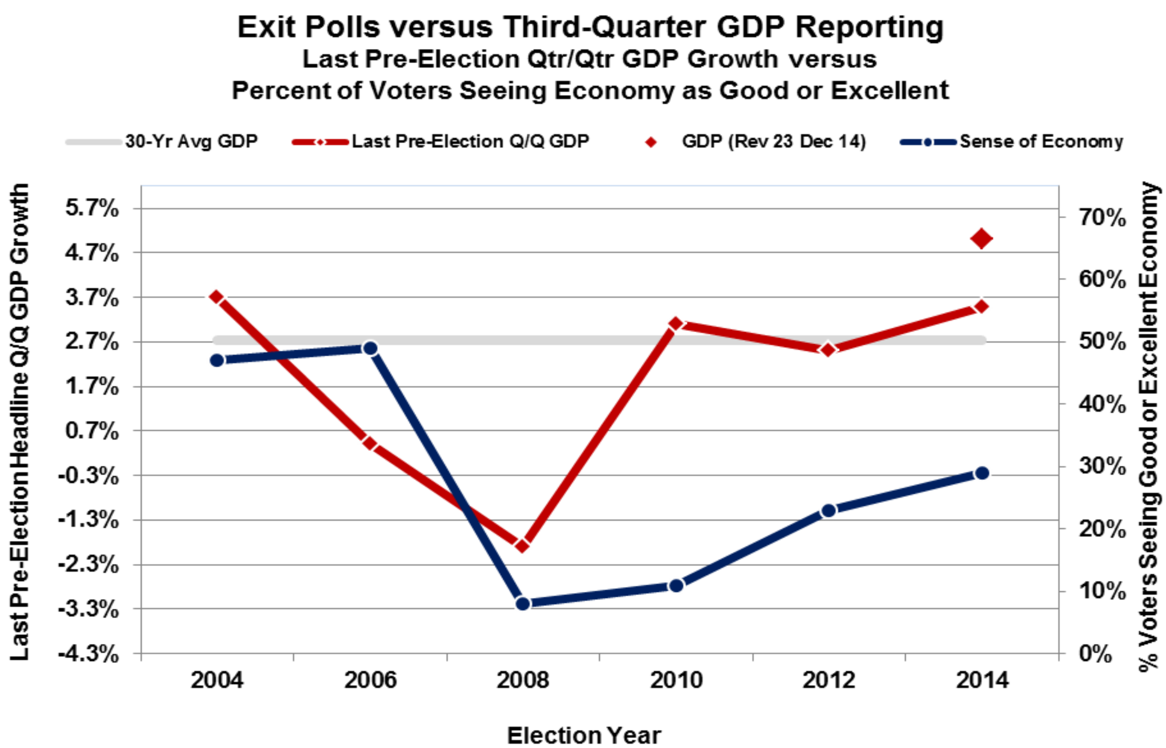
Main Street U.S.A. Should Vote its Pocketbook, Again. Personal financial circumstances, when they are particularly negative or positive, tend to dominate national elections more than any other factor. Financial circumstances for the average voter are miserable, and that should turn voting heavily negative against the incumbents. As background, I consider myself to be old-line conservative Republican with a Libertarian bent, and do my best to keep my personal politics out of my writing.

That said, Main Street U.S.A. historically has an extraordinarily good track record in recognizing underlying economic reality, as commonly reflected by electoral swings against the incumbent party holding the White House, when difficult pocketbook issues have dominated voter concerns (see *Commentary No. 672*). Also, in recent years, exit polls, such as seen in the 2014 midterm elections, generated a reading of the public's view of the third-quarter 2014 economy that was consistent with quarterly contraction, not with booming quarterly growth

Plotted in *Graph 10*, the red line with the diamond-points and left scale represents the latest headline quarterly GDP growth rate prior to the election, which was 3.5% in initial third-quarter 2014 GDP reporting (the single large diamond reflects the subsequent December 23rd revision of third-quarter activity to 5.0%). The blue line with the circle points shows the exit poll reading of how voters viewed the economy. An average economy would be 50% of voters viewing the economy as good or excellent, which would be about 2.7% for the GDP (thirty-year average).

In more-normal economic times, such as seen in 2004 and early-2006, exit polls from the presidential or midterm elections of those years showed about half the voters rating the national economy as "excellent or good," with a 50% rating there being average. Not too surprisingly, that assessment of "excellent or good" dropped to 8% in 2008, as the economy was collapsing, inching higher to 11% in the early-recovery period of 2010. Yet, the "excellent or good" descriptor only recovered to 23% in 2012 and to 29% in 2014, despite the purported robust economic recovery and expansion in GDP activity (all those headline numbers were before downside benchmark revisions in July 2015).

Graph 10: ECONOMY – CONSUMER/VOTER – Exit Polls versus Headline GDP Reporting (2004 - 2014)



Main Street U.S.A. was not looking at a fully-recovered and booming economy in third-quarter 2014, as of the November 4, 2014 election. The exit-poll economic rating was consistent with an outright quarter-to-quarter contraction in real third-quarter GDP activity, a quarter that had ended on September 30th, more than one month before the election. The voters certainly did not believe the headline 3.5% third-quarter growth published the week before the election. If they did not believe that, they most likely also did not believe the 5.0% revised growth rate published on December 23rd as the third estimate, second revision to third-quarter GDP growth.

Once again, current circumstances are sharply negative for personal finances (see the *Consumer Conditions—Liquidity Issues Plague the Electorate*). Donald Trump's success in early polling for the Republican nomination likely reflects the disgruntlement with the economy, among other factors. Mr. Trump looks like he could take the nomination, assuming he can get through the political machinery of the Republican convention. If nominated, background economic conditions suggest that Main Street, U.S.A. would put him in the White House.

Updated Hyperinflation and U.S. Dollar Outlook. Rapidly slowing economic activity and an increasingly-likely quarterly contraction in fourth-quarter GDP have significant negative implications, ranging from mounting selling pressure on the U.S. dollar, to unexpected and additional widening of the federal budget deficit and U.S. Treasury funding needs, to increased political volatility in what already is shaping up as an extraordinarily-significant presidential election year.

When Main Street U.S.A. suffers enough financial and other pain, the common reaction, historically, has been to dump those running the system. That pain threshold was crossed in 2008, and the year ahead assuredly will not be a happy one for many incumbents or for those who are counting on politics as usual.

That said, a heavily politics-as-usual budget deal has been put in place until after the election. With promised higher deficit spending, and with no debt limit to contain continuing excesses until after the election, who is going to fund the expanded spending ahead? Who is going to buy the proffered U.S. Treasury securities? Recent big buyers such as China, Japan and the Federal Reserve either are selling for a variety of reasons or otherwise are sitting on their hands. The most likely answer is that the Fed will continue to be the buyer of last resort (*i.e.* QE4).

The U.S. Dollar is living on borrowed time, and the unfolding confluence of the factors raised here remains likely to push the dollar into a heavy sell-off. The FOMC raised rates, but continued to tie its policy to U.S. economic health. That left the weak economy as political cover should the Fed need such cover, but it likely also intensified the negative-impact selling pressure on the dollar from news of a weakening economy.

The traumatic rate-raising process for FOMC likely masked serious other problems in the domestic and global financial systems. One likely major concern has to have been for continued stability and liquidity of the market for U.S. Treasury securities. Beyond domestic and global banks, the biggest beneficiary of QE3 was the U.S. Treasury.

Nothing has changed here, including the ShadowStats broad outlook for ongoing economic stagnation and downturn, intensifying systemic instabilities and a looming massive decline in the U.S. dollar. Along with the pending dollar crisis are the ongoing implications ultimately for severe inflation, for a domestic hyperinflation. The timing obviously is not going to be 2015, but forces are gathering to trigger heavy dollar selling. A massive U.S. dollar sell-off remains the likely proximal trigger for the early stages of the inflation, and that dollar selling could be as near as the next severely-negative economic surprise.

Primary Summary. The U.S. economy remains in ongoing downturn, while the U.S. dollar continues to face a massive decline in the wake of the extraordinary rally seen since June 2014, and in the context of a faltering economy, ongoing domestic fiscal imbalances and ongoing financial-system instabilities. Financial-system concerns, including possible Treasury-funding issues, likely were behind slowness of the Federal Reserve's Federal Open Market Committee (FOMC) in putting forth an further interest rate hike. Those factors have implications for a meaningful upturn in domestic inflation, eventually evolving into a great hyperinflationary crisis.

Fed policy, if anything, has exacerbated the long-term economic stagnation and renewed business downturn, where the quantitative easings always were intended as covert bailouts for the banking system, not as stimuli for the economy. Instead, the weak economy regularly was used as political cover for the effective banking-system bailouts.

Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by eventual, unfettered monetization of the national debt and obligations, leading to a hyperinflation. As first estimated by ShadowStats in 2004, such hyperinflation appeared likely by 2020. That time horizon for the hyperinflation forecast was moved to 2014, because of the 2008 Panic, the near-collapse of the financial system, and official (U.S. government and Federal Reserve) responses to same. That hyperinflation forecast remains in place, but it has been adjusted into 2016, as discussed in *No. 742*.

The basic story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of the *2014 Hyperinflation Report—The End Game Begins—First Installment Revised*.

Dollar Circumstance. The U.S. dollar rallied sharply from mid-2014 to date, despite some fluttering up to year-end. Initially, the rally reflected likely covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and over-estimated by global markets looking to support the dollar.

The U.S. economy remains in contraction, with a variety of key indicators, such as industrial production, real retail sales and revenues of the S&P 500 companies continuing to show recession. Although formal recognition could take months, consensus recognition of a "new" recession should gain rapidly, in tandem with a variety of monthly, quarterly and annual data reflecting the downturn in business activity. When formal recognition comes, timing of the onset of the recession likely will be from December 2014.

As market expectations move towards an imminent, new recession, such not only should reduce expectations for significant tightening in Fed policy, but also should renew expectations for a more-accommodative or newly-accommodative Fed. While such could help to fuel further stock-market mania, any resulting rallies in equity prices should be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. These circumstances should unwind what has been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets. Further, oil prices should spike anew, along with a sharp reversal in the dollar's strength.

Unexpected economic weakness intensifies stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course, and now an initial rate hike is in place. Future Fed behavior—moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Fed tightening likely is close to being on hold until after the 2016 presidential election, irrespective of near-term economic pressures. Suggestions that all was right again with world were nonsense. The Fed's games likely now will be played out as far as possible, with hopes, once again, of avoiding a financial-system collapse.

A renewed economic downturn also savages prospective federal budget deficit prognostications (particularly the 10-year versions). Such throws off estimates of U.S. Treasury funding needs. Current fiscal "good news" remains from cash-based, not GAAP-based accounting projections and is heavily impacted by changes in business activity.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided for, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, any significant, renewed market speculation in the near future as to an added round of Federal Reserve quantitative easing, QE4, could become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it thought it could, with continual, negative impact on the U.S. economy. Again, the easings to date, however, appear to have been largely a prop to banking system and to the increasingly unstable equity markets. While higher domestic interest rates tend to act as a dollar prop, the hike in rates may trigger a round of other systemic problems. Again, there is no happy way out of this for the Fed.

The fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, increasingly against the U.S. currency. That process likely will become dominated by deteriorating global perceptions of stability in U.S. economic activity, its political system, and the ability of the Federal Reserve to control its monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit and contracting production, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy. Sharply-negative economic reporting shocks, versus softening consensus forecasts, remain a heavily-favored, proximal trigger for intensifying the pending dollar debacle.

- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. Serious consideration of the government addressing the fiscal imbalances has been shifted to post-2016 election timing. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections, where the GAAP shortfall is not slated to be addressed by the current government. The GAAP-based version continues to run around $4 to $5 trillion for the annual shortfall, with total net obligations of the U.S. government exceeding $100 trillion, including the net present value of unfunded liabilities. Still, many in Washington look to continue increasing spending and to take on new, unfunded liabilities. What remains to be seen is for how long the concerns of the global financial markets will remain on hold.

- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see *Commentary No. 672*). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The 2014 monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury, but more of that lies ahead. As has been commonplace, the Fed likely would seek political cover for any new or expanded systemic accommodation in the intensifying economic distress.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the Congress in addressing fundamental fiscal and economic issues are nil. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and the nation's long-range solvency issues should continue to devolve into extreme political crises.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency are intensifying, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. These situations have yet to run their full courses, and have the potential for rapid and massive negative impact on the financial and currency markets.

- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term global financial instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly. Consider that China has been selling some of its U.S. Treasury debt holdings to raise cash in for its near-term financial needs. Again, much of the rest of the world also has been backing away from holding U.S. Treasury securities. Slack demand for U.S. Treasuries always can be taken up by the Federal Reserve's renewed monetization of the debt. In this environment, the IMF has added the Chinese yuan to the limited basket of currencies defining Special Drawing Rights (SDR), discussed in *Commentary No. 772*.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation, still likely in the year ahead.

Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. See Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 742*, for other factors afoot in the current environment.

Contents – Major Sections and Graphs

U.S. ECONOMY – NON-RECOVERY, STAGNATION, "NEW" RECESSION

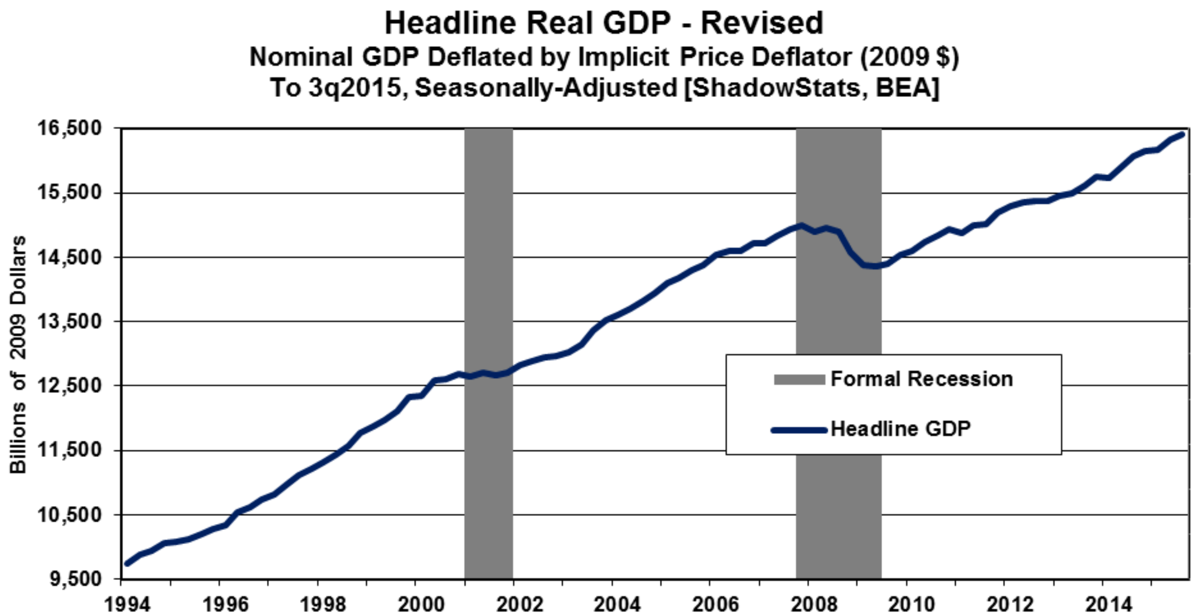
Economy Likely Has Been in a "New" Recession Since December 2014. The GDP benchmark revision of July 30, 2015 (see *Commentary No. 739*) showed prior activity to have been much weaker than previously reported, with indications of more downside revisions to come. Commonly covered in the monthly GDP updates (see *Commentary No. 775*), headline reporting as shown in *Graph 11* (also *Graph 2*) has the economy in formal recession from December 2007 to June 2009. That pattern largely is an artefact of understated GDP inflation, which, if corrected as shown in *Graph 12* (also *Graph 3*), shows the economy starting to falter in 2006, plunging into 2009, and then stagnating since at a low level of activity.

