



Our Weekly Paid Newsletter

Richard Cluver Predicts

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The “shock” five percent increase in US inflation which I discussed at some length in this month’s Prospects newsletter, has had its predictable impact upon stock exchanges which have effectively stalled while investors worldwide weigh the consequences.

For the nervous among them there are logically flutters of mild panic lest this spell the likelihood that the longest share market bull market in living history has come to a sudden and abrupt end. And for this category I have as a messenger to accept some blame for, in part, being responsible inasmuch as I have been warning for some time that markets are over-priced. I have, furthermore, sold down weaker holdings in the share portfolios I preside over and have created quite high levels of cash.

In this I am reminded of the view of my very wise editor Michael Green when I was his assistant on the Daily News in Durban and when, in 1987, I was convinced that a share market crash was imminent and urged him to give front-page prominence to a warning story. Michael’s sober response was that he would not want his newspaper to be the cause of a crash and that while he considered it appropriate to issue cautionary messages to our readers, they should be done in a responsible low-key manner.

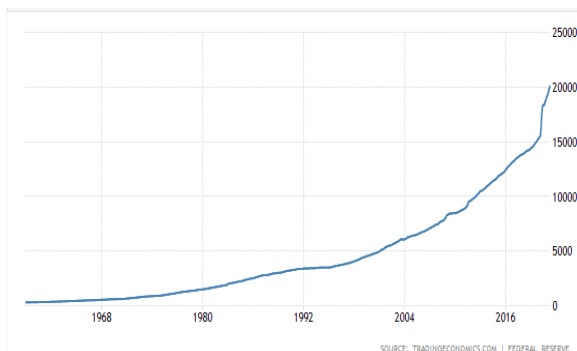
Now let me stress that I do not believe a catastrophic market collapse is imminent though the US inflationary increase has surely been a wake-up call for many occupants of Cloud Cuckooland who always appear to believe that bull markets can go on forever delivering spectacular price gains for securities which often boast extremely doubtful credentials. The dramatic up and down price movements of a certain US music store chain at the behest of a youthful group of ‘Reddit’ speculators has surely put that view to the test in recent weeks.

One cannot, however, attribute the same quality criticism to the royalty of the new blockchain currency phenomena like Bitcoin which, note the graph on the right, have lately gone through the same massive volatility. It is hard to fault the rationale behind the emergence of Bitcoin and other associate cryptocurrencies which owe their popularity to a growing acceptance that world monetary authorities have acted with increasing irresponsibility in the extent to which they have employed the printing press as a monetary gusher to create history’s greatest-ever increase in global money supply.



Many will of course argue that the central banks had no alternative given events starting with the “Asian Flu” crisis which plunged a chain of far-eastern nations into technical bankruptcy in the late 1990s, followed by the “Dot Com” share market bubble which had seen the Nasdaq rise five-fold between 1995 and 2000 before crashing on October 4 2002. Then followed the “Sub Prime mortgage crisis” which triggered the 2007-2008 global financial crisis and, of course, the current Covid-19 pandemic which has offered the global economy its greatest shock since the Wall Street crash of October 24 1929.

But, as my graph on the right illustrates, they have been pumping up the global money supply throughout and the logical consequence has to be runaway inflation. That's economics 101. The only reason it has not been happening until now has been the massive collapse of global GDP caused by the Covid 19 lock-downs.

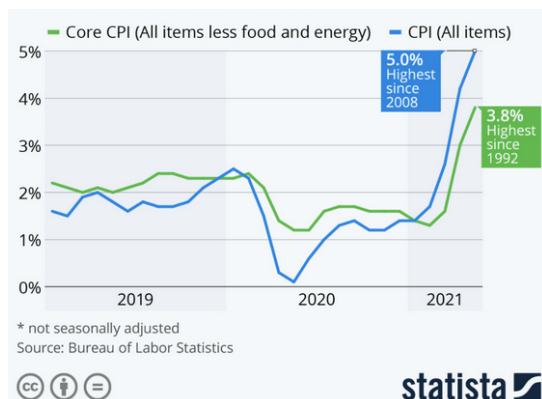


But now it is early summer in a largely vaccinated America and, with masks off almost everywhere, the people are coming out to play with pockets stuffed with all the money they saved while working from home. Add to that the fact that there is a severe shortage of the toys everyone wants because the micro-chip supply chain was broken by the Texas winter. So, who should be surprised that inflation is suddenly back with a bang?

Furthermore, it's hard to get someone to work for \$10 an hour when the government is paying them more to stay at home. Companies are so desperate for workers that a Florida McDonald's is offering people \$50 just to sit down for an interview. Wage inflation is arguably inevitable and, unlike the prices of items in stores which rise and fall by the dictates of supply and demand, it is not easy to reduce the salaries and wages of folk who have been lured back to work by attractive offers. Wages, they say, are "sticky." And that is how inflation becomes entrenched!

