Our Weekly Paid Newsletter

Richard Cluver Predicts

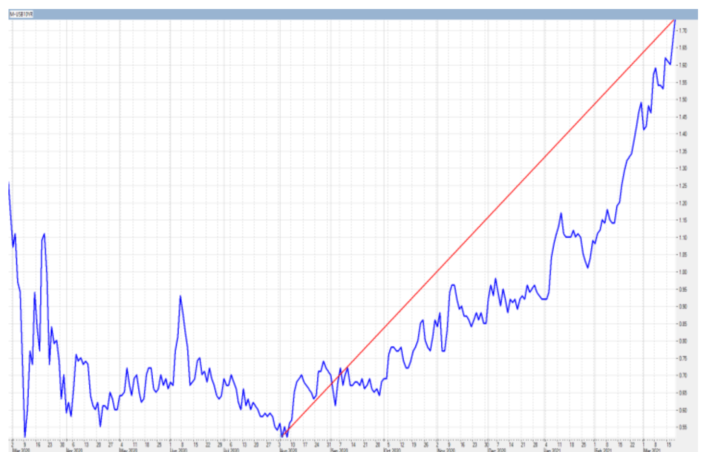
In our 34th year of service to the investing public of South Africa

Volume: 34
Issue: 12

26 March 2021

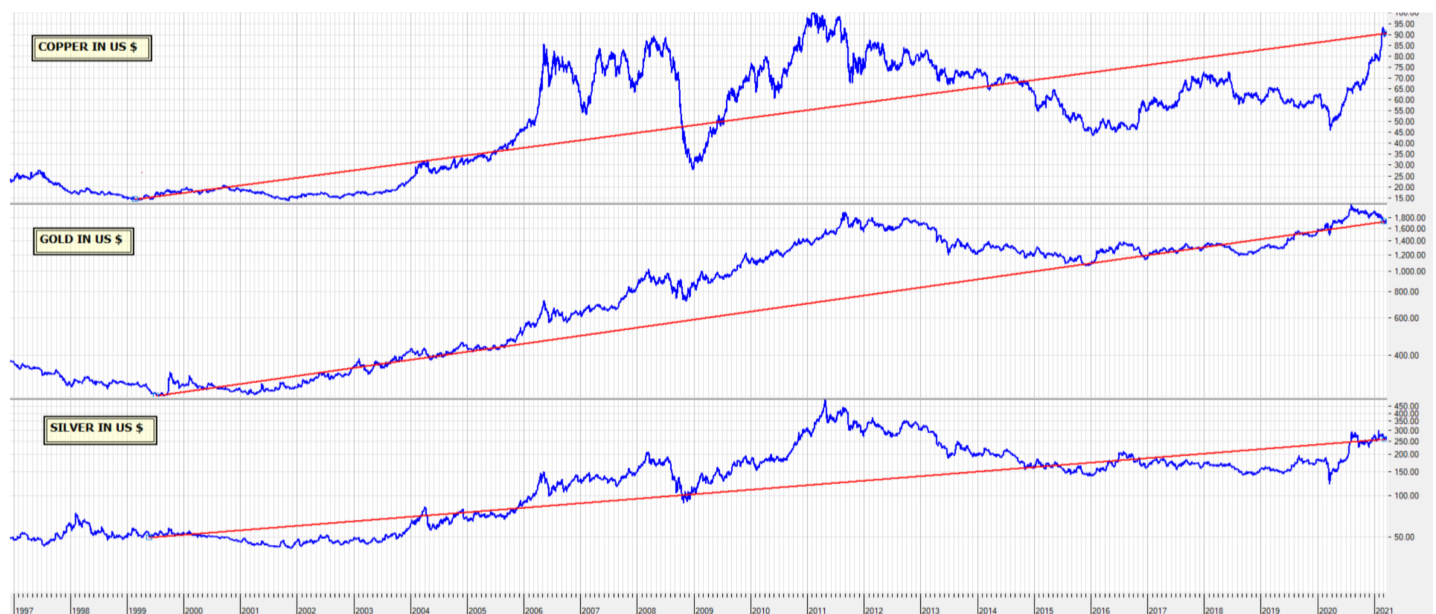
Several readers were dismayed by my strategy remarks in recent issues in which I have argued for the prudent approach of taking a little money off the table to create a 'War Chest' lest the bubble in world share markets burst sometime in the not too distant future.

