Richard Cluver Predicts

In our 32nd year of service to the investing public

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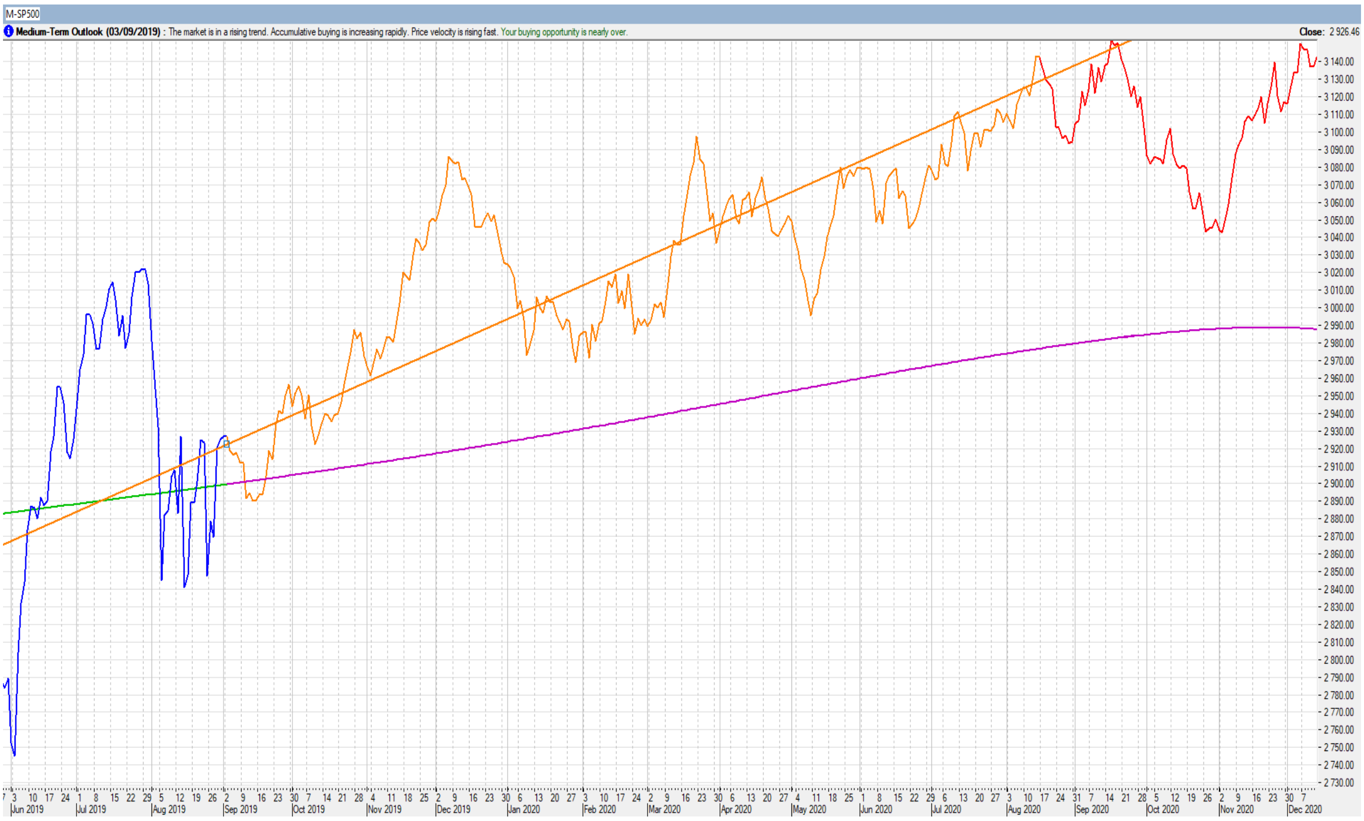
With signs everywhere that share markets have been bottoming after the August bear phase predicted over a year ago by ShareFinder's artificial intelligence systems, readers have begun asking about the longer term ahead. Could ShareFinder suggest how long we might have until the next seismic shock to the global investment system?

