



Our Weekly Paid Newsletter

Richard Cluver Predicts

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



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Undoubtedly top of every global economists' watch list this week were US inflation numbers which, in the event, came in lower than the pessimists expected but not low enough to quell fears that the US Federal Reserve might soon be forced into actions that will slow the pace of the Wall Street bull market.

The consumer price index, excluding the volatile food and energy components, edged up 0.1% last month making it the lowest gain since February and followed a 0.3% rise in July. Core CPI was held back by a 1.5% decline in the prices of used cars and trucks - ending five straight monthly increases which, as well as services in industries worst affected by the COVID-19 pandemic, were the key drivers behind a heating up of inflation at the start of the year.

Reuters quotes James McCann, deputy chief economist at Aberdeen Standard Investments in Boston, whose views neatly summed up general market sentiment with the view that "Inflation remains troublingly strong, even if it is not exploding like it did earlier in the year," he said.

"If we continue to see further step-downs in inflation over the next six months, that should ease the pressure on the Fed to quickly follow tapering with interest rate rises."

In the money world, two markets are critical and interdependent to a large degree. The sovereign bond market is the most reactive to inflation trends and it largely represents what ultra-long-term investment institutions such as pension funds think is likely to happen to the value of money. And, of course, share markets in turn represent both a hedge against inflation and the financial hopes and aspirations of nations.

Thus, in the graph below tracking the yield of US Treasury Bonds with a 30-year maturity horizon the red trend line rising at compound 54.8 percent – one of the steepest rates of gain in modern history - tells us that not since the "Dot Com" share market bubble have the institutions been more concerned about inflation:



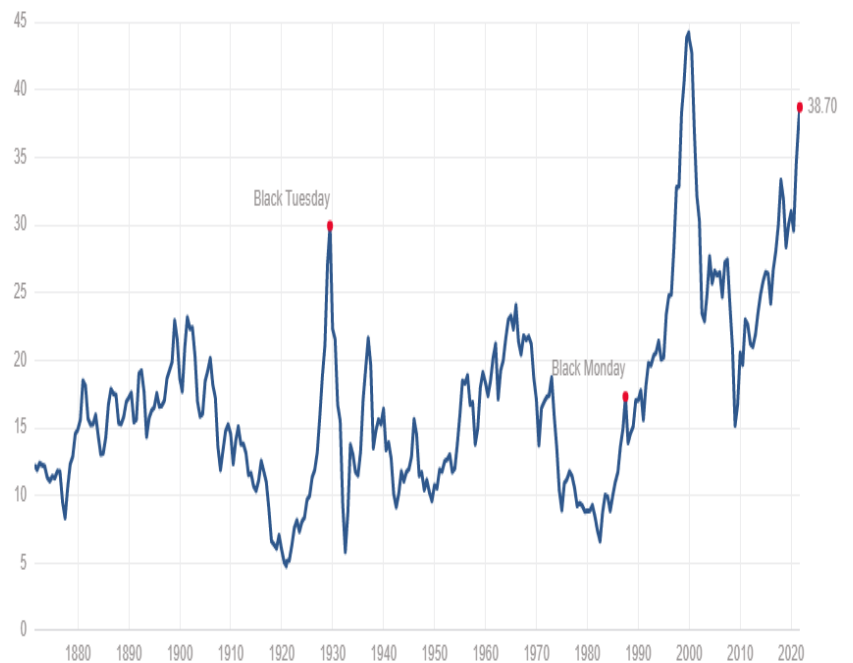
But note that since mid-March those fears have been abating and since July those bullish and bearish views have been coalescing into the pennant formation I have been able to draw illustrating the final stages of this convergence. And, critically, following the CPI announcement this week the yield rate on 30-year bonds broke downwards with ShareFinder's future projection line suggesting that yields are likely to settle at around 1.75 percent in the immediate future.

This is good news for Wall Street share prices giving credence to the view of many analysts that continued gains can be hoped for at least into 2023. In my graph below I illustrate how ShareFinder's most accurate forecasting tool; its AI-driven projection of the Dow Jones Industrial Average has powered upwards at compound 9.06 percent annually since March 2009 and, at this stage appears unlikely to begin to lose its upward momentum until February 2022 with the first downward intersection of that trend line only likely to occur around April next year.



Do not, however, allow yourself to become too complacent with this forecast. As I have repeatedly warned, Wall Street shares are, with the sole exception of the Dot Com bubble, the most expensive they have been in 151 years. At an inflation-corrected PE ratio of 38.7, the implication for anyone buying right now is that when the inevitable latest bubble burst occurs, investors would need to wait just short of 40 years to see the sum of their dividend yields adding up to the cost of the current purchase.