There is, of course, a natural instinct to sit with 100 percent exposure to markets when they are running hot and your wealth is rising perceptibly by the day, and I am certainly not advocating a complete sell off. My strategy is to take ten percent now and aim for another 20 percent over the next year. So one should remain 70 percent in the market in its final stages when the biggest gains – and of course, ultimately the biggest losses – are made.

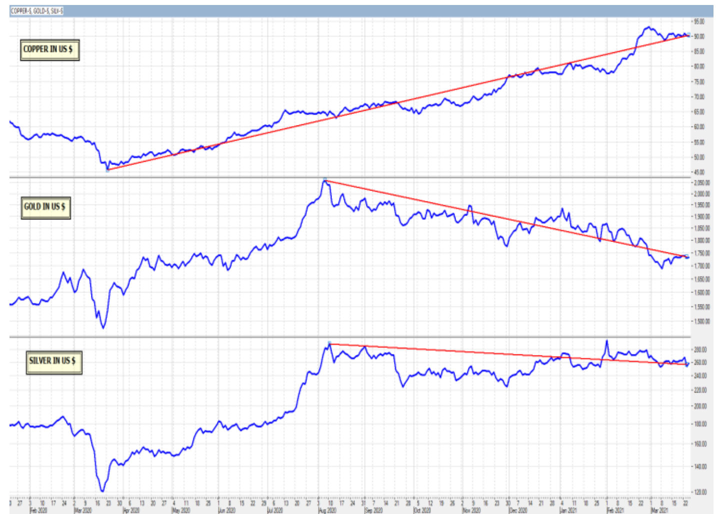


In the short term, if you follow Wall Street discussion groups, there has been rising concern that the Biden stimulus has ignited inflation which is, of course, a positive factor for share markets but very negative for bonds. So it is hardly surprising that US long bond yields have been rising strongly as indicated by the compound 594 percent annual rate of gain demonstrated by US 10-year bond yields in my first graph on the right; up from 0.52 percent last August to a present 1.73 percent as investors rush to dump their holdings.

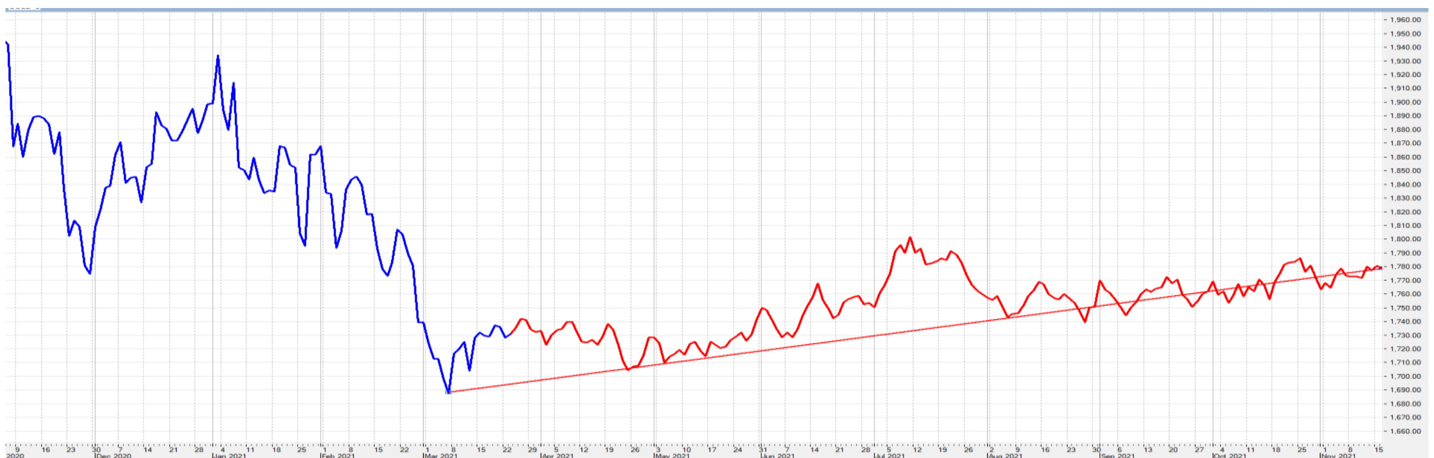
Precious metals provide one with a good long-term measure of the real loss of value of a currency and so in the following graph it is worth noting that, notwithstanding an infinitely lower official US inflation rate as measured by CPI at of 1.4 percent for all items in 2020 and a 20-year average of around 2.5 percent, the dollar has been losing ground at compound 9.2 percent against gold since 1999, 7.9 percent against silver and 8.8 percent against industrial-use copper. That is an average of 8.63 percent or three and a half times the official rate!