Well let me start by emphasising that the further we attempt to peer into the future the less the predictive accuracy of the system and more particularly with regard to the magnitude of the likely event. That is why, whenever I attempt these long-range forecasts I prefer to always return to them on a periodic basis in order to monitor the horizon changes.

Nevertheless, let's start with Wall Street's Standard and Poor's 500 Index which is the indicator that generally leads the world, noting that ShareFinder is predicting dips between this December 6 and January 30 and then another between March 23 and May 11 with the likely largest dip between September 17 and November 3 next year. Here I should add that, although a recovery is slated to begin at the end of next year the September-November dip is likely to be the precursor to another more protracted bear phase later in 2021. The graph below outlines what ShareFinder sees:



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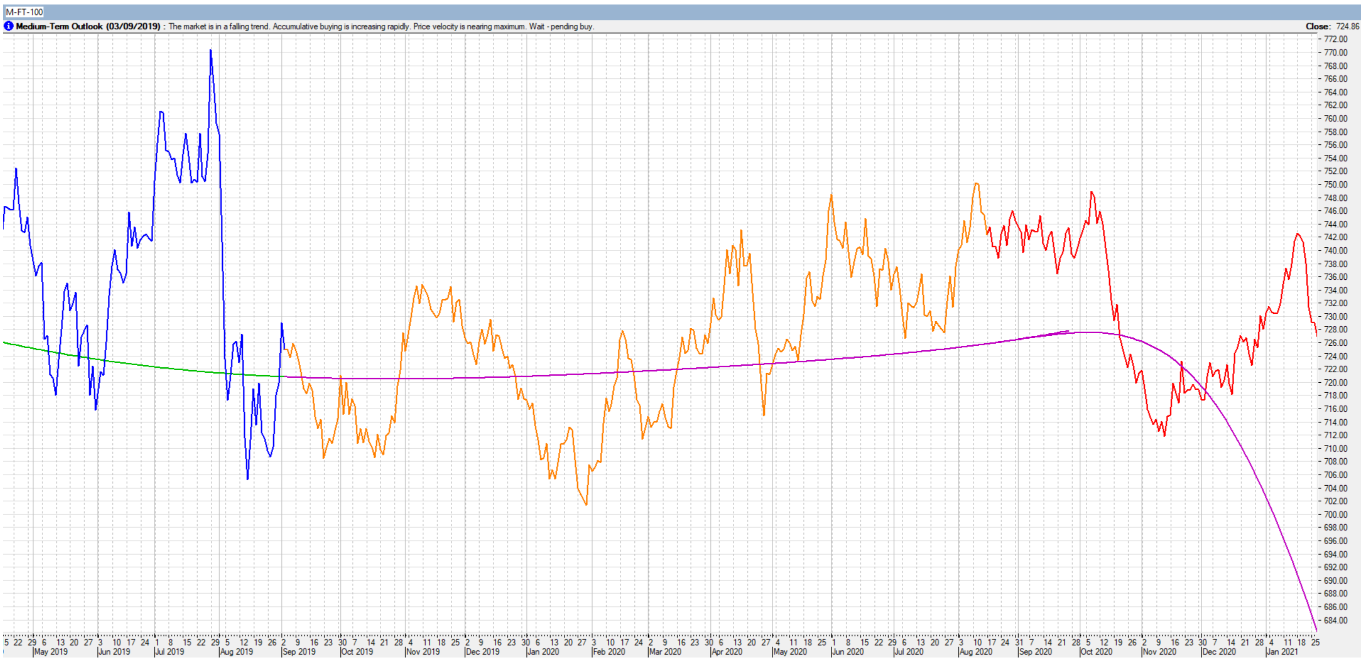
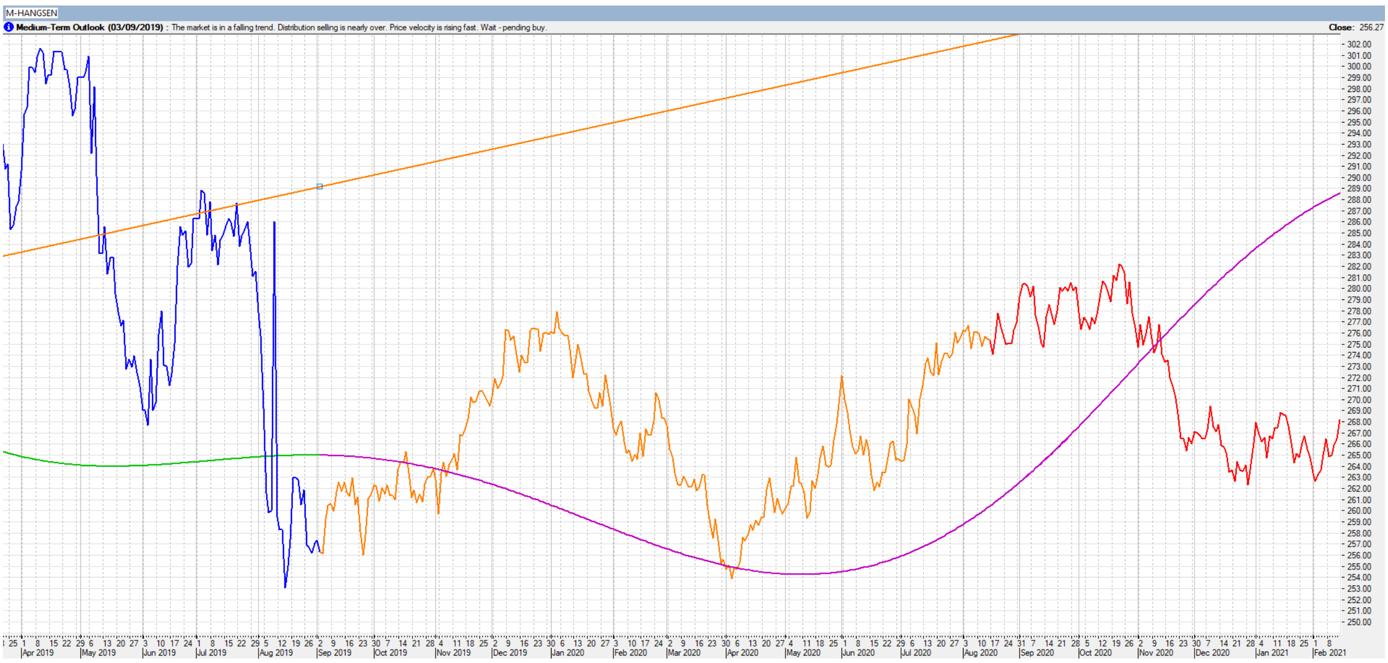
Turning to London, uncertainty over the Brexit issue is likely to dog Europe as a whole until late next January but thereafter a recovery appears likely until early August 2020 when the first tremors of a global system shock are likely to begin to be felt. However the London market appears likely to only go over a cliff from early October 2020, enjoy an interim recovery from mid November to mid-January and then grow steadily weaker. Below I have reproduced ShareFinder's projections for the UK share market up until January 2021:



Interestingly, Far-Eastern markets appear likely to be going through their worst blood-letting currently. Nevertheless they are projected to recover from now until early January and then reverse downwards until early April. There too, a Wall Street-induced phase of weakness appears likely to happen between the end of October next year and late December but, as the purple line of ShareFinder's long-term projection suggests, this latter decline is likely to be merely a Western-induced knee-jerk for a sustained super-cycle recovery trend that will already be under way in those markets, associated perhaps with the Chinese economy overtaking the US on a GDP basis and becoming the home to the International Monetary Fund.



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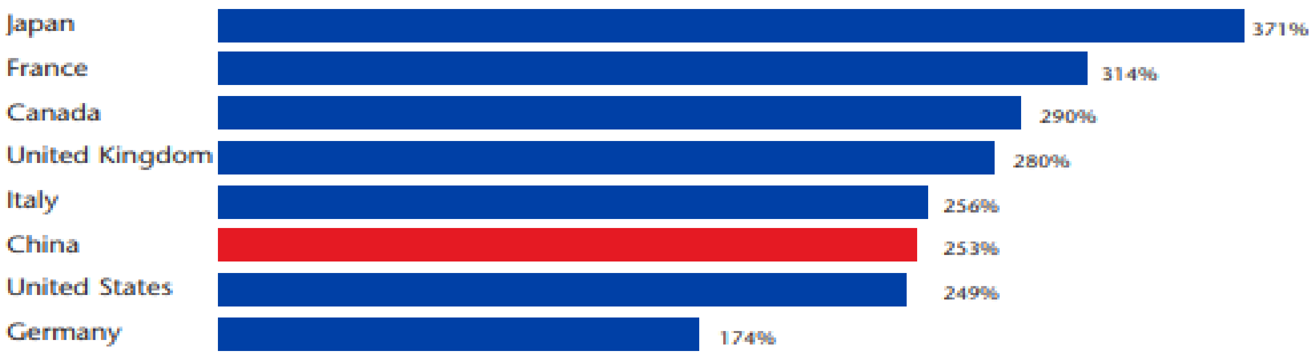
I stress again that these are ultra-long-range projections but they do accord with the broader stream of economic events that are likely in geopolitics and global economics. The US China trade war must be resolved within the next few months if President Trump is to have any hope of being re-elected for a second term of office. However, there is a growing body of economists who fear that Trump has already pushed events too far towards an irrecoverable outcome. Bond yields have completely inverted on Wall Street which implies a high probability of economic recession in the US within the next 18 months and this fact together with the long-observed fact that markets talk themselves into outcomes is increasing that probability.

As a result the Trump administration might, in turn feel obliged to take some relatively drastic structural steps and if this results in what amounts to excessive oil upon the water that leads in turn to an inevitable subsequent wave of inflation, the consequence might be dire. If in the consequence the US loses its reserve currency status and is no longer able to thus manipulate dollar strength, then something worse than the Great Recession of 2008 might be anticipated.

Could this be what ShareFinder is seeing in that first graph? I sincerely hope not but I cannot ignore the fact that US debt is now thoroughly unsustainable. If Trump's efforts to get himself re-elected do lead to a landslide of economic events and the US does indeed lose its reserve currency status to China, then it will no longer be able to print its way out of trouble and a depression could be the probable outcome.

The following graph reproduced from the August issue of The Investor makes it clear how parlous are the economic positions of the world's leading economies. At these levels of debt it is in most cases a matter of time before all government revenue will be insufficient just to pay the interest on national debt. Something has to give and it is likely to do so quite soon!

Figure 4. DEBT-TO-GDP RATIOS FOR G-7 AND CHINA, AS OF JUNE 30, 2018



Source: BIS

The month ahead:

New York's SP500: I correctly predicted a consolidation before entering another 12 months of recovery with a next weak phase is likely between mid-December and mid-January and I still hold that view.

London's Footsie: I predicted the market would head for an interim bottom in September but that it should be over by early October with the final bottom unlikely before late January and I continue to hold that view.

Hong Kong's Hangsen: I correctly predicted that a recovery would begin from the end of this month and that process now appears to be under way with the next peak likely around early January.

JSE Industrial Index: I correctly predicted the recovery would continue and I now see it likely to peak between the 16th of this month and October 2 before declining somewhat until mid October with another up-phase following until early November.

Top 40 Index: I correctly predicted a recovery which I now see lasting until September 19 before entering temporary weakness until October 25 ahead of the next up-phase until mid-December.

ShareFinder Blue Chip Index: I correctly predicted gains which I still see lasting until mid-December followed by declines until early March.

Gold shares: I correctly predicted a recovery which I still expect to last until mid-December but overlooked an interim decline which could last until the end of this month.

Gold Bullion: I correctly predicted a peak around September 5 with the following decline lasting until late November when a brief recovery appears likely followed by a protracted decline into 2020.

The Rand/US Dollar: I correctly predicted the start of a recovery which I still see it lasting until mid-December.

The Rand/Euro: I correctly predicted that the Rand would continue strengthening relative to the Euro and I continue to expect that to continue until mid October followed by weakness until early December when a brief recovery appears likely and then a protracted decline until July next year.

The Predicts accuracy rate on a running average basis over the past 712 weeks has been 85.26%. For the past 12 months it has been 94.84%.

Richard Cluver