General confirmation of the corrected GDP plot is seen in *Graph 1* of Real S&P 500 Revenues per Share, adjusted for share buybacks (see *Executive Summary*), in the various employment measures in *Graphs 16* to *17* (see *Commentary No. 771*), and in housing starts and real construction spending in *Graphs 22* and *23* (see *Commentary No. 774* and *Commentary No. 771*). For comparison purposes, *Graphs 11* to *15* reflect a consistent timeframe of first-quarter 1994 through fourth-quarter 2014. The beginning quarter there was selected for 1994, when all the labor numbers were overhauled, and before which the labor-related data are not comparable.

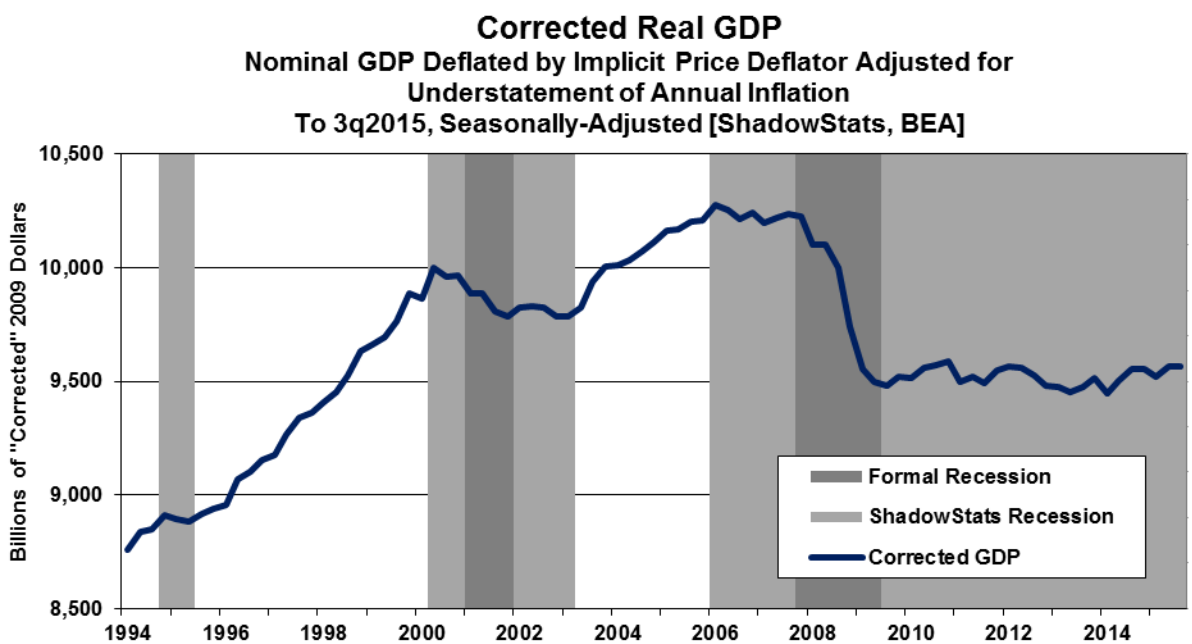
A variety of monthly indicators, such as industrial production (see *Commentary No. 774*) and real retail sales (see *Commentary No. 773*) have indicated a renewed downturn in economic activity that took hold in December 2014. Such can be seen in the respective plots of the headline and "corrected" versions, along with annual growth rates falling to levels common with recessions. In the case of industrial production, the annual contraction in November 2015 has not been approached outside of recession in more than 50 years; the last time was the 1956 Steel Strike. See *Graphs 16* to *18* for production and *Graphs 19* to *21* for retail sales.

Finally, the real quarterly merchandise trade deficit has turned lower again. In conjunction with the production and retail sales numbers, and with indications of continued declines in corporate revenues, the trade data are suggestive of a developing quarterly contraction in real fourth-quarter 2015 GDP.

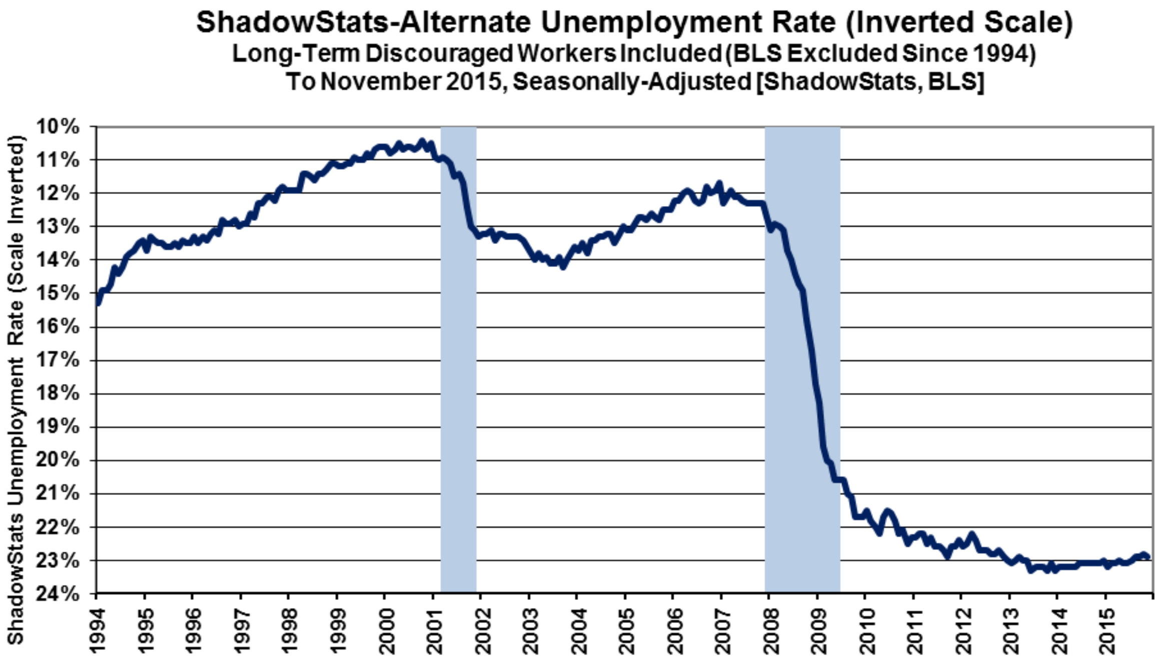
Graph 11: ECONOMY – "The Illusion" Headline Real GDP (1994 - 2015)



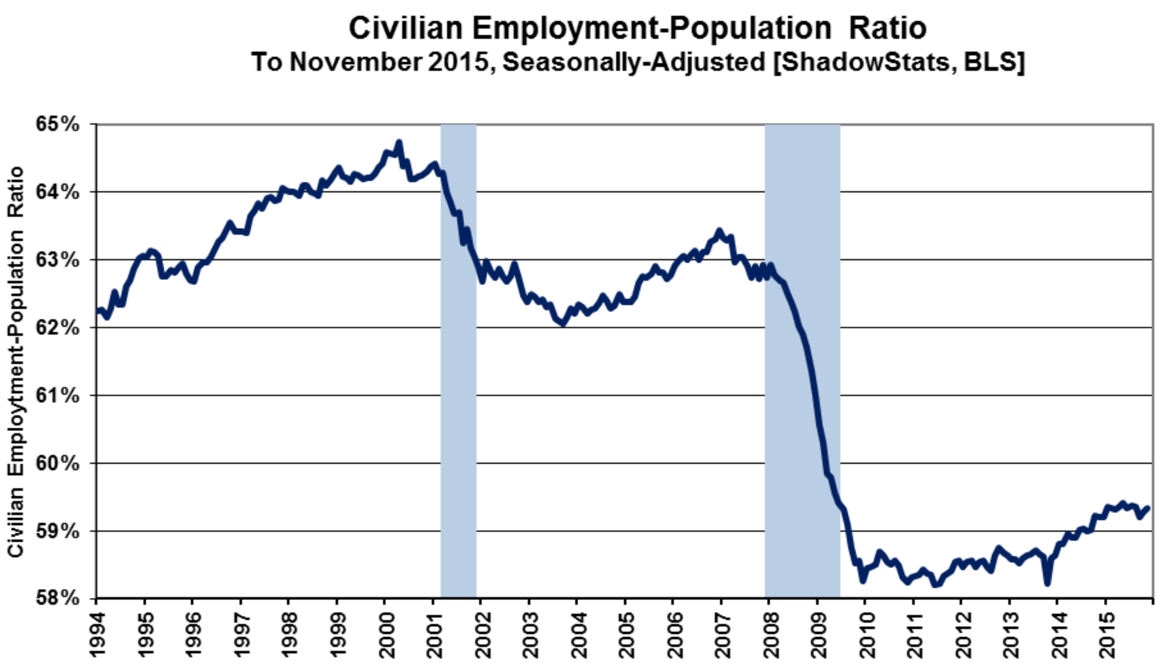
Graph 12: ECONOMY – Real GDP Corrected for Inflation-Understatement (1994 - 2015)



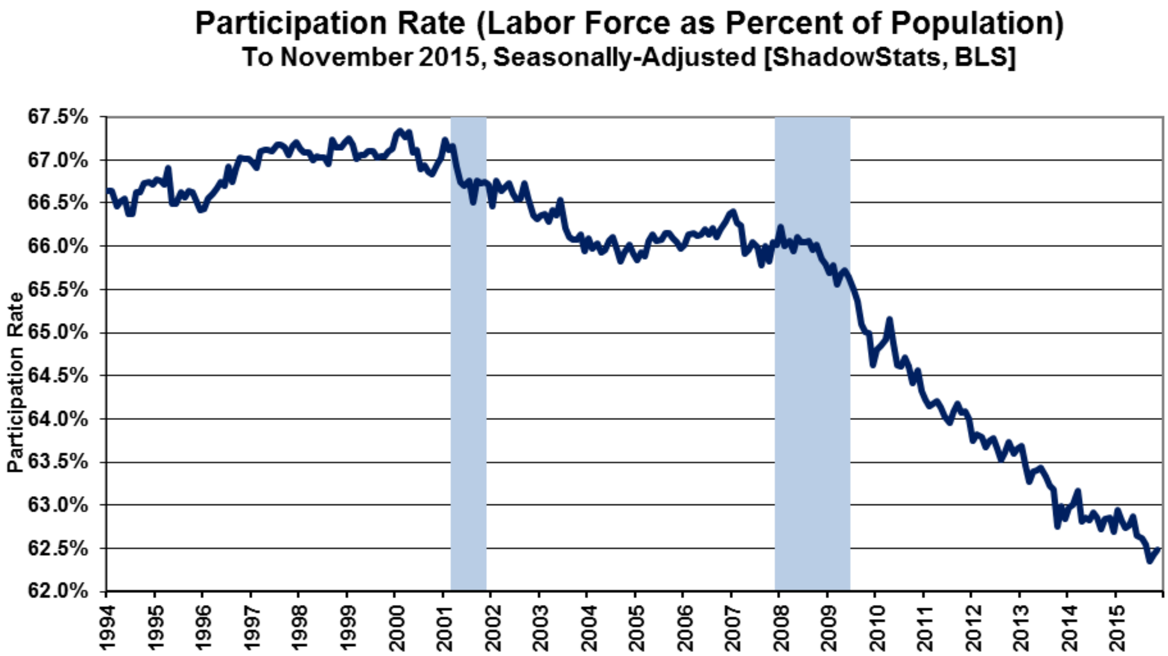
Graph 13: ECONOMY – ShadowStats-Alternate Unemployment Measure—Inverted Scale (1994 - 2015)



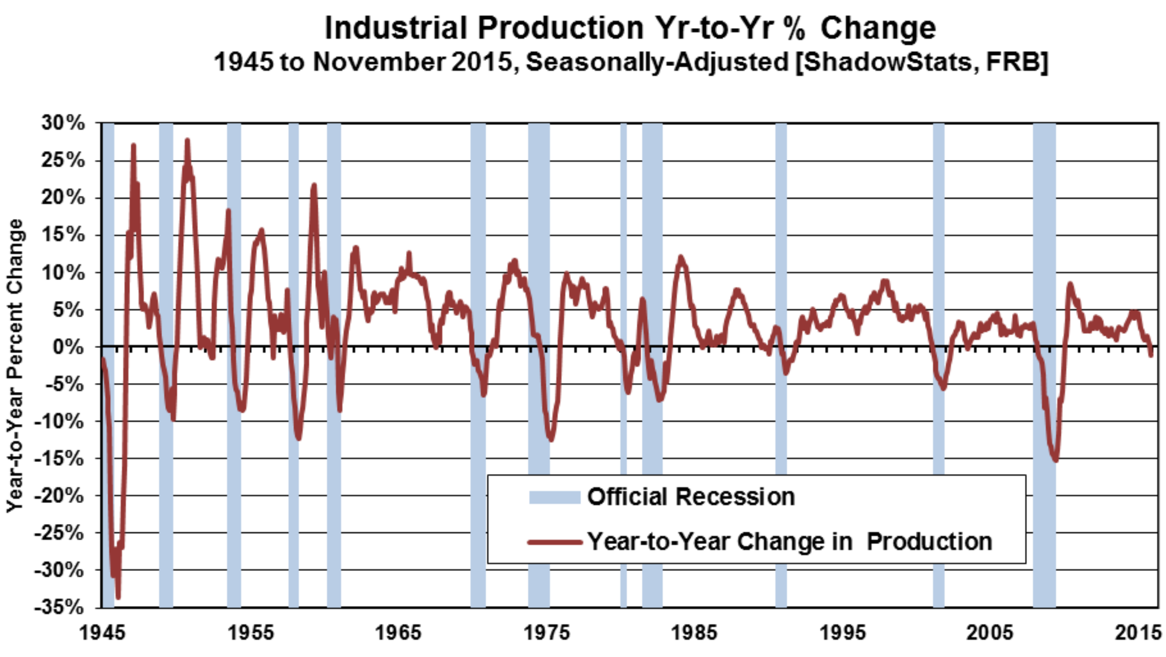
Graph 14: ECONOMY – Civilian Employment-Population Ratio (1994 - 2015)