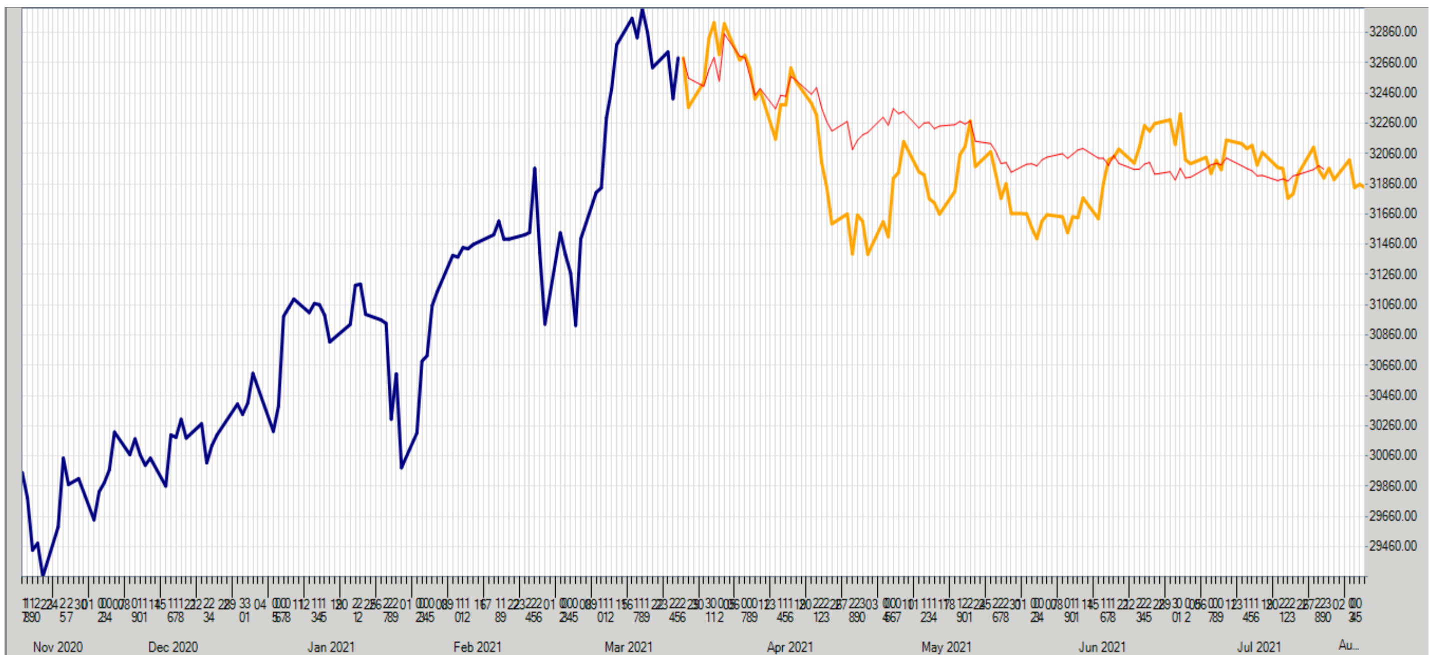
Interestingly, despite all the discussion and fears of a share market bubble, both gold and silver have been falling in price since August at compound 24 percent and 18 percent respectively while copper for industrial use has been soaring at compound 97 percent in the past 12 months indicative of an anticipated rapid economic recovery once Covid-19 is behind us.