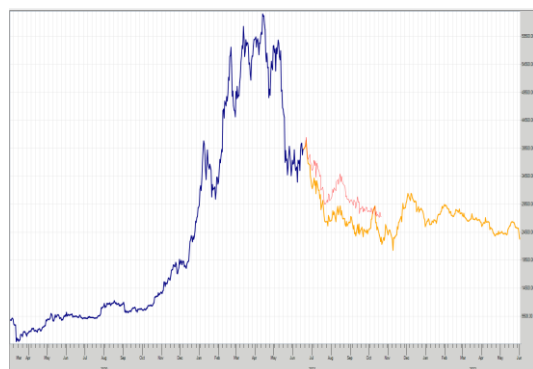


That's why the latest US inflation numbers are so important; because just a year ago they were at zero. Many economists say the number is a "base effect" and will soon return to zero. However, if it does not quickly do so, central banks, whose primary mandate is to protect the integrity of their currencies, will be obliged to act by increasing interest rates. What that means in practice is that treasury bond rates will rise and since there is an inextricable link between bond and share market yields, share prices have to fall so that their yields can match such increases.....and bang you have an end to the longest-enduring share price bull market in history.



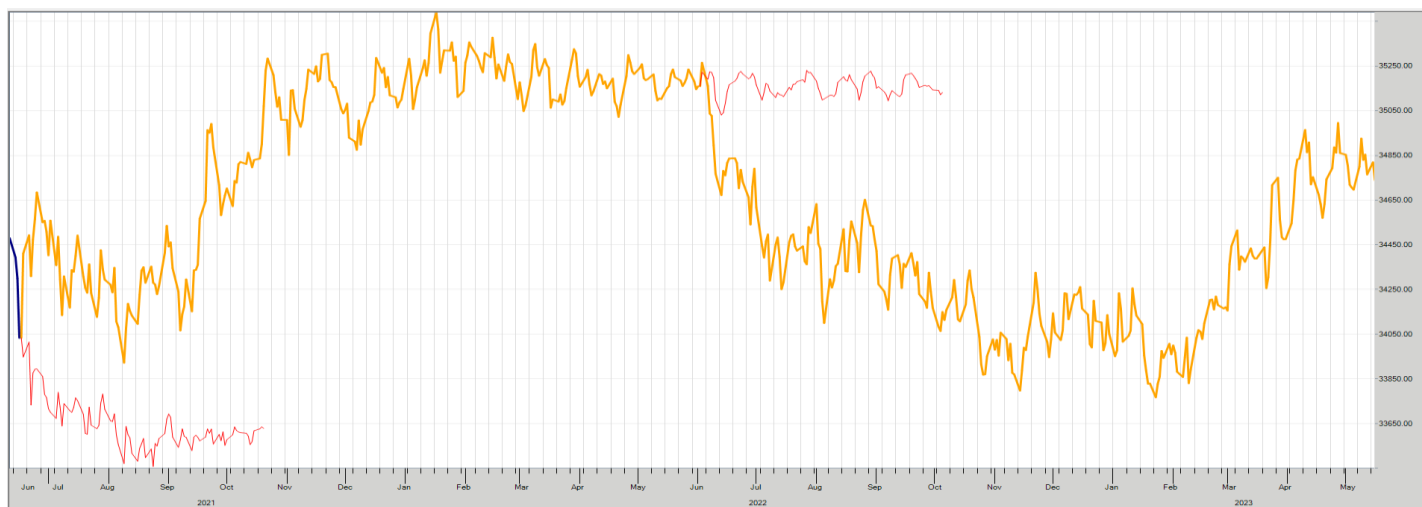
So how is the market reacting? I want to start with cryptocurrencies because in so many ways they are pointing us to the future of world monetary and economic history. We who have lived all our lives with banks which moved money around on our behalf, stock exchanges which allowed us to profitably invest our savings and tax men who went around gathering in as much of what we earned as they could legally get away with, are now able to glimpse a future in which all three are becoming irrelevant.

As the new economic fore-runners, crypto currencies have already done with the issue of a roaring bull market as my next graph illustrates. Having increased in value an unbelievable twelve-fold in the year from March 2020 to April this year, they recently retraced by an equally incredible 40 percent. Now they are consolidating. However, as Sharefinder's orange projection suggests, from the middle of next week they are likely to begin a slower second decline towards an eventual bottom around the beginning of November. Here, I hasten to emphasise, ShareFinder prefers to have more data to analyse than crypto coins are able to offer in order to make its predictions and so this prediction graph is not necessarily as accurate as most that the programme offers.