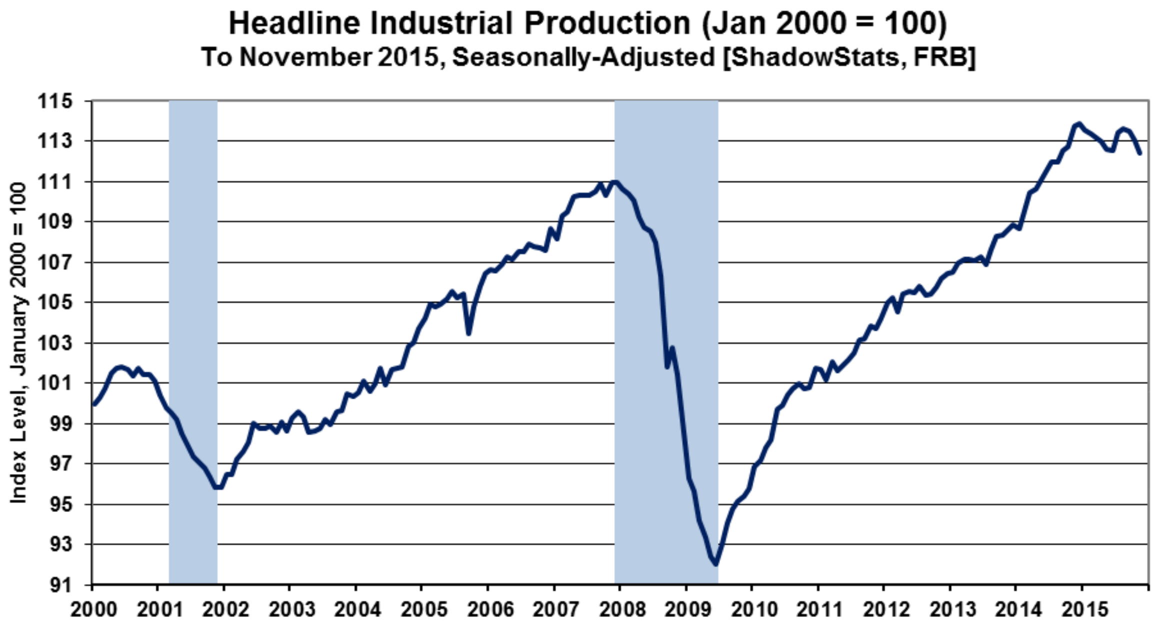
Graph 15: ECONOMY – Labor Force Participation Rate (1994 - 2015)



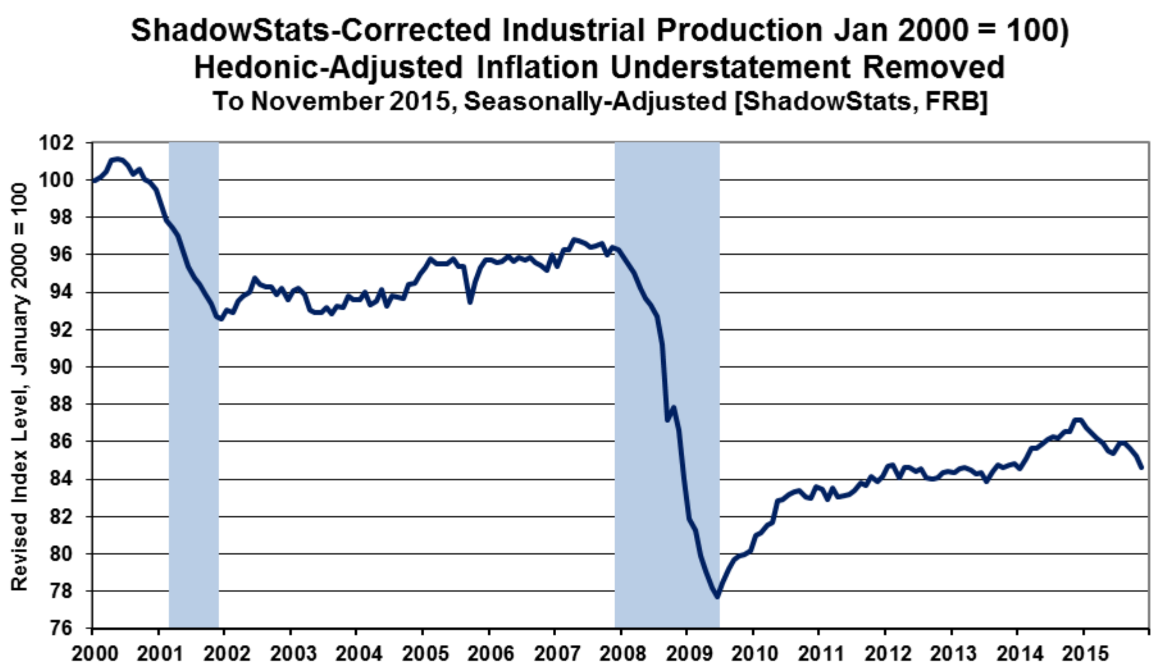
Graph 16: ECONOMY - Headline Industrial Production Year-to-Year Percent Change (1945 to 2015)



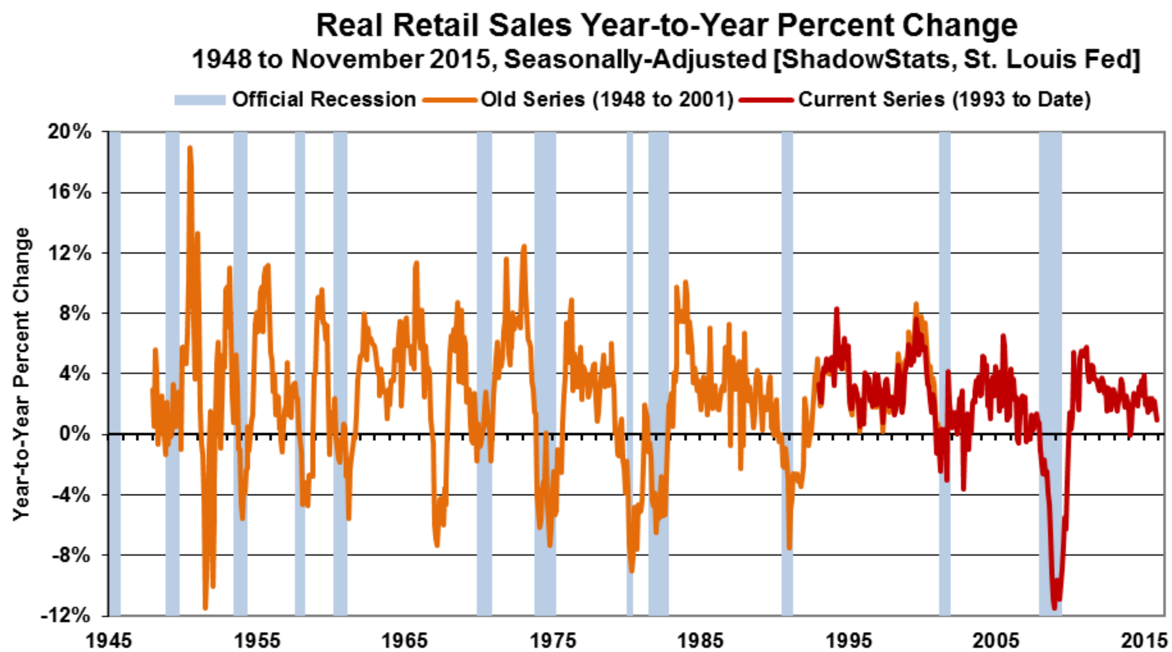
Graph 17: ECONOMY - Headline Level of Industrial Production, Indexed to January 2000 = 100



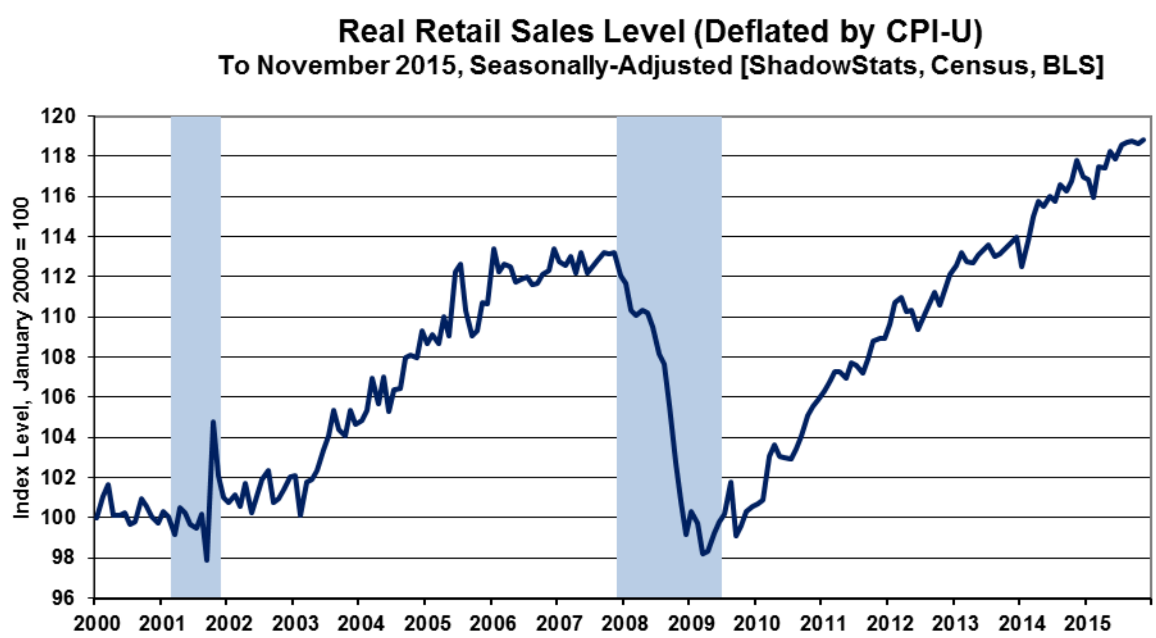
Graph 18: ECONOMY – "Corrected" Industrial Production Level, Indexed to January 2000 = 100



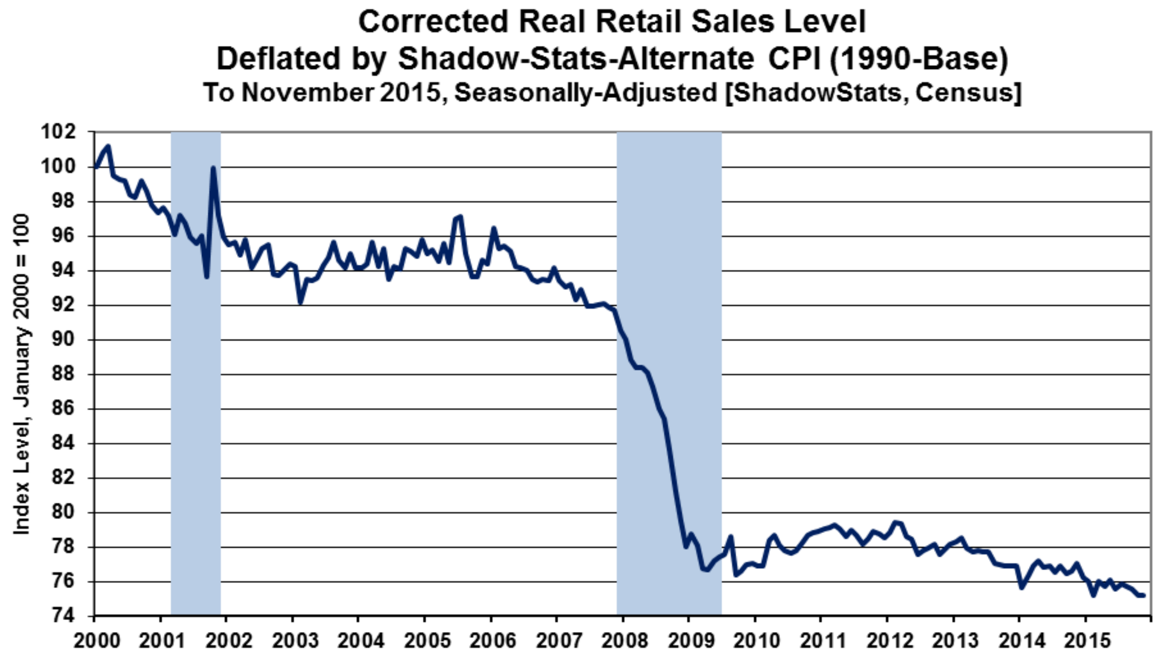
Graph 19: ECONOMY - Headline Real Retail Year-to-Year Percent Change (1948-2015)



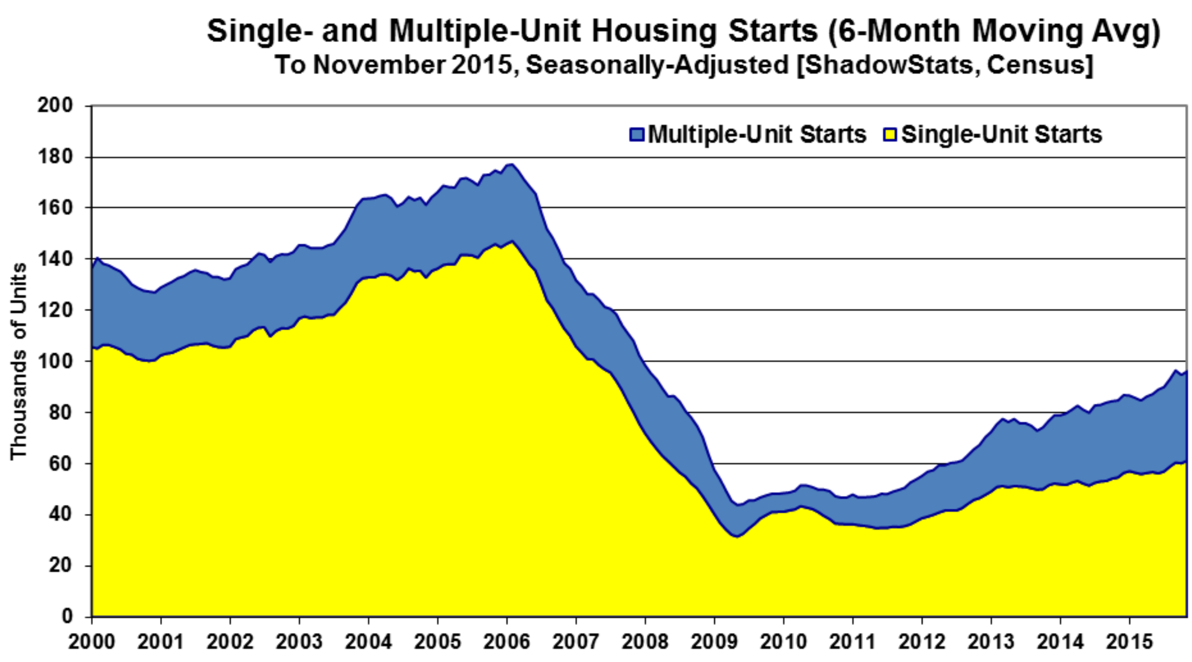
Graph 20: ECONOMY - Headline Real Retail Sales Level, Indexed to January 2000 = 100



