



Richard Cluver Predicts

In our 35th year of service to the investing public of South Africa

Our Weekly Paid Newsletter



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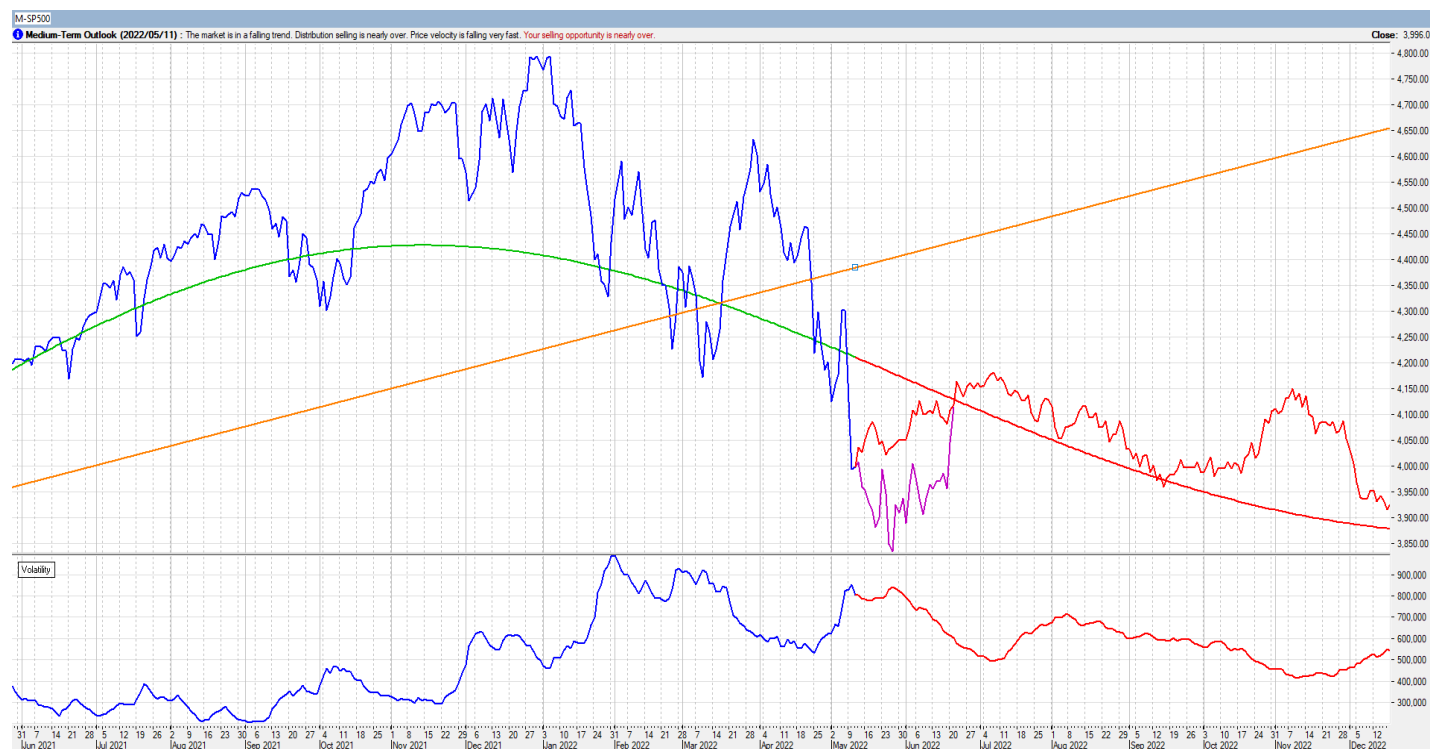
Though the US consumer price index slowed to 8.3% in April from the 40-year high of 8.5% recorded in March, it was nevertheless still far worse than the markets had expected and Wall Street share prices have continued to react negatively because investors understandably fear that their lifetime savings are being rapidly eroded away.

It's an understandable fear. At 8.3 percent the erosive effect will halve their wealth in a little over eight years if inflation remains constant at this level. But what investors really fear is that this is just the beginning of the onset of a new wave of 1970s style hyperinflation and it's even worse accompaniment of economic stagnation. Back then observers gave the condition the ugly label of 'Stagflation.'

Of course it is ironic that US investors should be reacting worse than those elsewhere, such as in South Africa where economic stagnation is a very real fear, because the US has seen one of the world's best recovery rates from the Covid 19 pandemic while we in this country have very deep reasons for concern.

But the even deeper irony is that whenever inflation has taken hold in the national economy, the very best hedge investment has generally proved to be Blue Chip shares. However, in the short-term, as central banks raise interest rates in order to try and stem the forces of inflation, share prices are forced to decline in order that dividend yields might stay in line.....that is unless corporate profits are able to rise sufficiently to compensate for the needed yield increase.