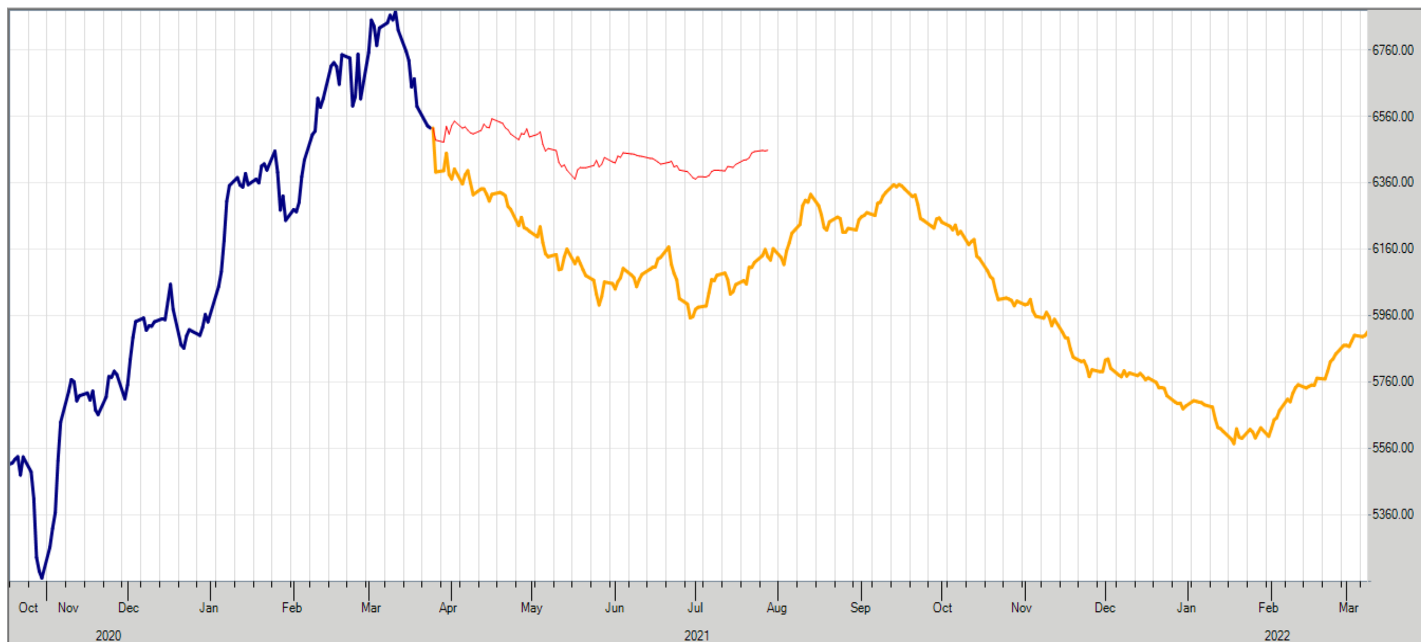
All of which suggests to me – as I have long maintained - that in the short-term the share market bubble is likely to continue rising. Fears of a share market collapse almost always translate into rising precious metal prices and, while it is true that gold has begun to recover since bottoming on March 8 and ShareFinder projects a continued gain at compound 7.8 percent as depicted in my second graph on this page, it is too soon to suggest this is a full-blown direction change!