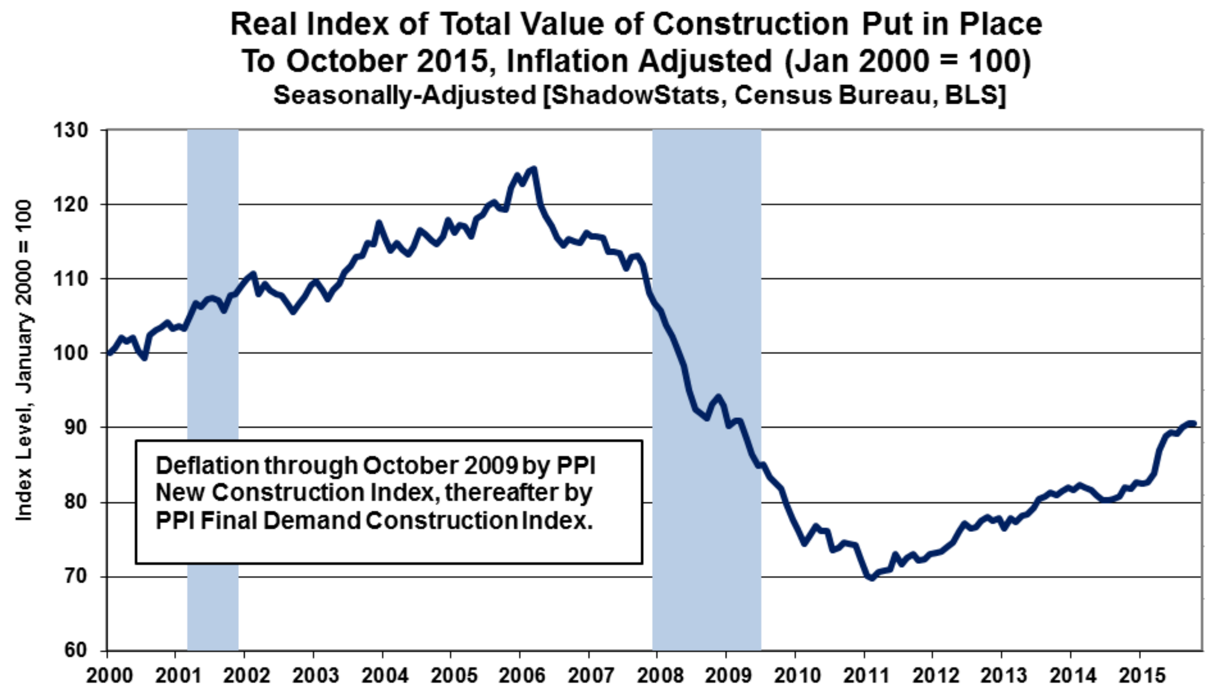
Graph 21: ECONOMY - "Corrected" Real Retail Sales Level, Indexed to January 2000 = 100



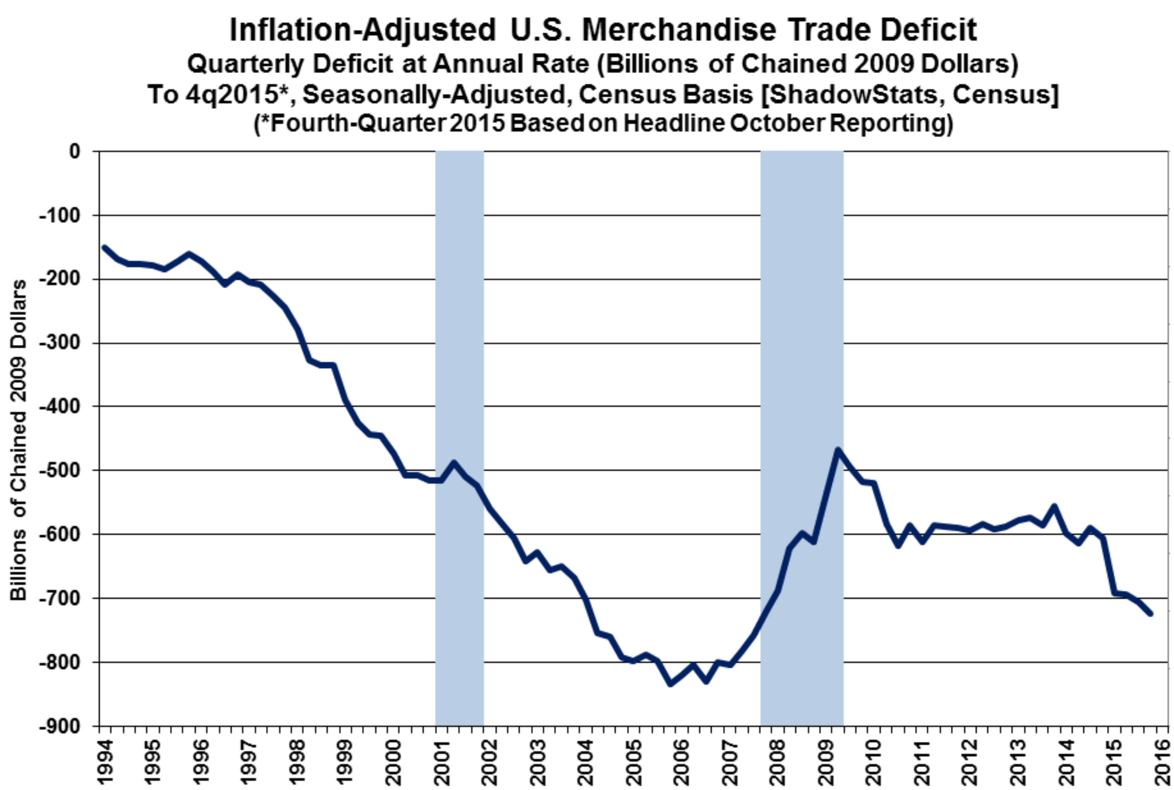
Graph 22: ECONOMY - Single- and Multiple-Unit Housing Starts (Six-Month Moving Average)



Graph 23: ECONOMY - Index of Total Real Construction Spending, Indexed to January 2000 = 100



Graph 24: ECONOMY - Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit (1994 to 2015)



CONSUMER CONDITIONS – LIQUIDITY ISSUES PLAGUE THE ELECTORATE

Economic Activity Constrained by Consumer Conditions. Consistent with evidence of no economic recovery, underlying consumer fundamentals, such as liquidity, have been so severely impaired as to have driven activity into collapse and to have prevented meaningful or sustainable economic rebound, recovery or ongoing growth. Now, with the economy never having recovered from the collapse into 2009, consumers again are pulling back in consumption as evidenced in a renewed slowdown of broad economic activity.

Although most measures of consumer liquidity and consumer attitudes are off their recent lows, underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a meaningful, fundamental upturn in consumer- and banking-liquidity conditions.

Structural Consumer Liquidity Issues. The level of real income and growth in real income are at the root of consumer liquidity issues. Generally, the higher and stronger those measures are, the healthier is consumer liquidity. The relative distribution of income among the general population—income variance—also is a significant indicator of the health of an economy as well as the attendant financial markets.

Since the early-1970s, when the U.S. trade deficit began to explode, surveys of inflation-adjusted household income have showed sporadic but general deterioration, both in terms of income level and dispersion. The major culprit here has been the ongoing loss of higher paying jobs to offshore competition, a direct result of the explosion in the U.S. trade deficit in the last four decades (see discussion in *Chapter 7* of *2014 Hyperinflation Report—Great Economic Tumble*, and *Commentary No. 658*, which provided some of this text concerning the annual income indicators).

The following detail also updated the regular review of consumer liquidity circumstances last seen in *Commentary No. 772*. Structural liquidity woes continue to constrain economic activity, as they have since before the Panic of 2008. Never recovering in the post-Panic era, limited growth in household income and credit, and a faltering consumer outlook, have eviscerated and continue to impair broad, domestic U.S. business activity, which feeds off the financial health and liquidity of consumers.

Without meaningful real (inflation-adjusted) growth in household income and without the ability or willingness to take on significant new debt, the consumer simply has not had the wherewithal to fuel a sustainable economic expansion. Impaired consumer liquidity and its direct restraints on consumption have been responsible for much of the economic turmoil of the last eight-plus years, driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining both nominal and real retail sales activity and the related, personal-consumption-expenditures and residential construction categories of the GDP. Together, those sectors still account for more than 70% of total economic activity in the United States, as measured by the Gross Domestic Product (GDP).

Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth without a fundamental upturn in consumer- and banking-liquidity conditions.

Household Income Measures Signal Broad-Based Economic Difficulties. The Census Bureau recently updated key annual measures of household income for 2014, as graphed and discussed in *Commentary No. 752* (some material from *No. 752* is repeated in this section). Unexpected weakness in some of the headline annual income data, though partially masked by changes in survey questions, signaled increasing liquidity difficulties for U.S. households.

Shown first, though, in *Graph 25*, is the latest monthly real median household income detail through November 2015, as reported December 29th by www.SentierResearch.com. This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 26*, but the monthly specifics are generated from separate surveying and questioning by Census. Generally, the income series had been in low-level stagnation, with the recent uptrend in the monthly index boosted by collapsing gasoline prices and related negative or flat headline consumer inflation.

Where lower gasoline prices have provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally has been used to pay down unsustainable debt, not to fuel new consumption.

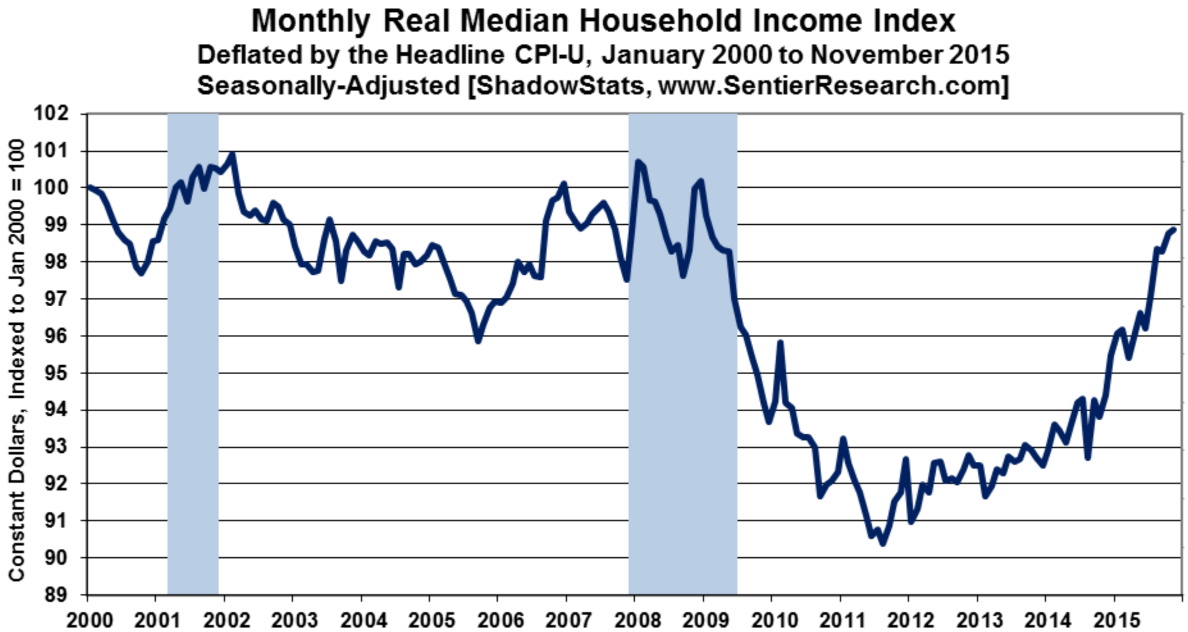
On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. The November 2015 reading has recovered the level seen at the start of the formal recession in 2007, but it remains below the pre-recession highs for both the formal 2007 and 2001 recessions, and should continue to top out or turn down anew as consumer inflation rebounds in the months ahead.

Differences in the Monthly versus Annual Median Household Income. That general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 26*, with the latest 2014 real annual median household income at a ten-year low. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau. The monthly CPS series also is the source of the Household Survey used by the Bureau of Labor Statistics (BLS) in its unemployment reporting and estimates of real average weekly earnings (*Graph 27*).

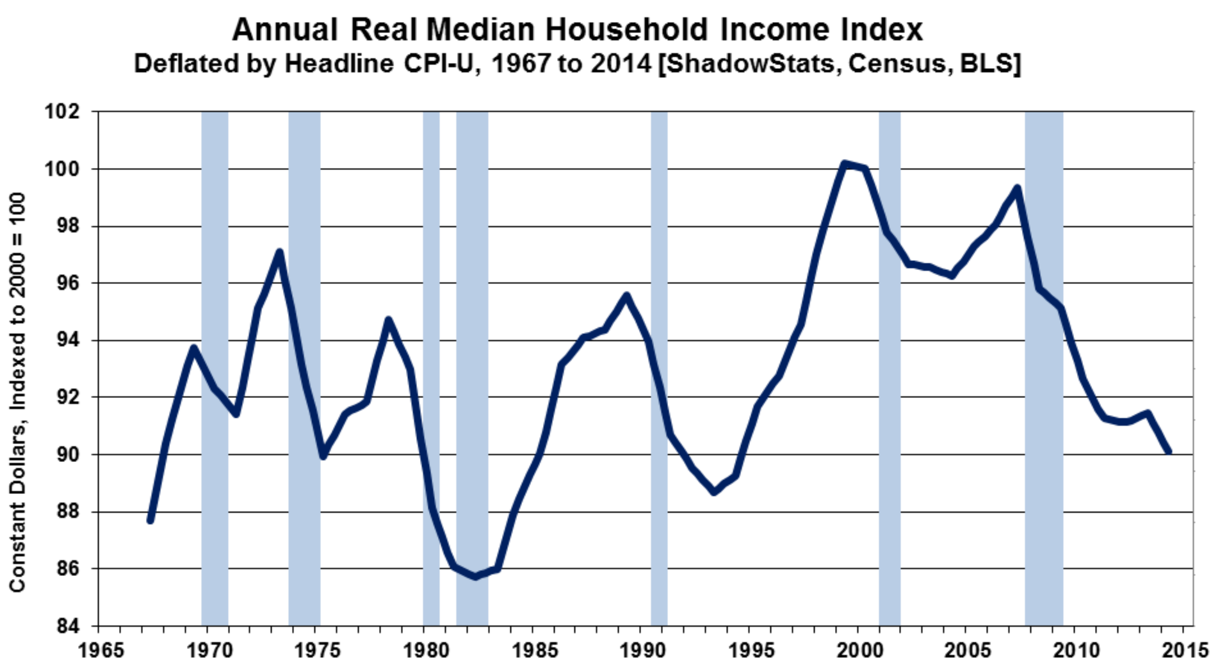
Where Sentier uses monthly questions surveying current annual household income, the headline annual Census detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income.

