



Richard Cluver Predicts

In our 32nd year of service to the investing public



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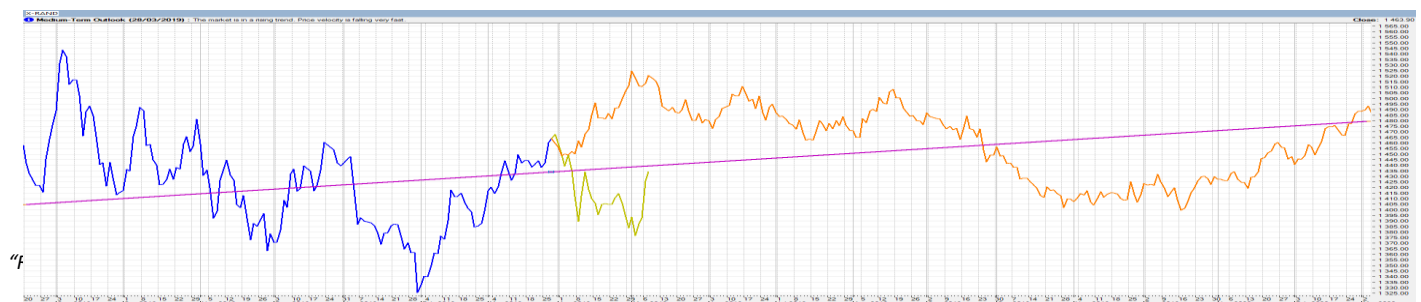
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Though local investors' eyes and ears will undoubtedly today be mostly focused upon whether or not ratings agency Moodys will opt to junk our sovereign bonds, profound changes are in fact happening upon the global scene which are of infinitely greater significance for investors everywhere.

In the unlikely case that Moodys should downgrade South Africa further than it already has (my opinion) the impact could result in a significant outflow of foreign capital because many foreign pension funds which hold considerable quantities of our high-yielding bonds, would be forced in terms of their investment mandates to relinquish their holdings and that would in turn both heighten our cash-strapped Government's current financial dilemma and further dent the value of the Rand. My indicators suggest the opposite is likely to happen.

In my first graph I have depicted the recent trend of the Rand which began weakening in late January on a combination of local and foreign events of which concern about the impending Moodys report coupled with a lack of clear direction by President Ramaphosa on issues like land expropriation have been a significant issue. Speaking to world leaders in Davos recently Ramaphosa insisted that foreign investments in South Africa were safe while back at home he has been preaching that the land issue and nationalisation of the Reserve Bank are prime issues on the ANC agenda.

So note that ShareFinder's short-term analysis of the likely track of the Rand projects (in yellow) that it will strengthen from today until early May. Do note, however, that the medium-term projection (in red) suggests that there will remain significant concern about the South African economy, and correctly so while issues like a clear plan for Eskom debt remain unresolved. In the longer term ShareFinder nevertheless sees the Rand continuing to oscillate about the purple long-term (25-year old) trend line in respect of which our currency tends to annually lose 3.8 percent of its value relative to the US dollar.



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Far more sensitive to investment sentiment, however, the ShareFinder Blue Chip index has been rising steadily since late October and this has more to do with international sentiment which in recent months has been largely driven by the US Federal Reserve which for most of last year was continuing to telegraph the need to steadily increase interest rates. Note furthermore that although ShareFinder has for many months been signalling a market decline in early May (long before we knew when election day would be held) the date for a projected bear phase of the JSE has now moved to May 14. In addition, though market recovery is still slated to begin in early August, ShareFinder has begun revising its views about the likely magnitude of the post-election market decline with only about seven percent now being predicted. Nevertheless ShareFinder currently calculates that it will be late October before the market again matches the levels it is likely to attain in early May:



Turning to US markets, the US Federal Reserve has now made a complete about turn relative to its monetary policy stance in 2018. The prospect of at least three hikes last year and the ongoing quantitative tightening saw investors spurn emerging markets in favour of US growth assets. The US also offered the promise of higher risk-free rates and this translated into a stronger dollar, which put pressure on emerging market currencies and portfolio flows.