What is clear, however, is that in the short term ShareFinder correctly projected a Wall Street share price decline which it expects to continue until early May as the Dow Jones Industrial Index projection below makes clear. But this is unlikely to be the “Big One” which might still be as much as a year away!



Turning closer to home, ShareFinder also correctly projected that the JSE All Share Index would decline and, as my next graph clearly illustrates, the decline is likely to continue far longer than Wall Street; probably to the end of June before there is a three-month up-tick and then further losses after September into the New Year.



ShareFinder is similarly pessimistic about the British market as represented by the FT-100 Index which is similarly in descent and likely to continue doing so at least until the end of the year if the programme is correct.

Do enjoy your weekend

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The month ahead:

New York's SP500: I correctly forecast a recovery which I still see lasting until late May and then a decline to early August followed by another recovery until next January. I did not, however, see a short-term decline coming but that is now over until the next one in the third week of April.

Nasdaq: I correctly predicted a rising trend which I expect to continue until as late as mid-September but in the short-term I see a decline for most of April.

London's Footsie: I wrongly predicted volatile gains until mid April and then a steep decline until mid-October. Now I see losses till mid-June followed by a short gain until July followed by long-term losses.

Germany's Dax: I correctly predicted gains which I still see lasting a week or two ahead of a decline until mid-June.

France's Cac 40: I correctly predicted the recovery would continue towards a peak in mid-April ahead of a long decline until late December and I still hold that view though short-term weakness could continue to the end of the month.

Hong Kong's Hangsen: I correctly predicted declines until early April when a six-week recovery is likely ahead of a long slide down to mid-July.

Japan's Nikkei: I correctly predicted a new up-phase which I hoped would last until mid-April before turning down until mid-June. However, it has come sooner than I expected and likely will continue for all of April.

Australia's All Ordinaries: I correctly predicted a strong up-tick to mid-May and thereafter a fresh bear phase until mid-September... and my views remain unchanged.

JSE Top 40 Index: I correctly predicted the start of a long declining phase until July when I expect a volatile recovery phase will begin.

ShareFinder JSE Blue Chip Index: I correctly predicted the beginning of a volatile decline which is likely to be over my mid-week followed by a recovery until mid-April when the next long decline should start and last until September.

Rand/Dollar: I correctly forecast weakness until the first week of April followed by volatile gains until the end of June.

Rand/Euro: I correctly forecast the beginning of a brief recovery. Now I see weakness until the end of the month followed by gains until mid-April when another volatile phase of weakness is likely until mid-June. Overall, however, the trend will be in favour of steady gains until early December.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.1 percent. For the past 12 months it has been 93.21 percent.

Too much of a good thing?

Andrew Ross Sorkin of the New York Times

With the end of the pandemic coming ever closer and the Biden administration pouring trillions into recovery initiatives, economists are debating whether the government risks going too far, stoking runaway inflation. But as our colleague Neil Irwin at the Upshot asks: How will we know if the economy is running too hot?

Economists acknowledge that some rise in inflation is inevitable, as demand for certain goods and services outstrips supply. (Other events, like strained supply chains, are also pushing up prices.) Where they disagree is over the severity of the inflation that will result:

- The Biden administration and its allies think that prices will recalibrate, unemployment will fall and inflation will stabilise at a manageable level.
- Sceptics worry that people will believe elevated inflation is the new normal, leading to climbing prices, demands for higher wages, a weakening dollar and higher interest rates on government debt. That could prompt policymakers to intervene forcefully — and set off a recession.

Ten economists explained what the warning signs of an overheating economy would look like. A summary of common themes:

- Several, like Greg Mankiw and Jason Furman of Harvard, said they would start to worry about several years of inflation above 3 percent.
- Others, like Austan Goolsbee of the University of Chicago and Claudia Sahm of the Jain Family Institute, are looking out for a significant acceleration in inflation, as happened in the 1970s.
- Wendy Edelberg of the Brookings Institution is watching for signs that people believe an economic overheating is permanent, like a housing and construction boom and high readings in the five-year, five-year forward inflation expectation rate.
- Larry Summers, who recently kicked the debate into higher gear, thinks there are roughly equal odds that everything will turn out fine, that ever-rising inflation will set in and that the Fed will crash the economy to stop that from happening.