Again, discussed in *Commentary No. 752*, the Census Bureau changed its annual income questionnaire for 2014, with the effect of boosting income reported in 2014. The details on changes between 2013 and 2014, however, also were available on a consistent and comparable basis, and the consistent aggregate annual percentage change of median household income in 2014, versus 2013, was applied to the otherwise consistent historical series to generate *Graph 26*.

Graph 25: CONSUMER - Monthly Real Median U.S. Household Income through November 2015



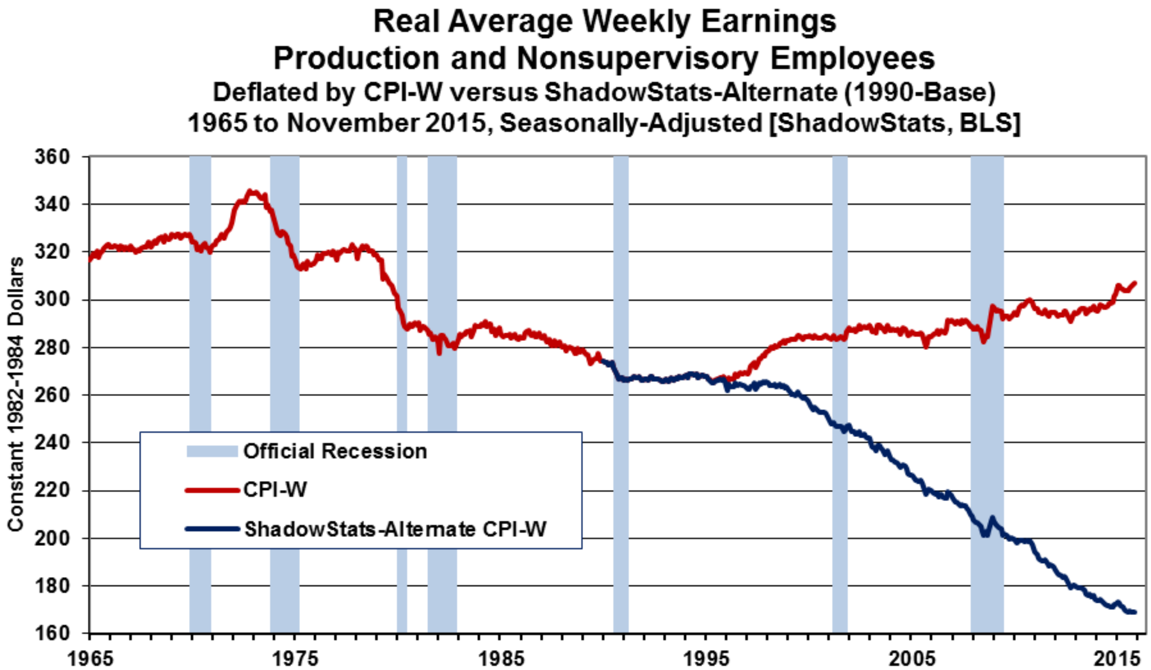
Graph 26: CONSUMER - Annual Real Median U.S. Household Income through 2014



In historical perspective from *Graph 26*, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s, with the 2014 income level below the readings through most of the 1970s, aside from being at a ten-year low. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy (see related discussions in *2014 Hyperinflation Report—The End Game Begins* and particularly *2014 Hyperinflation Report—Great Economic Tumble*).

Such also broadly is consistent with Real Average Weekly Earnings through November 2015, as shown in *Graph 27* and reported by the Bureau of Labor Statistics (see *Commentary No. 773*). Detail for December will be published on January 20th and updated in *Commentary No. 781* of that date.

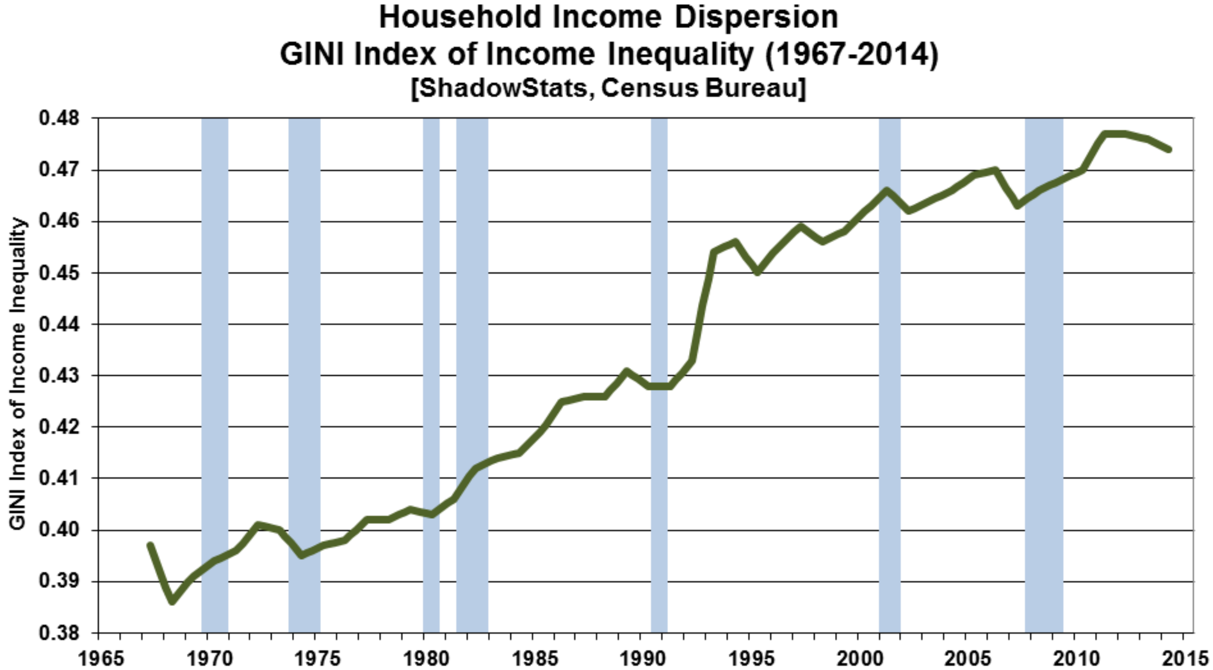
Graph 27: CONSUMER - Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-2015



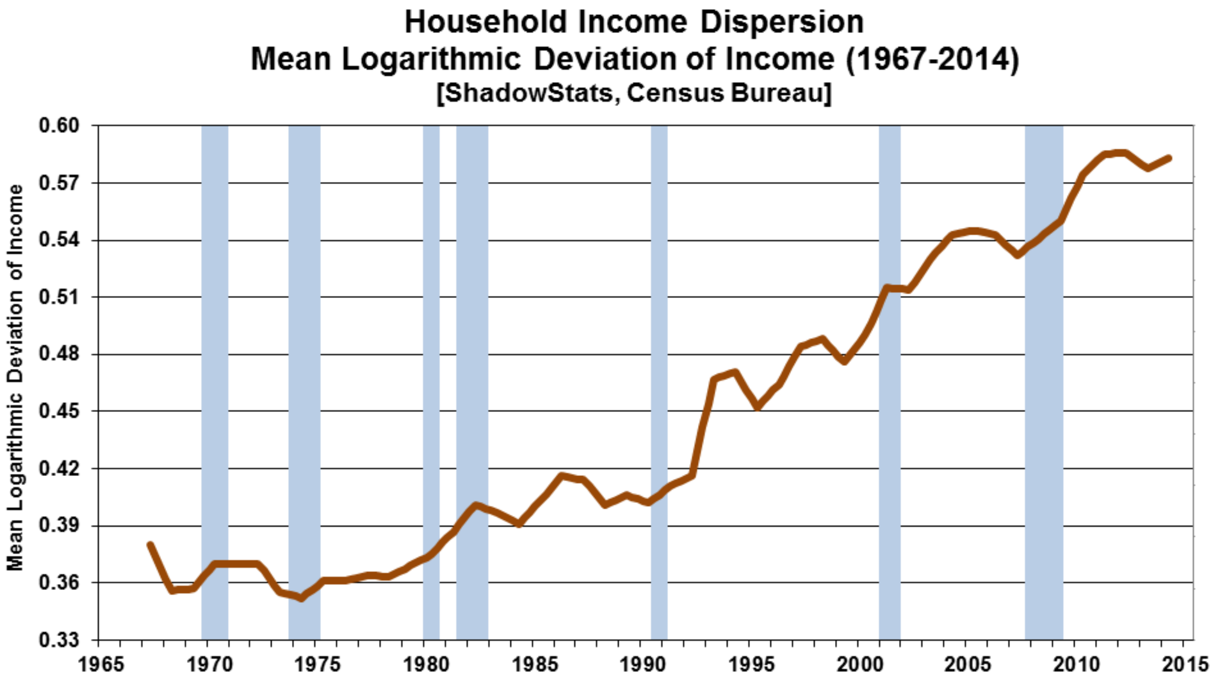
Income Variance. Repeated from *Commentary No. 752*, estimates of income dispersion, or inequality, are shown through 2014 (again, the latest detail available) in *Graphs 28* and *29*. Measures of income dispersion, or variance, indicate how income is distributed within a population. A low level of income dispersion indicates that income tends to be concentrated in the middle, while a high level of dispersion indicates heavier income concentrations in the extremes of low and high income, with less in the middle. The higher the variance of income, the greater is the income dispersion. Generally, economies with income concentrated in the middle tend to enjoy the stronger and broader economic growth.

Rising and near-record income dispersion levels usually foreshadow economic and financial-market turmoil. Despite—or perhaps due to—the ongoing nature of the economic and systemic-solvency crises, and the effects of the 2008 financial panic, income dispersion—the movement of income away from the middle towards both high- and low-level extremes—held near record highs in 2014, instead of moderating, as often seen during periods of financial distress.

Graph 28: CONSUMER - Annual GINI Index of Income Inequality through 2014



Graph 29: CONSUMER - Annual Mean Logarithmic Deviation of Income through 2014



Conditions surrounding extremes in income variance usually help to fuel financial-market bubbles, which frequently are followed by financial panics and economic depressions. The sequence of those factors tends to redistribute income in a manner that usually lowers income variance, helping economic recovery. Other than for a brief dip following the 1987 stock-market crash, U.S. income variance since 1987 has been higher than has been estimated for the economy going into the 1929 stock-market crash and the Great Depression, and its current reading remains nearly double that of any other "advanced" economy.

Instead of being tempered by the 2008 financial panic and the ongoing economic and systemic-solvency crises, income variance increased to record extremes in the last several years, as shown in *Graphs 28* and *29*, well above levels estimated to have prevailed before the 1929 stock-market crash and the Great Depression. The current income variance patterns suggest that the greatest negative impact of the systemic turmoil, so far, has been on those in the middle-income area. The extremes in income dispersion suggest also indicate even greater financial and economic crises for at least the next several years (see *Commentary No. 658* for a much more extensive discussion of these measures and related economic theory).

Consumer Confidence, Sentiment and Credit. The December 2015 reading for the Conference Board's Consumer-Confidence measure (December 29th) and for University of Michigan's Consumer-Sentiment measures (December 23rd) are shown in *Graphs 30* to *32*, along with the latest readings on various consumer credit measures, real third-quarter 2015 household-sector credit-market debt outstanding (*Graph 33*) and October 2015 consumer credit outstanding (*Graph 34*).

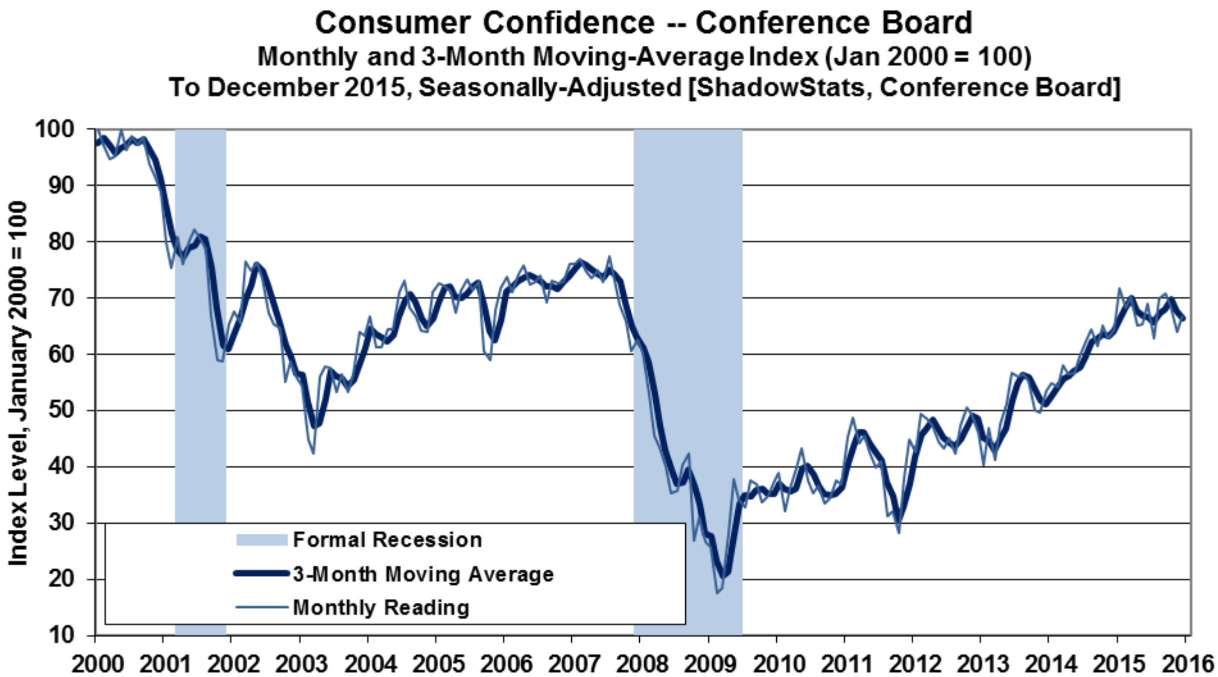
For purposes of showing the Consumer Confidence and Consumer Sentiment measures on a comparable basis, *Graphs 30* to *32* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 30*) and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 31*) both rose for the full-month of December, having declined in November 2015.