Then last week the Fed confirmed with its much-anticipated dot plot that it now plans to maintain official interest rates at low levels until economic evidence suggests otherwise. With the Fed still setting the tone for global monetary policy and other developed markets also feeling downward economic pressure, it seems the lower-for-longer interest rate environment is likely to prevail for at least the next couple of years.

The consequence of this now confirmed new policy stance is that developing markets like those of South Africa with our traditionally higher yields are likely to once again find favour with international investors. It is a major opportunity for this country provided we can develop some sound and unchanging investment-friendly policies. To capitalise upon these, we will need to actually show that we are serious about ending our hopeless levels of corruption by making examples of some high profile politicians by putting them into orange overalls and to prove that we are serious about the privatisation of state-owned entities.

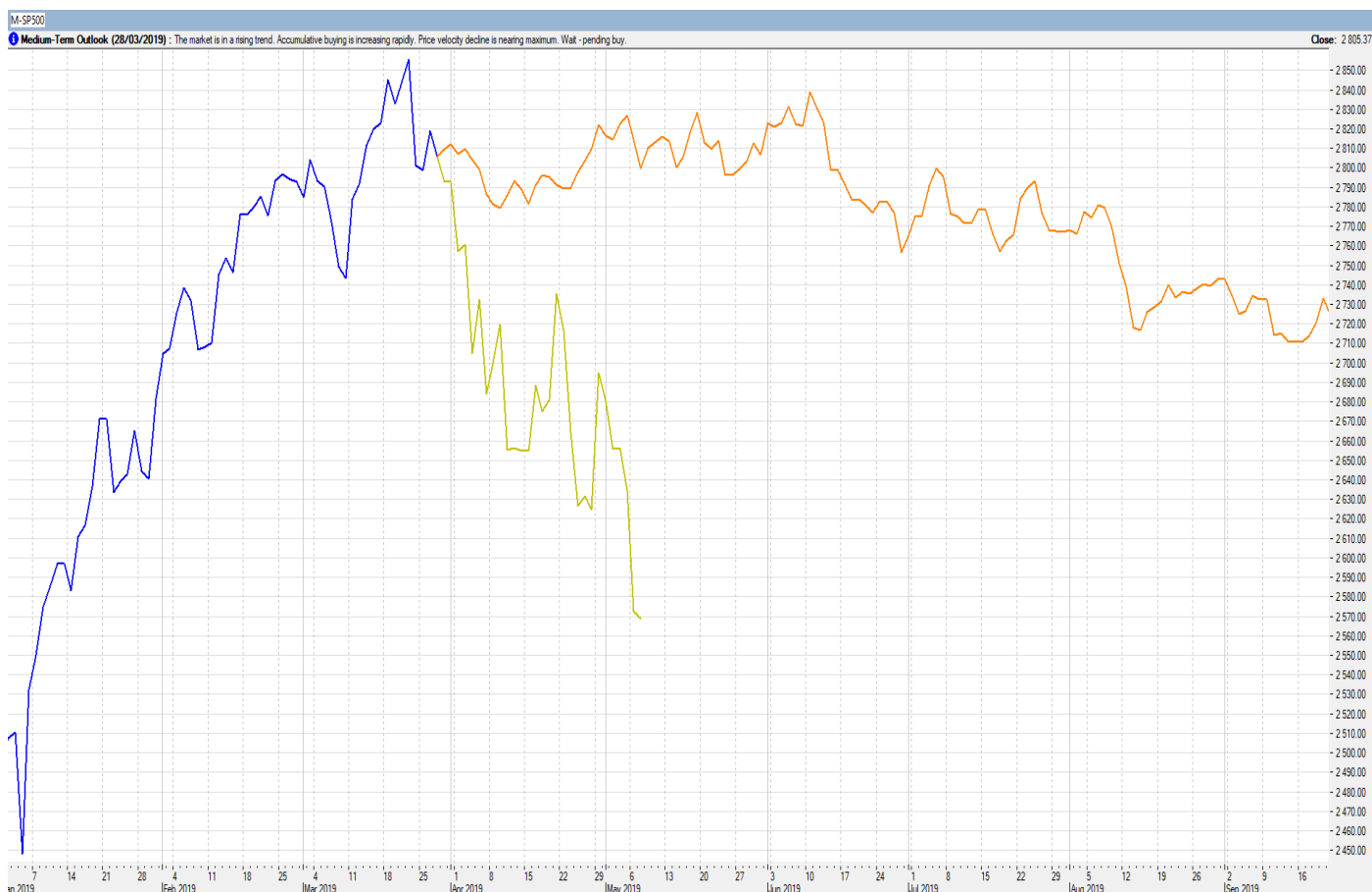
Given the massive uncertainties now dominating First World countries, like the on/off moves to impeach US President Donald Trump, the chaos of Brexit which is paralysing Europe and the uncertainties of the Chinese-US trade talks, countries like South Africa have begun to look far more attractive than they have for some time, offering us a golden opportunity which might just as