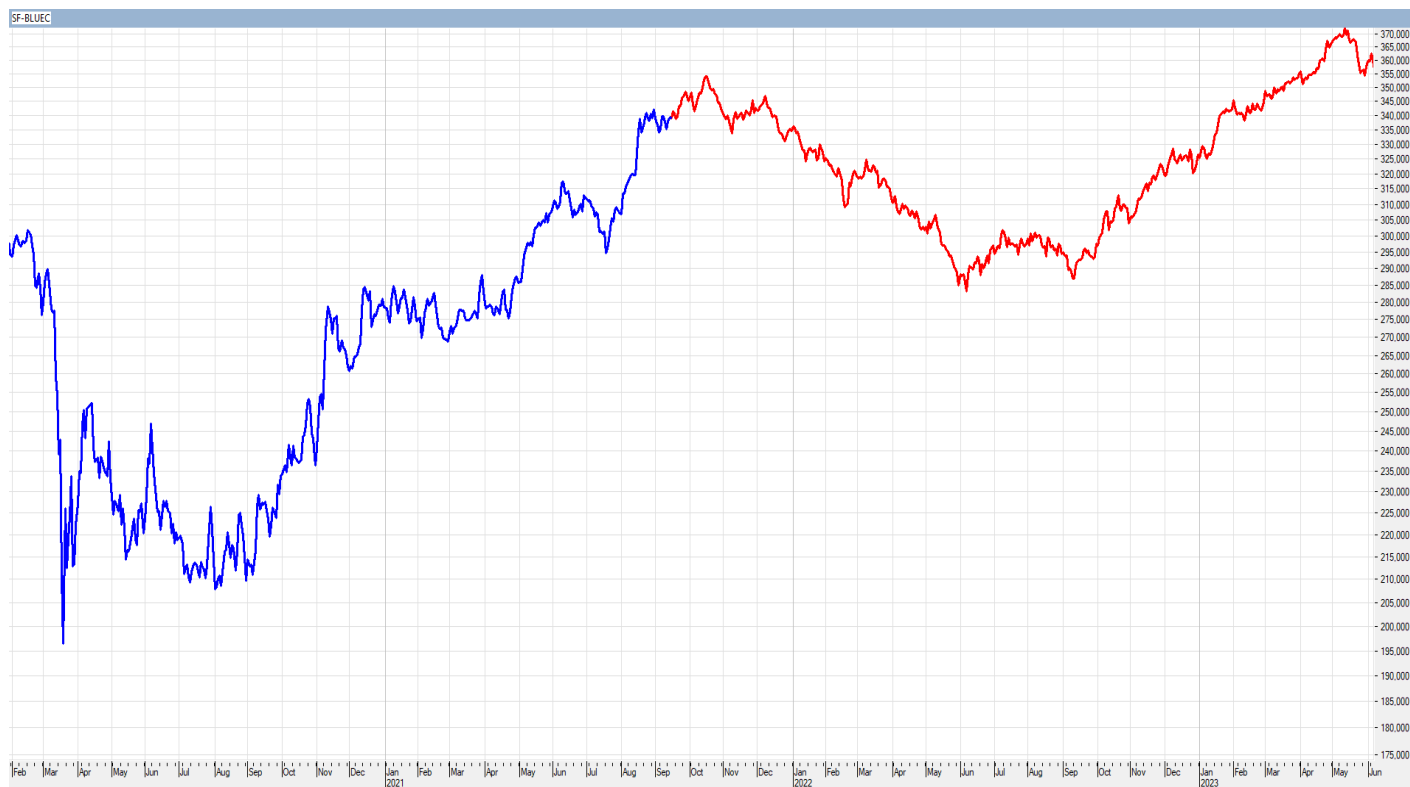
The good news is that last Friday the "Cape Ratio" stood at 38.81 so the pressure has marginally abated!



Here in South Africa where even the most optimistic analysts have all but given up hope that the economy can ever recover from the depredations of 27 years of ANC mismanagement, we are often inclined to forget that we still have some of the best businessmen in the world running the private sector. And the best of the best is represented by my own ShareFinder Blue Chip Index which, as the graph below illustrates on a logarithmic scale which removes the curvature that exponentiation imposes on long-term graphs, that South African Blue Chip shares have delivered compound annual average capital gains of 15.7 percent every year since we first created this index back in March 1986. That, even once you have deducted an average inflation rate of 5 percent over the past quarter century, makes this category of shares the best capital gain investment the world has offered.



Since readers frequently ask for ShareFinder's long-term projection, I have produced the following outlook with the usual caveat that these tend to become increasingly inaccurate, particularly with regard to their magnitude as one moves ever further into the future. Nevertheless it is fair to read that the current market will peak in mid-October and fall until early June before heading to new highs in late may 2023.



Do enjoy your weekend!

The month ahead:

New York's SP500: I wrongly saw September 9, as the market low with gains from there on until the first week of December ahead of a mild seasonal retreat. But that weakness has continued amid the fallout of the US inflation rate analysis and could last as long as another week before things turn upwards again. Nevertheless these are minor negatives in a long-term, bull market that is set to continue for a long time yet.

Nasdaq: I correctly saw weakness until mid-September followed by a brief recovery and then another down month in October. From the end of October until mid-April it is likely to be another positive period.

London's Footsie: I correctly predicted a volatile decline which I continue to expect to last until next June.

Germany's Dax: I correctly predicted weakness which I see lasting until mid-October ahead of brief gains until the second week of November. Thereafter it is steadily down until early April.

France's Cac 40: I correctly predicted the volatile declining trend that I expect will continue until mid-2022.

Hong Kong's Hangsen: I correctly predicted a volatile recovery which I expect to last until early December. In the interim I now saw a brief retraction until today ahead of gains until early December.

Japan's Nikkei: I correctly predicted a few months of upward trend until the end of October before a long decline sets in.

Australia's All Ordinaries: I correctly predicted an end to the gains in mid-August followed by volatile declines until mid-October when a sharp recovery is expected until December. Thereafter I see it bumping along the top until mid-March before the next long decline sets in.

JSE Top 40 Index: I correctly predicted the start of a recovery until early October ahead of four months of weakness until mid-February.

ShareFinder JSE Blue Chip Index: I correctly opted for gains until mid-October. Thereafter I see a long decline until mid-year.

Rand/Dollar: I correctly predicted the start of volatile gains which I still expect to last until early November followed by weakness to the end of January.

Rand/Euro: I correctly predicted the beginning of weakness until early-March.

Bitcoin: I correctly predicted brief gains which I still see lasting until the first week of October when another longer bout of weakness seems likely until the end of February.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.39 percent. For the past 12 months it has been 93.62 percent.