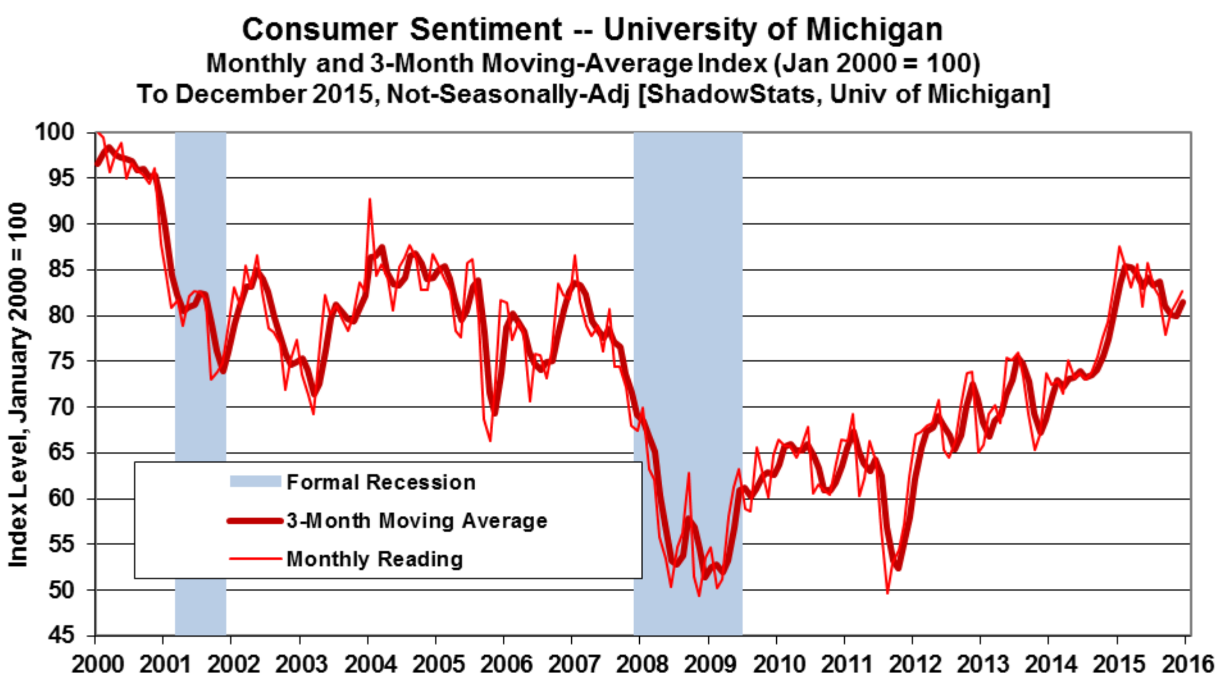
Both series continued to move lower or to hold off near-term peaks, though, smoothed for their three-month and six-month moving-average readings. The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. With increasingly-negative, headline financial and economic reporting and circumstances at hand and ahead, successive negative hits to both the confidence and sentiment readings remain highly likely in the months ahead.

Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 32*—plotted for the last 45 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth seen in 2014 and as indicated in for second-and third-quarter 2015 GDP growth.

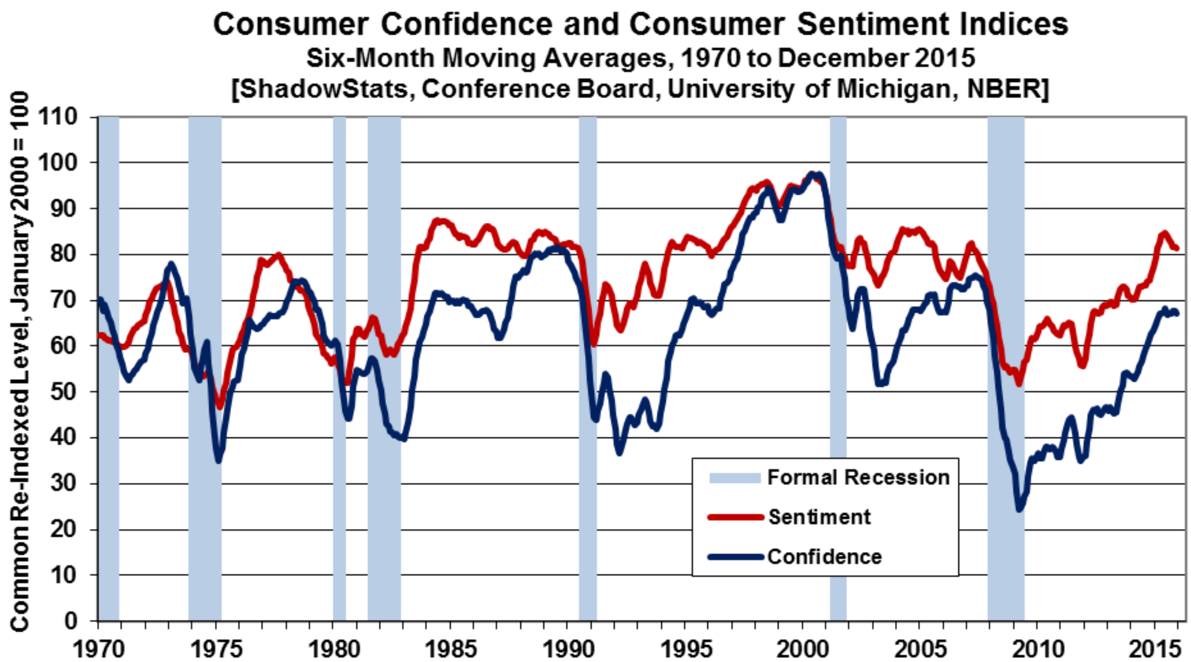
Graph 30: CONSUMER - Consumer Confidence to December 2015



Graph 31: CONSUMER - Consumer Sentiment to December 2015



Graph 32: CONSUMER - Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970



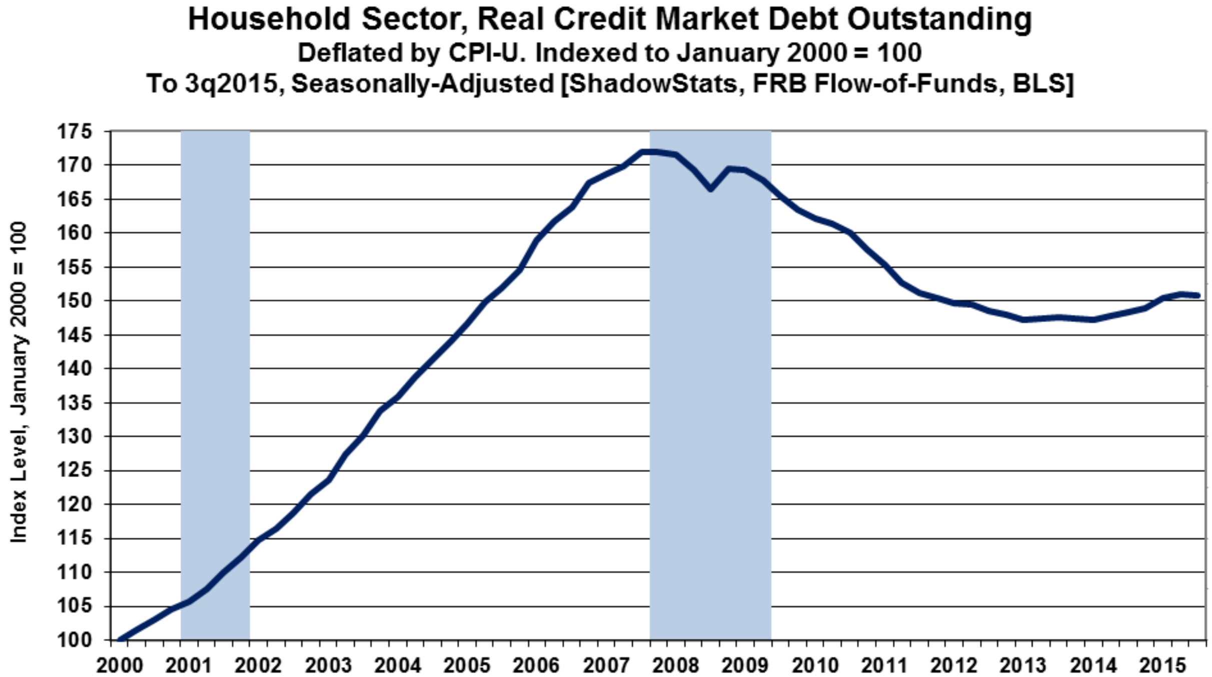
The last two graphs in this section address consumer borrowing. Debt expansion can help make up for a shortfall in income growth. Shown in *Graph 33* of *Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered, based on the Federal Reserve's flow-of-funds accounting for third-quarter 2015, the most-recent detail available.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce.

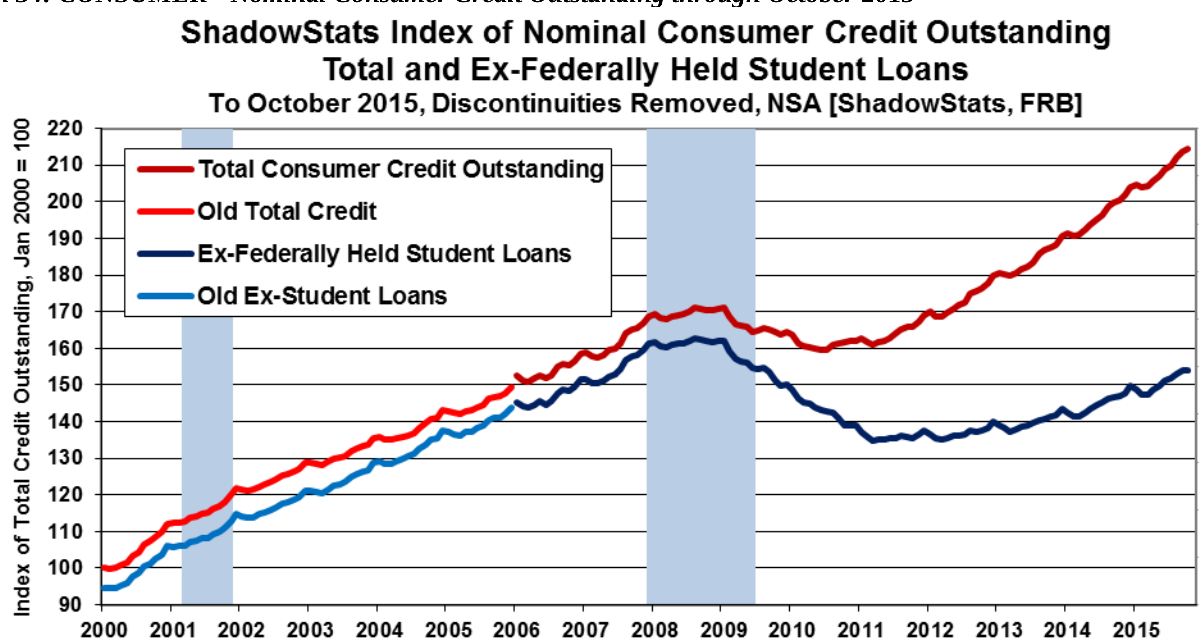
The slight upturn seen in the series in the first two quarters of 2015, as also seen with the monthly median household income survey, was due partially to gasoline-price-driven, negative CPI inflation, which continues to impact the system. Nonetheless, third-quarter 2015 real debt outstanding declined minimally, reflecting a sharp slowing in quarterly consumer borrowing. Third-quarter activity also reflected surging student loans, as shown in the *Graph 34*.

Shown through October 2015 reporting, *Graph 34* of monthly Consumer Credit Outstanding is a subcomponent of *Graph 33* on real Household Sector debt, but *Graph 34* is not adjusted for inflation. Post-2008 Panic, outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with October 2015 levels reflecting a broad slowing in the aggregate growth of consumer debt outstanding.

Graph 33: CONSUMER - Household Sector, Real Credit Market Debt Outstanding through Third-Quarter 2015



Graph 34: CONSUMER - Nominal Consumer Credit Outstanding through October 2015



FEDERAL DEBT AND DEFICIT: OUT OF CONTROL AND NO RESOLUTION PENDING

Various Reporting and Fiscal Shenanigans Have Obscured Some Growth in the Headline Federal Debt and Deficit. There was a time, before the Panic of 2008, when the headline federal deficit really was cash-based, cash-in less cash-out, although it still had its own reporting gimmicks. In the wake of the Panic of 2008, however, the government opted to "capitalize" some of its bailout money, instead of reflecting it as cash-out. Not being consolidated in the federal government's financial statements, for example, Fannie Mae and Freddie Mac ended up paying "dividends" to the investing U.S. Treasury, based on accounting gimmicks that would have no place otherwise in an entity owned by the Federal Government.

A separate complication was the effective monetization of roughly 78% of the U.S. Treasury's net-public-debt issuance in 2014 in the Federal Reserve quantitative easing programs. Independent of the Federal Government, the Fed continues to hold outright some $2.5 trillion of Treasury debt, refunding the interest it receives on that debt to the Treasury. The Fed also effectively has been helping to prop Fannie Mae and Freddie Mac with its holdings of agency and mortgage-backed securities.

Consistent annual accounting recently has been complicated further by intermittent debt-ceiling crises that have run across federal government fiscal years, such as seen the prior year ended September 30, 2015. Separately, the General Accountability Office (GAO)—at one time the "A" stood for "Accounting"—has raised issues, in its financial statements on the federal government, as to the appropriateness of underlying assumptions made by the Administration as to the Affordable Care Act (ACA) in annual reporting. Generally, ShadowStats has used the GAO's alternative assumptions in assessing the annual financial results for the U.S. Government. Even so, those assumptions have been shifting.

Discussed in *Commentary No. 772*, ShadowStats continues to assess current and recent federal government fiscal activities, in the context of significant distortions and disruptions to headline federal debt and federal-government accounting, tied to year-end displacements forced by debt ceilings, and in terms of shifting underlying assumptions tied to health care, Federal Reserve monetization of Treasury debt, gimmicked accounting, etc.

Full ShadowStats reporting of GAAP-based accounting detail for the government's fiscal years 2013 and 2014 will be provided in the planned comprehensive update of the *Hyperinflation Reports* in first-quarter 2016. Such will reflect debt levels consistent with the U.S. Treasury having to mask its cash-flow activity related to debt ceilings in various fiscal-calendar years, along with detail of historic debt and GAAP-based liabilities and related GAAP-based deficits. Also included will be the detail of the estimated fiscal-year 2015 results, as discussed here.