And currently that is precisely the fear that US investors are expressing when one views a graph of Wall Street's most widely representative market index, the S&P500 which I have depicted below:



It's a complex graph which needs some interpretation starting with the smoothly-curving green line which peaked back in early November which was ShareFinder's long-term early warning system telling investors that the Wall Street bull market was over. On its current projection the US market will not commence recovering until the first quarter of 2023.

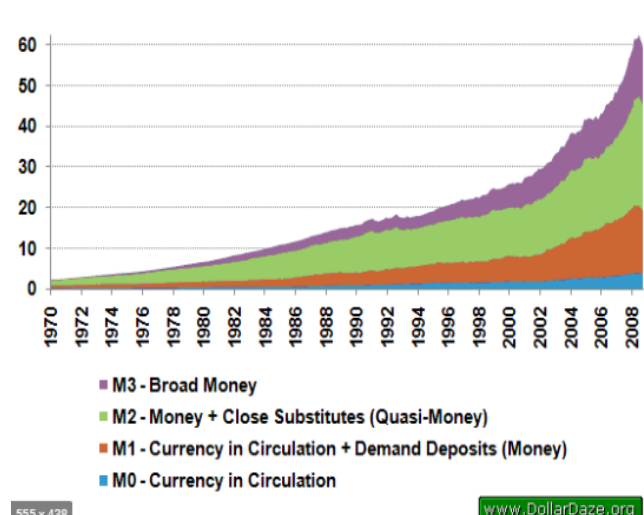
Turning to the blue trace in the upper graph segment which tracks the daily closing value of the S&P500, if you care to calculate it, the market has lost 16.74 percent since its January 5 peak. Moreover the purple trace of ShareFinder's short-term artificial-intelligence-powered predictive system suggests that further declines of around four percent are likely for a short-term bottom around May 26. And do note how volatility has been rising!

This is, by any measure then, a full-on bear market which will have world-wide repercussions and so, in order to put it into perspective I have included the Investopedia graphic on the right.

Now I don't want to be too alarmist, but those of you who read my recent book, **The Crash of 2020**, which I published in September 2019 warning of then a coming global monetary crisis in the wake of a Black Swan event originating in China, will understand that far greater forces than a simple share market correction are now playing out.

As my next graph illustrates, since they gave up the discipline of the Gold Standard in the 1930s, the world's central banks have played fast and loose with monetary policy, printing more and more fiat currency every time there has been some threat of economic slow-down. And, like any drug, the more you use a stimulant the greater quantities you need to achieve the same result. The graph measures total world money supply in trillions of US dollars and it enables you to see that over the past half-century that total has risen around sixty-fold in an ever-steepening graph. Classic economic theory makes it clear that in the absence of the phenomenon of China's industrial awakening and the flood of cheap consumer goods which permeated Western economies, unbridled inflation would have been inevitable. And now it seems likely to most investors!

Now let us take a deep breath and dive down the sort of mole hole that people like Donald Trump like to play in and note that the two nations with the greatest reserves of gold – the ultimate store of wealth – are China and Russia which have been patiently building their reserves for years. Furthermore, both are in the process of converting their currencies into units of global trading in order to effectively bypass the role of the US Dollar. That is why Western sanctions against Russia in the wake of the invasion of the Ukraine only temporarily damaged the value of the Russian Rouble as illustrated in my next graph on the right.