Behind the scenes, markets are pumping

Despite media reports of job losses and slumps, there is furious activity that some indices are revealing accurately

While there are standard indices such as the Nasdaq, the Dow Jones and the Nikkei, which are popularly traded on, there is also a lesser-known index called the Russell 2000.

I find this interesting because it is made up of smaller to mid-level-sized companies that are fuelling the market. These companies are more entrepreneurial. It's quite novel. These are smaller companies that are on the edge of technology, such as NVidia and KLAC. They are taking advantage of incentives the central banks are providing right now and flying high.

The truth is, the unemployment numbers we're seeing around the world may be a bit fictitious. The reason for this is that there are so many people who hold jobs that are kind of transitory, such as waitering or other hospitality jobs. And this is part of what is fuelling the market at the moment.

I don't think it's quite as bad as the media might have us believe. By and large, people are still paying their bills. And the markets are really trading in unison internationally. If you look at most of the indices around the world, they're close to all-time highs. The Nasdaq is trading within about 600-700 points of its all-time highs. And the Dow Jones is within about 200 points of its highs.

The question is, why? It's quite simple, really. There are a lot of things being tinkered with behind the scenes. We are in the midst of a pandemic and companies are operating on a lower flame. The Fed is allowing companies to borrow money from central government at lower rates. And while this is artificial, it is stabilising the markets. Governments are sustaining the indices so that jobs aren't lost and economies don't fall apart.

In the US, we had a transition from Donald Trump to Joe Biden. And these administrations could not be more different. Due to Biden's policies, shares in car companies committed to electrical transformation, which are looking at doing away with fossil fuels, have seen incredible growth. Overall, the energy sector has been given a huge boost. And China is investing heavily in hydrogen-powered vehicles. We are making the transition to sustainable energy in a very aggressive way. It's not just Tesla that is doing well.

Another noteworthy point is that gold has been in a very conservative position for the type of environment we are in. And while gold is close to its all-time highs, it's not where I would expect it to be. This is probably because central governments have been really good at keeping monetary momentum going in the global economy. And it's a very delicate situation, because if the stimulus packages are stopped, it may negatively affect the markets.

Gold is always a good benchmark to measure where markets are at any given time. It is seen as a "safe bet" in tough economic times and many traders turn to it when the world economy looks to be in trouble. That said, overall, markets will probably see a lot of movement in 2021. In many respects, 2020 was an unusual year, as we all know too well. And as the world begins to pick up the pieces this year, there are many factors that will affect the trading landscape. We're likely to discover the true effects of unemployment on the global economy in the months to come. In the US, big business will probably be under more financial pressure as Biden's policies come into effect. And while I don't like to use clichés, we should be prepared to expect the unexpected.

As travel and work restrictions are lifted with vaccines rolling out, oil should begin to recover. And health-care manufacturing will perform robustly on the stock exchanges. Last year saw an immense boom in the stocks of large digital players such as Google and Facebook. But I think the US government's proposed antitrust legislation lawsuits are something to watch in this regard.

Sometimes we forget that, primarily, the economy is fuelled by consumers. The Consumer Confidence Index is an oft neglected value, but it is a very important number. Consumer sentiment is a vital factor to consider that can't be overlooked. And if you look at the Consumer Confidence Index, there is still a relatively healthy balance. Even though there are parts of the market that are underperforming, others are doing exceptionally well — particularly real estate. Real estate acquisitions, stocks and exchanges are high globally, relative to the environment we are in. Interest rates are low, so there is robust market activity.

The markets are hurtling through the stratosphere in the pandemic. And we are certainly seeing a lot of activity that might be considered unexpected. The trading environment is more interesting than ever. But there is ongoing momentum in several sectors. I think the next six months to a year will be very telling in terms of where exactly we will end up in space and time.

• *Razak is chief trading strategist at CMTrading.*