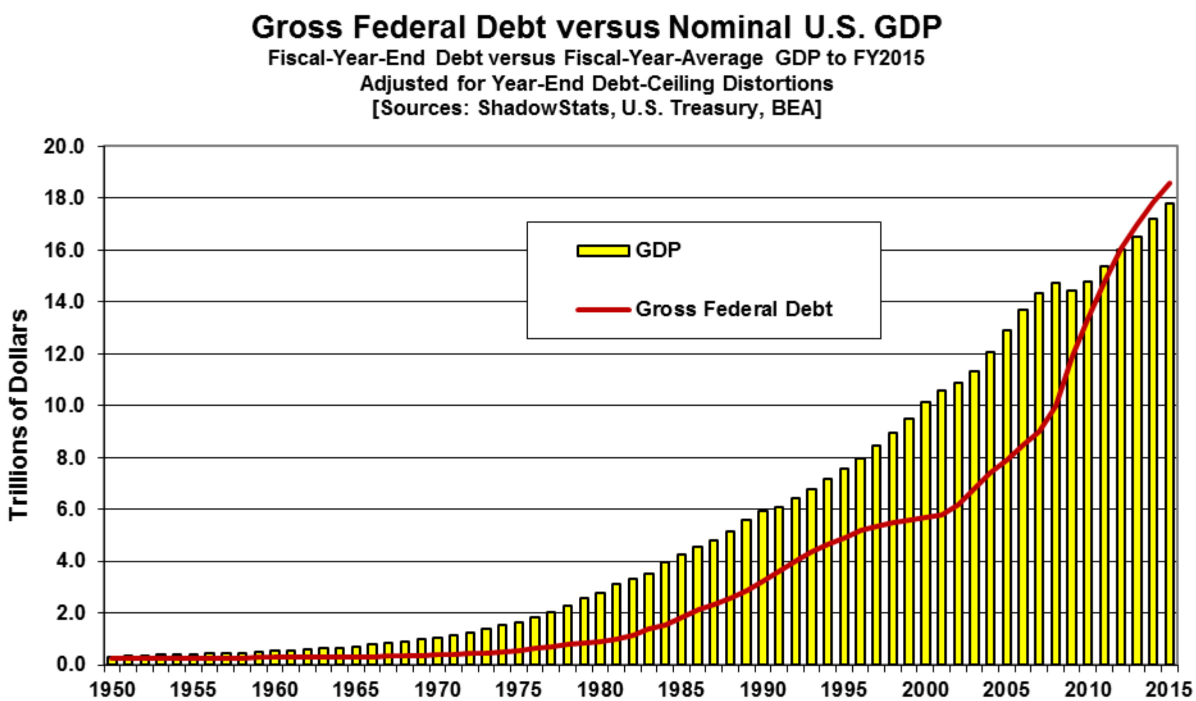
Removing debt-ceiling operational distortions, adjusting for normal cash flows and borrowing patterns, for example, fiscal-year-end 2015 gross federal debt would have been roughly $18.6 trillion, about $400 billion more than the headline $18.2 billion. The difference was made up in Treasury borrowing after the debt ceiling was reset in November.

Summary details are reflected in accompanying *Graphs 35* to *37*. Estimates for GAAP-based 2015 are subject to revision. The comprehensive update also will examine various approaches to measuring unfunded liabilities of the federal government, and how those approaches can impact the reporting of annual GAAP-based shortfalls. As standardly assessed here, fiscal year-end GAAP-based gross federal debt, combined with the net-present value of unfunded federal government liabilities, likely stood at about $100.5 trillion at fiscal year-end 2015, roughly 540% of the nominal fiscal-2015 U.S. GDP. That compares with a coincident gross federal debt to GDP ratio of about 104%.

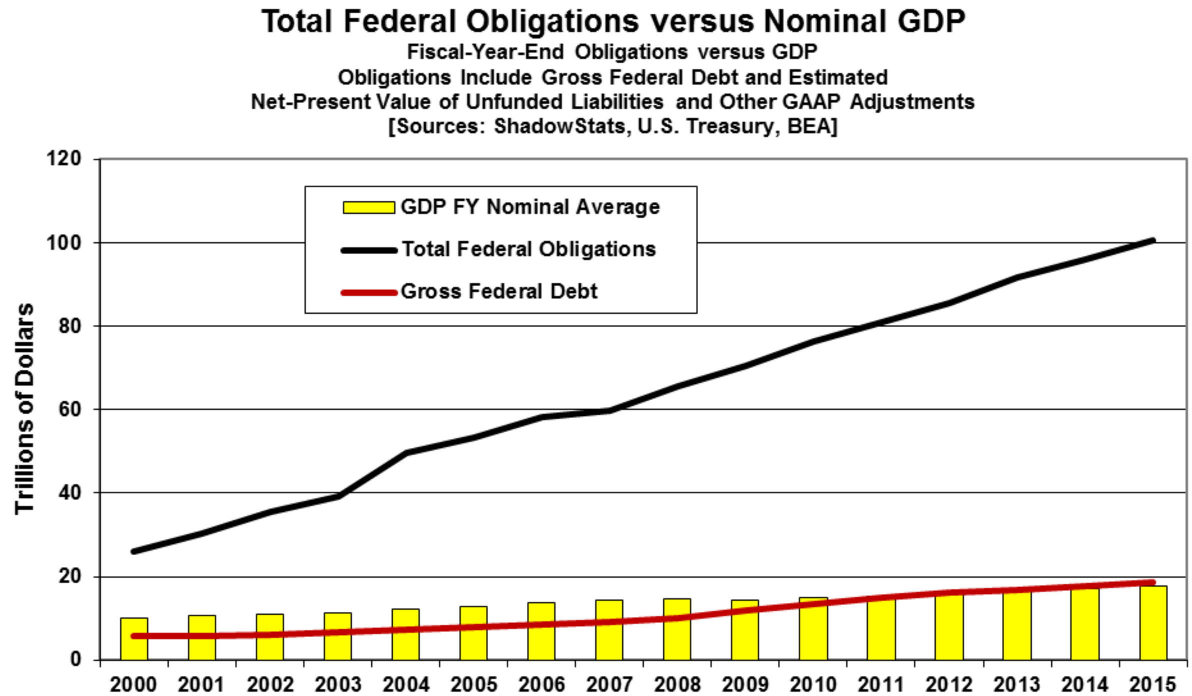
As best estimated by ShadowStats, on a consistent-reporting basis, the latest 2014 GAAP-based deficit is around $4.2 trillion and the preliminary estimate for 2015 is roughly $4.6 trillion, subject to revision. The general circumstance continues to deteriorate, given the political inability and/or unwillingness of the current U.S. government to address bringing such programs as Medicare and Social Security into long-term solvency, with any serious considerations of these issues having been pushed off until after the 2016 Presidential Election (November 8th).

The latest broad, detailed assessment by ShadowStats is found in *2014 Hyperinflation Report—The End Game Begins* page 45.

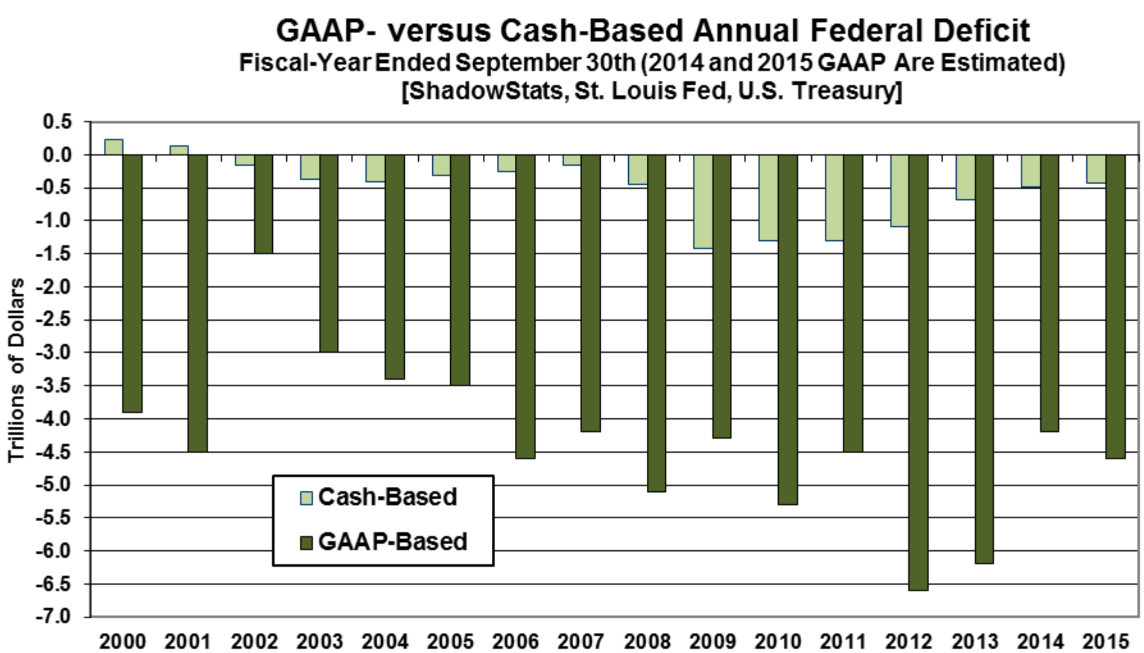
Graph 35: FISCAL CONDITIONS - Fiscal-Year-End Gross Federal Debt versus Nominal GDP



Graph 36: FISCAL CONDITIONS - Fiscal-Year-End Total Federal Obligations versus Nominal GDP



Graph 37: FISCAL CONDITIONS - GAAP- versus Cash-Based Annual Federal Deficit



FINANCIAL MARKETS AND INFLATION: PRESERVING ONE'S ASSETS

Staying Ahead of Inflation and Surviving a Financial Armageddon. The ShadowStats fundamental analysis of the pending hyperinflation crisis in the United States remains very much in play, although likely timing of the pending sell-off in the U.S. dollar—the likely proximal trigger for an early surge in inflation—has moved into 2016, as discussed in the *Executive Summary*. The dollar-debasement crisis ahead—hyperinflation—is the basis for suggesting that investors look to preserve the purchasing power and liquidity of at least some portion, if not most of their wealth and assets, during the period of extreme financial an inflation turmoil ahead.

Circumstances are not stable. The U.S. and global financial systems literally were at the point of collapse in 2008. Extraordinary interventions and central bank measures bought some time, but the crisis resolved. Underlying issues generally were not addressed, only pushed into that future, and a day of reckoning is near. Investors need to assess their risks, at least to consider what could happen in the near future and what type of insurance or hedging is available.

Please review *Chapter 10*, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handling the hyperinflation crisis and the effects on various asset groups including equities and TIPS (neither asset class would do well in the difficult times ahead). The best hedges here remain holding physical gold and silver, as well as holding some assets outside of the U.S. dollar.

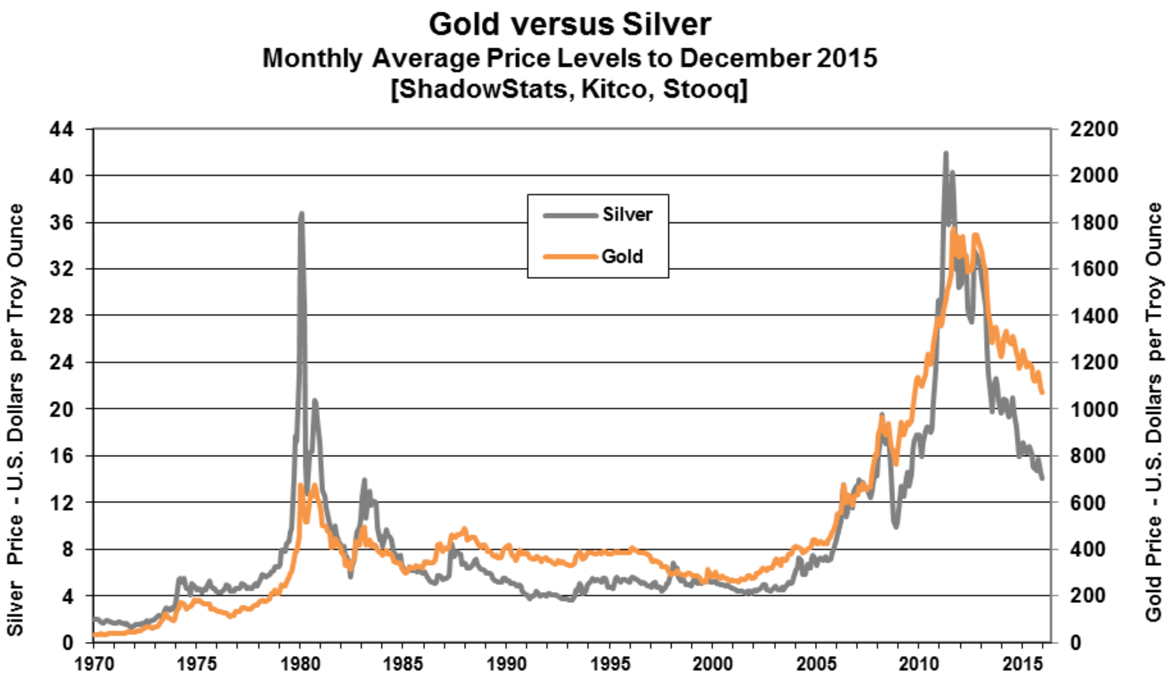
The protective hedges work, however, only if they are held through the financial crisis. As seen in recent years, gold and silver prices can be pummeled in the open markets, often by apparent central bank interventions in the markets. Once serious inflation kicks in, however, gold's store-of-wealth effect should become the dominant factor driving the gold price, as also would be the case for silver.

With a longer-term perspective, putting all the hoopla aside of all-time highs in stock indices to and multi-year lows in precious metals, consider *Graph 9* in the *Executive Summary* (compiled from *Graphs 41* and *42*). The plot shows that $100 invested in physical gold in January 2000, and $100 invested in the DJIA at the same time would be valued respectively today (December 2015 average), fifteen years later—net of headline CPI-U inflation—at $269 for the gold, and at $111 for the DJIA. Where the stock graphs do not include dividend reinvestment, such would add roughly $38 to the December 2015 DJIA or $149.