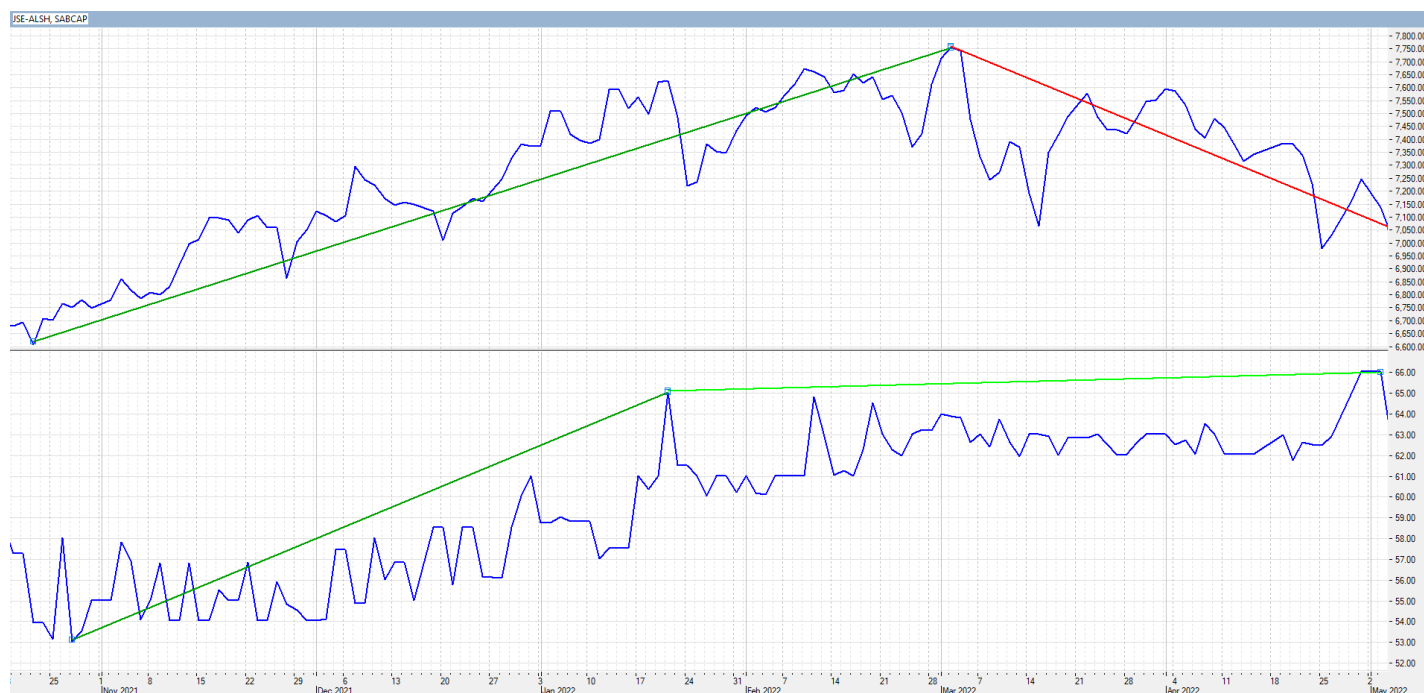


Moreover, China has lately been taunting its indigenous billionaires who have large investments in Taiwan by pointing to the sanctioning of the private investments of Russia's oligarchs in retaliation for the Russian invasion as proof that the West is no safe haven. China watchers fear this might be a prelude to China achieving a long-held dream of annexing Taiwan.

All of this bears too close a resemblance to be ignored of the events which shaped World War Two when Hitler's invasion of the lowlands gained him nothing more than a slap over the wrist from the old League of Nations and emboldening him to subsequently annexe a series of his neighbours. When Putin got away with annexing the Crimea he was clearly similarly emboldened to start the current war in the Ukraine. But perhaps something bigger is actually under way.

I don't even want to enter the fantasy world of Donald Trump to similarly suggest that the Covid pandemic was a deliberate act of germ warfare but such a view is not entirely implausible if you believe that, like Vladimir Putin, China's Xi Jinping is a morally bereft totalitarian leader with aspirations of attaining global dominance by any possible means. But it is tempting to add that idea into the argument that some sort of global war being might be playing out in a post-nuclear era in which sophisticated new weapons like monetary policy and data manipulation have mostly supplanted the sword and the howitzer. And that makes the Ukraine merely a skirmish in a far wider campaign!

So how does the ordinary investor hang onto his life savings in this new era? Well of course you can always take a dive into cryptocurrencies but they have to date proven to be entirely too volatile to risk that route. Kruger Rands and the new Revix virtual gold plan might be another option. However, I note that the South African Blue Chips which ShareFinder is currently identifying as highly desirable, are swimming strongly against the tide. Take, for example the case of SabCap which, as illustrated in the lower graph of the composite below, was gaining at a compound annual rate of 139 percent from October to mid-January which has now merely slowed to an annualised rate of five percent. In contrast (upper graph) the JSE All Share Index was gaining at compound 55 percent during the same period but since March 3 has been falling at compound 42 percent.



I will take a closer look at the winners I have been buying lately in next week's issue of my Prospects newsletter.

The month ahead:

New York's SP500: I correctly predicted the decline followed by a two-month recovery from the end of April which I believe has merely been postponed! I now expect a recovery to start around May 27.

Nasdaq: I predicted a fortnight of gains ahead of a prolonged phase of weakness and the recovery began mid-week. However I doubt it will last longer than the 19th.

London's Footsie: I correctly predicted weakness until early May followed by a month of gains beginning now. But expect further losses in June ahead of a brief recovery in July. Overall, however the dominant trend is down until the end of the year.

France's Cac 40: I correctly predicted declines until mid-May followed by a brief up-tick which has now begun and could last until early June against a longer-term downward trend.

Hong Kong's Hangsen: I correctly predicted declines which I now expect to begin slowing ahead of a brief recovery in June.

Japan's Nikkei: I correctly predicted the onset of weakness which should last until mid-month ahead of a recovery until mid-July.

Australia's All Ordinaries: I correctly predicted declines to the end of September.

JSE Top 40 Index: I correctly predicted the beginning of a recovery until the end of July ahead of declines for the rest of the year.

ShareFinder JSE Blue Chip Index: I correctly projected a decline until the end of August. I now see the rate of decline slowing somewhat.

Rand/Dollar: I correctly predicted that the weakening trend was over with gains likely until the end of June. But now I sense fresh short-term weakness from the end of this month

Rand/Euro: I correctly predicted brief weakness ahead of further gains which have now begun and should last until early-June when a second phase of weakness could last until the end of July.

Predicts accuracy rate on a running average basis since January 2001 has been 86.62 percent. For the past 12 months it has been 94.68 percent.