Richard Cluver **Predicts**

In our 31st year of service to the investing public of South Africa

Volume: 31

Issue: 36

07 December 2018

A headline in the New York Times this week read: Don’t panic, but part of the yield curve just inverted

The yield curve is the difference between interest rates on short-term government bonds and long-term government bonds. Every time since 1960 the yield curve has inverted in the United States — when long-term rates were lower than short-term rates — a recession has followed. And this week part of it just inverted. The spread between 3- and 5-year yields fell to negative 1.4 basis points on Monday, dropping below zero for the first time since 2007, and the 2- to 5-year gap soon followed.

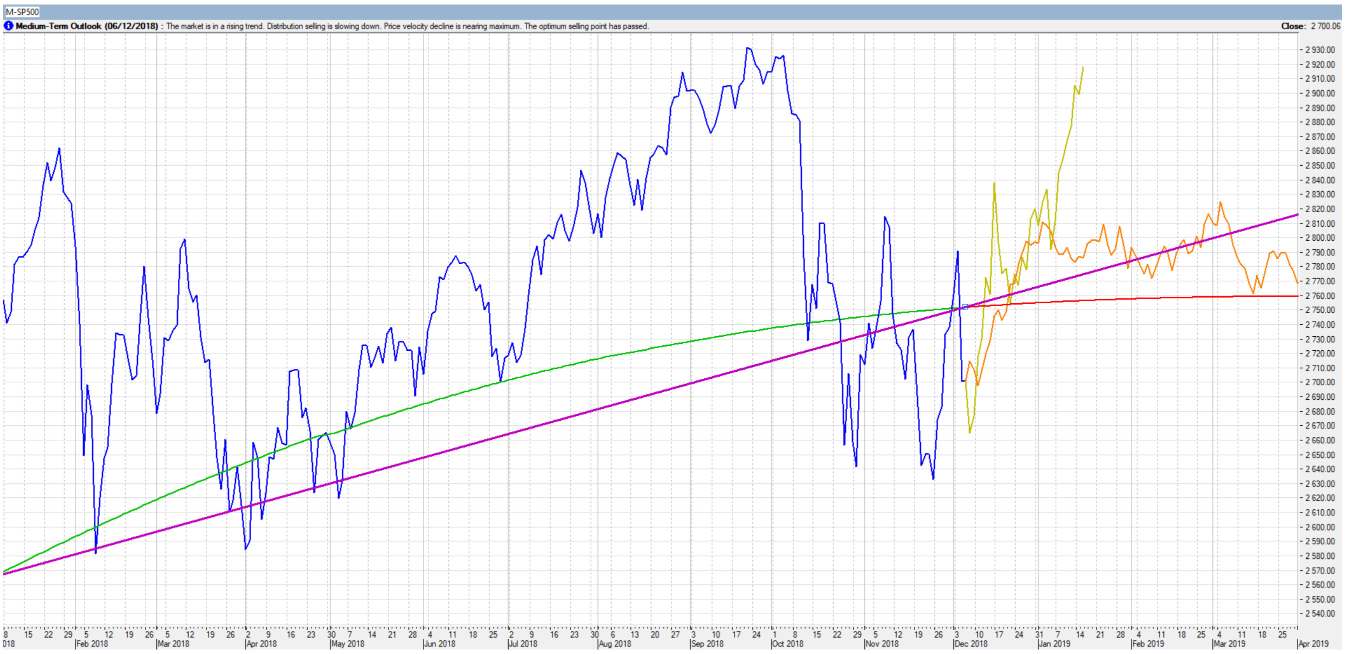
According to Brian Chappatta of Bloomberg Opinion It’s important to keep in mind the timeline between inversion and economic slowdowns — it’s not instantaneous. The yield curve from three to five years dipped below zero during the last cycle for the first time in August 2005, some 28 months before the recession began.

There has been much discussion in the financial pages this week attributing the volatility to the weekend meeting between the US and Chinese presidents which initially seemed to suggest a calming trend in the ongoing trade wars…and then renewed fears when President Trump once again took to aggressive Tweeting. However, these events do not in isolation cause the kind of volatility the markets have lately been witness to.

Let’s start with New York’s S&P500 Index below noting that the purple line represents the 10-year market mean, a line that has been rising since the 2008 financial crisis at a compound annual average rate of 9.6 percent a year to result in the longest bull market in US stock exchange history.

It should have ended in the second half of last year if ShareFinder's cycle projections had anything to do with it, but it was artificiality prolonged by tax cuts introduced by the Trump administration, cuts which were not accompanied by complementary expenditure cuts which means that the US national debt has continued its headlong rush into totally unchartered debt territory.