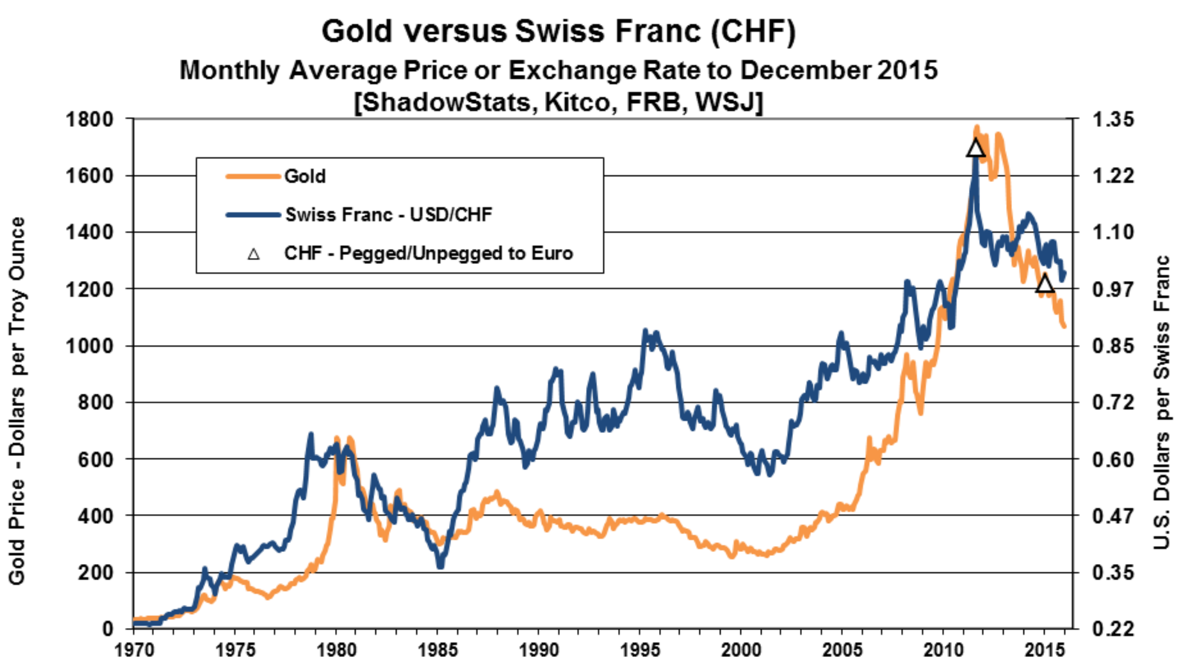
When held for the duration, physically-owned precious metals offered, and still offer a safe-haven from all the troubles ahead. Again, though, in 2015 and in recent years, some entity close to the central banks and Wall Street deliberately and irregularly intervened with massive selling in the gold and silver markets, in an obvious and successful effort to drive lower the prices for gold and silver. The effort here was to kill the "safe-haven" image of precious metals, to burn cautious investors and, again, to drive investors into a more-unstable and highly-dangerous domestic stock market.

Graphs 38 to *45* plot monthly levels of various financial asset-prices or interest rates usually covered in summary ShadowStats *Commentaries*. The first three graphs are in nominal terms, before inflation adjustment, with the remainder adjusted for inflation, in real terms.

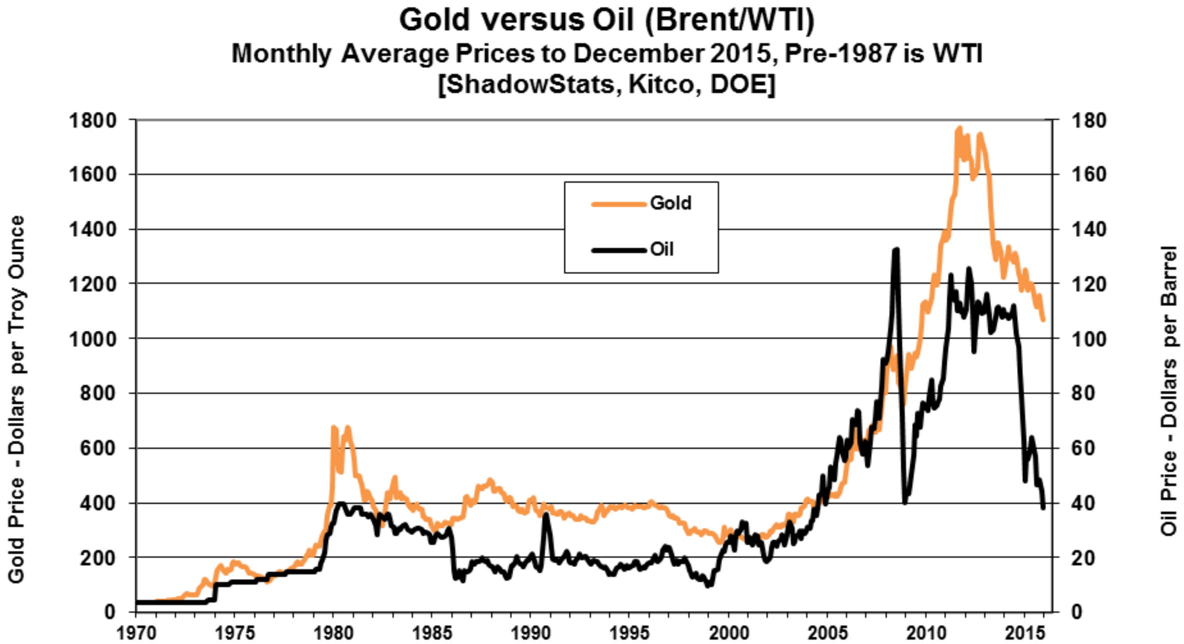
Graph 38: NOMINAL MARKETS – Gold versus Silver Prices (1970 - 2015)



Graph 39: NOMINAL MARKETS – Gold versus Swiss Franc (1970 - 2015)



Graph 40: NOMINAL MARKETS – Gold versus Oil Prices (1970 - 2015)



Real or Inflation-Adjusted Markets. In an environment with the Federal Reserve supporting the banking system and the stock market, domestic investors found their investment options severely limited in recent years, in terms of finding safe and livable returns. The following graphs show the monthly average levels of equity market values (S&P 500 and the Dow Jones Industrial Average), short-term Treasury yields, home values and gold and silver prices, all adjusted for headline CPI-U inflation.

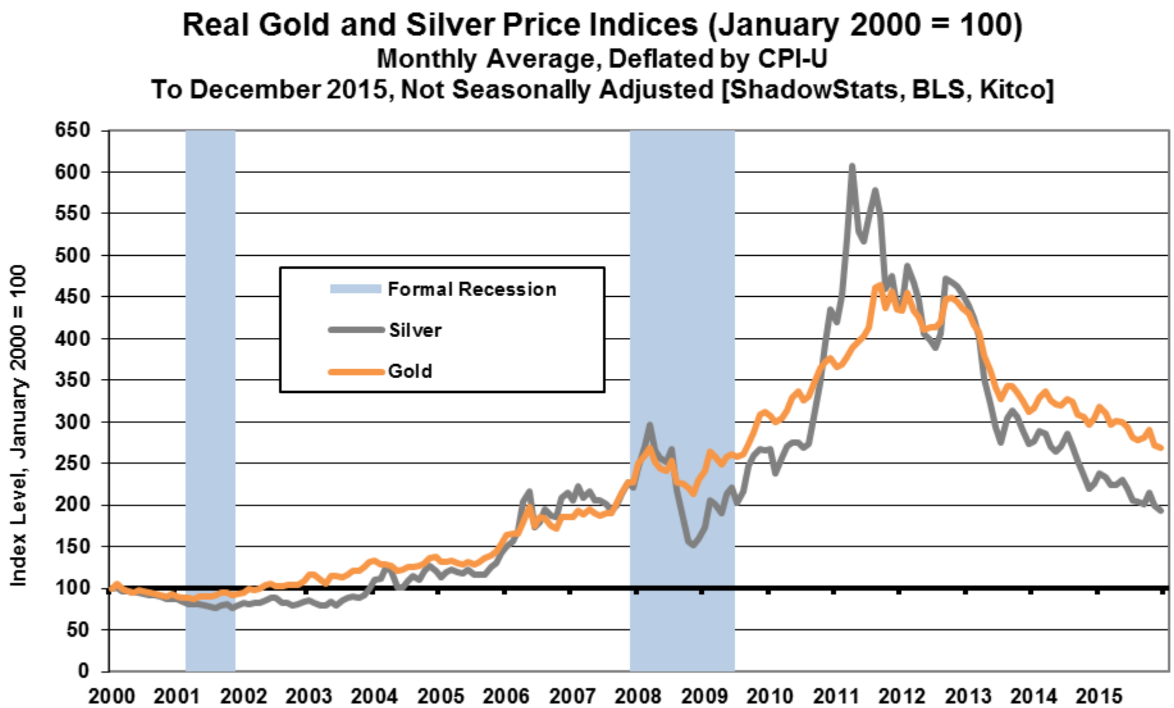
Not too surprisingly, despite the sharp declines in gold and silver prices of the last several years, the precious metals (*Graph 41*)—traditional inflation hedges—showed the strongest real returns since 2000, up well in excess of 100%.

The stock indices (*Graph 42*), adjusted for the CPI-U just broke above par in the last couple of years. Such excludes consideration of dividends. An average reinvested, dividend yield of two-percent would add about 37% to aggregate real return, still well shy of the precious metals.

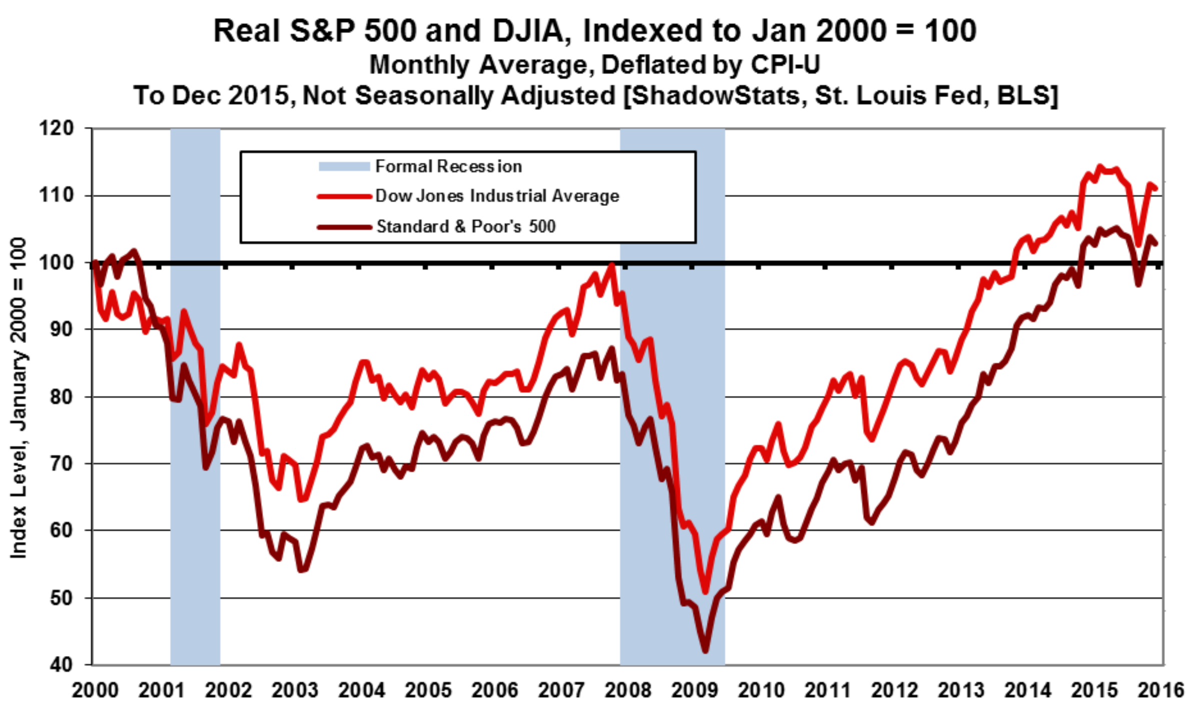
Net of annual CPI-U inflation, real yields on the “risk-free” three-month Treasury bill and the five-year Treasury note have been negative for the better part of the post-2010 period (*Graph 43*). With Treasury yields forced to artificially-low levels by the Fed’s quantitative easing, longer-term maturities will crash in price, when yields eventually move higher, in response to inflation and or to shifting Federal Reserve policies. Despite the recent hike in the federal funds rate, both the three-month and five-year Treasuries closed out 2015 with real interest rates declining (helped along by minimally-rising year-to-year inflation).

Real home values (S&P Case-Shiller) had gained more than 70% by 2006 (*Graph 44*), from 2000, but then crashed back to, but not below, 2000 levels in 2012, and now are up by something shy of 30% (again, these numbers are net of CPI-U inflation). Real estate is a hard asset and does tend to hold its value against inflation, as a long-term store of wealth. Against the precious metals, however, it generally is not quite as liquid, and certainly is not portable.

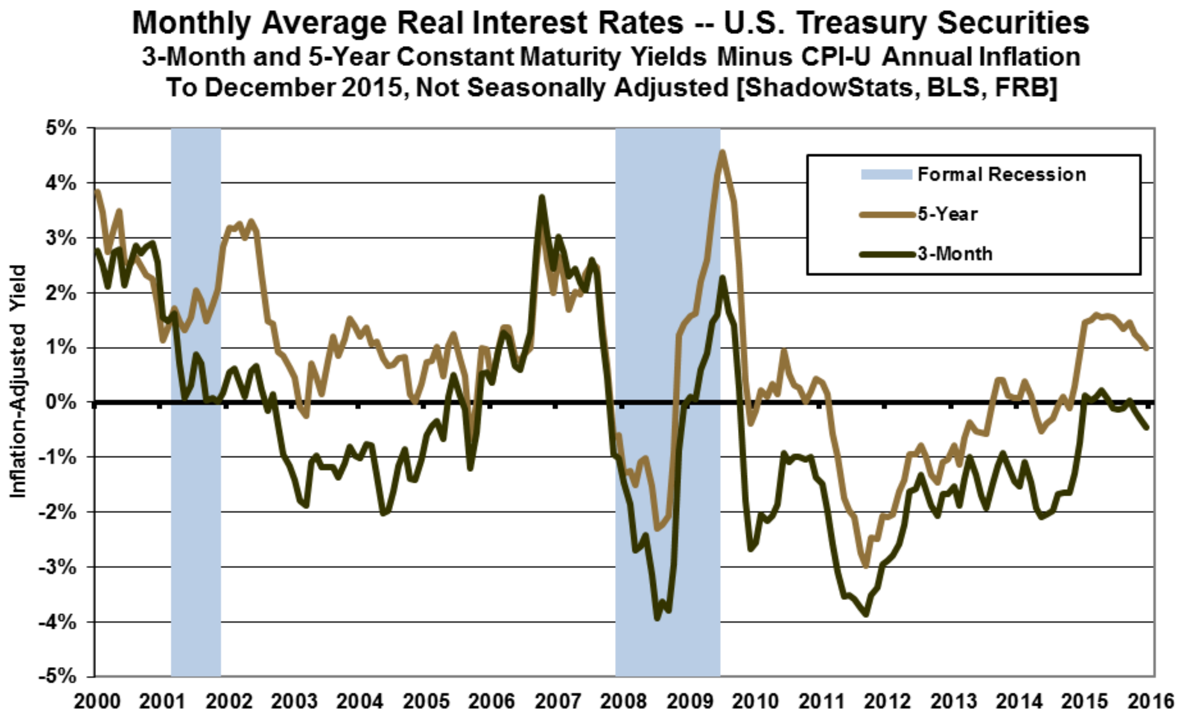
Graph 41: REAL MARKETS – Real Gold and Silver Price Indices (2000 - 2015)



Graph 42: REAL MARKETS – Real S&P 500 and Dow Jones Industrial Average Indices (2000 - 2015)



Graph 43: REAL MARKETS – Real U.S. Treasury Yields—3-Month and 5-Year (2000 - 2015)



Graph 44: REAL MARKETS – Real Home Value Index (2000 - 2014)