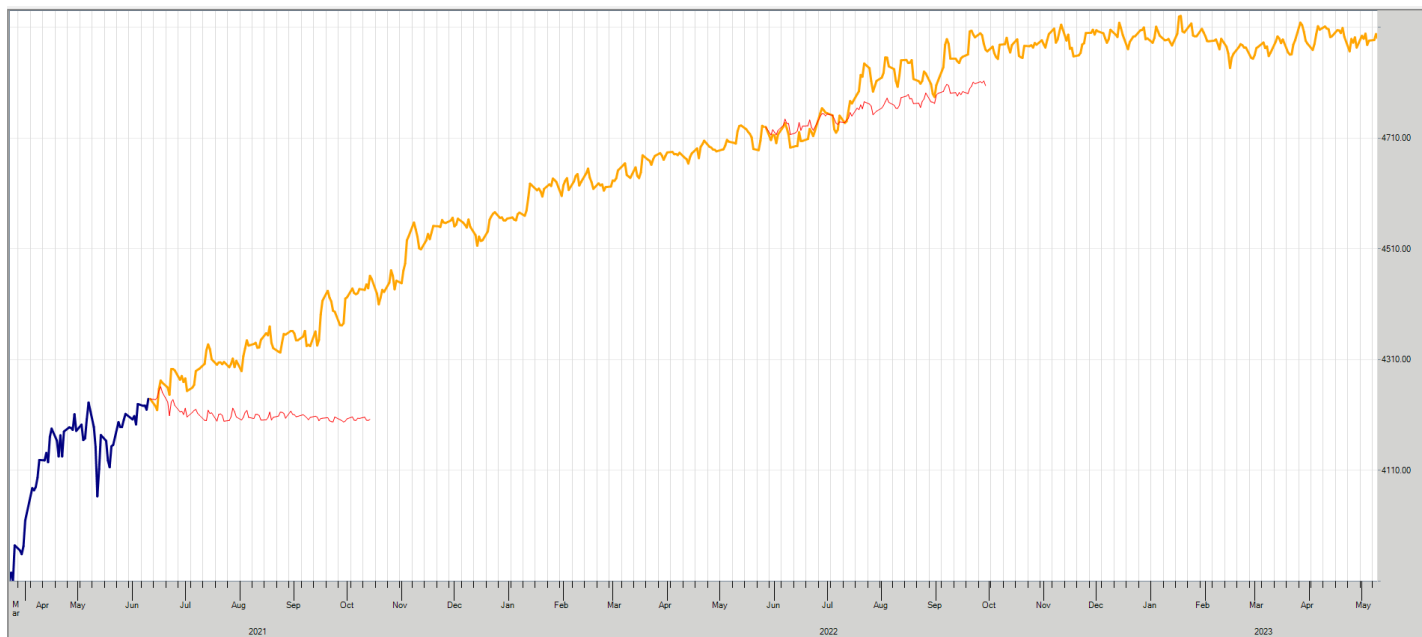


To get the most accurate forecast possible of future share market behaviour we need to turn to the Dow Jones Industrial Index which is the oldest index of market behaviour on the planet. Here, ShareFinder's database contains a remarkable 120 years of daily values dating all the way back to December 11 1901. Its next best data collection relates to Wall Street's Standard and Poors 500 Index which dates back only to February 1 1951. So, let's consider what ShareFinder makes of these two indices:

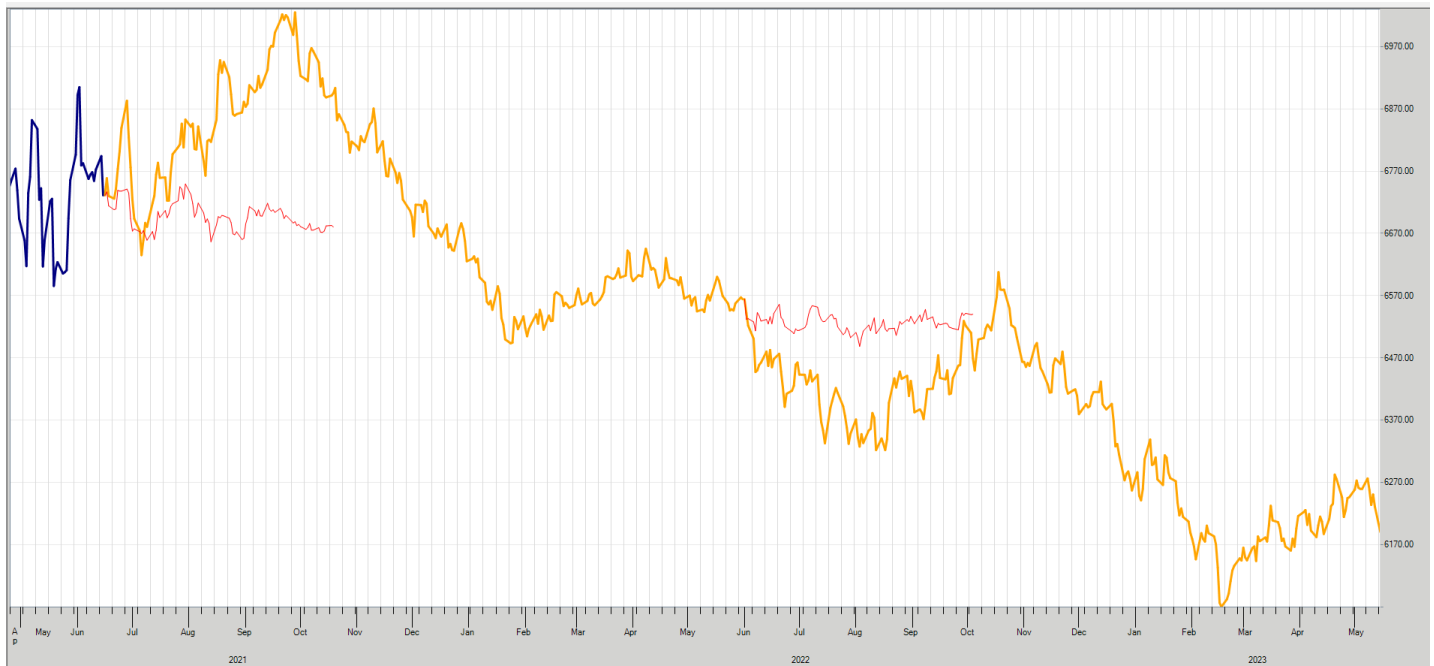
As you can see in the first graph below, Sharefinder expects the Dow to decline quite modestly until August 10 and then begin a steady recovery until mid-January when another decline is forecast that is likely to continue until January 2023:



I need to stress at this point that forcing Sharefinder to forecast far into the future tends to stretch its credulity somewhat, and particularly the magnitude of its forecast value volatility, so please treat these graphs with the necessary caution. Next consider ShareFinder's prediction for the S&P500 Index, noting that here we see unrelenting gains until January 2023 which are more in keeping with the view that a new "Roaring 20s" might shortly be upon us as Covid 19 becomes less of a daily threat...just as the world went out to play in the decade following the Great Flu epidemic of 1918 which, as we all know, ended so dramatically with the Great Depression which was itself the world's first taste of what irresponsible central bank monetary behaviour can do:



Of course, every reader will logically now ask what ShareFinder projects will happen to the JSE in the next few months. Here, as you can see in the following graph, this week's decline appears likely to continue for another fortnight before the next up-surge takes it to its highest point in its history. But then ShareFinder projects an almost unrelenting decline until early 2023.



Do enjoy your weekend!

The month ahead:

New York's SP500: I correctly anticipated this week's start of weakness which is likely to last until mid-August followed by a recovery until late November when a sideways trend is likely.

Nasdaq: I correctly predicted further increases until the end of June and I continue to expect them followed by weakness until early September followed by a recovery until early December.

London's Footsie: I failed to call the gains since mid-May, but I continue to predict a volatile decline beginning soon and lasting until October, followed by a brief recovery until mid-November and then further weakness through to next April.

Germany's Dax: I correctly predicted the declines, but wrongly expected that this was the final consolidation. Weakness has, however, again begun and is likely to continue until October.

France's Cac 40: I have been prematurely predicting the start of volatile declines likely to last for the rest of the year. However, I believe this is very imminent.

Hong Kong's Hangsen: I correctly predicted further losses likely to continue until the second week of July ahead of a volatile recovery until December.

Japan's Nikkei: I correctly predicted a partial recovery likely to last until the end of October ahead of further steep declines thereafter well into the New Year.

Australia's All Ordinaries: I correctly predicted a short interim recovery, but now another decline is very imminent until mid-September. From then I see gains until early December when another slide is likely to begin.

JSE Top 40 Index: I correctly predicted a continuation of the long volatile slide that began in early March and is expected to last until early September followed by a brief recovery to early October and then a further slide until mid-February.

ShareFinder JSE Blue Chip Index: I warned that the present up-trend was likely to be transitory and over by mid to late June. Furthermore, I correctly forecast that the peak has probably been reached – though another attempt is likely from next week until the end of July – and then I see declines until next April.

Rand/Dollar: I correctly forecast the currency would bounce along the top of its value until mid-October when a weakening phase is likely to begin.

Rand/Euro: I correctly forecast gains which I continue to see lasting until early September when a long reversal is likely to begin.

Bitcoin: I correctly called the current consolidation after May's steep declines. The brief respite is likely to last until late next week after which it's likely to be downward again in an almost unbroken decline until November.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.23 percent. For the past 12 months it has been 92.55 percent.