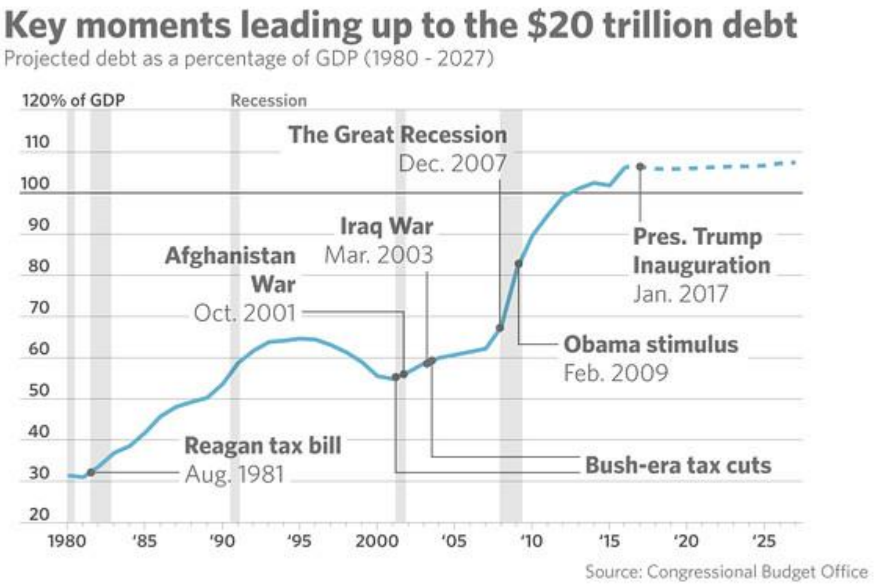
Since the beginning of October this share price volatility had wiped out all the gains of the past year. Then, since November 26 the S&P500 put on six percent and then lost half of that again with ShareFinder projecting that (yellow projection) the market will bottom again today before soaring to new heights in early January.



Such volatility is a vivid demonstration of the uncertainty gripping US investors as more and more recognize that the long-term gains made by the stock market do not reflect in their own pockets. Monetary manipulation by the world's central banks has, in addition to the massive paper debts that are accumulating all over the world, been leading the entire global economy into unexplored territory in which total collapse appears to be the only ultimate conclusion.

So, there is real fear gripping investors. To get a little understanding of this situation, readers should note that the US is not alone in this. Most of the leading nations have been building up massive debts. However, to consider just the US situation you should know that the US national debt, made up of a public debt of $15.8 trillion and intragovernmental holdings of $5.8 trillion, adds up to a total or "National Debt" of $21.6 trillion.

Official US figures put the debt held by the US public at approximately 77% of GDP, ranked 43rd highest out of 207 countries. However, the Congressional Budget Office forecast in April that the ratio will rise to nearly 100% by 2028, perhaps higher if current policies are extended beyond their scheduled expiration date. Furthermore, these figures do not take into account the consequence of unfunded liabilities like pension fund commitments by federal and municipal authorities which has led economists to infer that the real national debt is closer to 320 percent of GDP. The graph above traces how the US got itself into this mess after the 1970s when it became impossible to any longer to pass on its spending costs to its overburdened citizens in the form of taxes.



It's a lesson which South Africans need to take to heart this weekend as we grapple with the implications of Eskom's R400-billion debt which, it hopes, will be passed on to the Government; an intolerable move since it will almost certainly push us over the edge into "junk" status.

So, not surprisingly, our own market took strain this week with ShareFinder projecting a dire outlook in the short-term (yellow graph trace) for the JSE All Share Index. Furthermore, the medium and long-term projections agree with this as do all of the programme's supporting indices. We could be in for a very depressing ride at the start of the new year!

Happily, the ShareFinder Blue Chip Index has a distinctly more optimistic outlook. Though once again we see a yellow short-term projection headed downwards, the medium-term (red) projection is seen to recover after December 17 though ShareFinder does not at this stage see the gains reaching the levels we have recently seen.

It is clearly, in every sense of the word, a time for great investment caution; a time to gather cash!

The next month:

New York's SP500: I correctly predicted further gains until Monday followed by a brief retreat towards the end of the week and then gains for most of December and I continue to see short-term gains into mid-January.

London's Footsie: I correctly predicted another sharp decline. Now I see an imminent recovery lasting into January.

JSE Industrial Index: I correctly predicted an imminent down-turn. Now I see a recovery beginning early in the new week, but the volatility is likely to continue throughout December.

Top 40 Index: I correctly predicted an imminent decline which I saw lasting for most of December and I continue to hold that view.

ShareFinder Blue Chip Index: I correctly predicted weakness which I saw lasting until early January and I continue to hold that view though the upward turning point is very close.

Gold shares: I correctly predicted a brief up-tick, but the signs are now opposing one another, However I expect prices to be lower than present by year-end.

Gold Bullion: I correctly predicted another brief gain Now I see declines well into the new year.

The Rand: I correctly predicted a day or two of weakness before further gains which I now see beginning between today and early next week. They could, however, be over by the 13th.

The Predicts accuracy rate on a running average basis over the past 684 weeks has been 84.93%. For the past 12 months it has been 94.02%.

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