suddenly be snatched away from us if we continue to place politics above the welfare of ordinary folk in this country

Cyril Ramaphosa has made some very sound moves in that direction by his appointment of Advocate Shamila Batohi to head the National Prosecuting Authority and, this week, Mr Edward Kieswetter as the new head of SARS. As the right-hand man during Pravin Gordhan's ten-year cleanup of SARS during which that organisation was hailed as a global example of good governance Mr. Kieswetter established the Large Business Centre and High Net Worth Individual Unit, leading to both compliance and revenue collection improvements. As Group Chief Executive of Alexander Forbes Group Holdings he achieved a significant turnaround of the group, with particular attention to governance, integrity and restoring the group's reputation.

Bearing in mind that the chaos of Tom Moyane's reign in that office was the direct cause of the VAT increase which has so badly burdened South Africa's poor, the fact that Kieswetter has reportedly hit the ground running with a promise to rapidly deliver a functional service once again is the kind of ammunition the influential agencies like Moodys need if they are to continue looking benignly upon us.

Meanwhile in the US the trend-setting S&P500 Index took a tumble this week, more because investors have for some time been sensing that the end of the longest bull market in history is likely in the not too distant future and now, a second manifestation of a bond yield curve inversion has provided the proof that a recession is likely in the not too distant future. ShareFinder sees Wall Street trending downwards for most of the present year and that is a game-changer for markets generally. My graph below depicts ShareFinder's prediction for Wall Street in the months ahead:



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The next month:

New York's SP500: I was premature a fortnight ago when I predicted the beginning of a pull-back which took a few days more to manifest but absolutely correct last Friday when I warned about a worsening situation. All indications are now heavily weighted for declines until mid-September.

London's Footsie: I correctly predicted a continued decline that is likely to last until mid-September.

JSE Industrial Index: I correctly predicted the start of a major decline which could last until August 6.

Top 40 Index: I correctly predicted the end of a decline with a recovery that I saw lasting at least until April 4 and possibly on until May 8 followed by a decline until August 13.

ShareFinder Blue Chip Index: I correctly predicted a recovery which could last until May 13.

Gold shares: I correctly predicted a decline which I see lasting until late May.

Gold Bullion: I correctly predicted declines that are likely to last until late November. In the short-term a brief recovery could last from April 5 to the 18th.

The Rand: I wrongly predicted that the recovery could last until April 5. However, as I said at the opening this week, the signs are divided between a short term recovery and a longer-term weakening. It is in the hands of the politicians in a finely-balanced market.

I cannot leave this column without noting that last week we completed our 700th observation of our weekly market predictions in which, as always, we have correctly predicted the likely forthcoming trend of eight different markets and during which we have watched our forecast accuracy rate climb steadily to its current 92.19 percent – wrong only a little more than seven times in every hundred predictions.

We are aware that our new SF6 programme is capable of achieving even greater rates of accuracy which is why we believe that every serious investor globally is likely to avail themselves of it as, in the months ahead, we roll its analyses to the biggest share markets in the world.

To our South African readers who have long shared this development phase using the South African version, we thank you for your loyalty over the 17 years since we began measuring these predictions. We sincerely trust that your use of these columns and the ShareFinder software has enriched you as much as our sample portfolios have performed.

We were among the first globally to use artificial intelligence to predict the course of investment markets and are delighted by the growing accuracy of the programme results.

The Predicts accuracy rate on a running average basis over the past 701 weeks has been 85%. For the past 12 months it has been 92.19%.

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