



I have been warning readers about the incipient rise of hyperinflation for so long that it is probably old hat to most of you now that it is upon us with a vengeance and most governments are having to scramble to try explain to angry voters that it is something beyond their control.

Western Governments are blaming it on Russia's invasion of the Ukraine and the sanctions they have consequently been obliged to impose upon Vladimir Putin's oil producers but the following graph makes it clear that they are lying!



Noting that crude oil prices have been rising steadily at a compound annual average rate of 84.5 percent annually since **April 2020** as highlighted by my yellow trend line, the following time line supplied by Wikipedia accordingly makes it clear that the very earliest the world could have known there was trouble brewing was in mid-September last year. By then the oil price had already risen nearly four-fold from a low of \$19.70 on April 27 2020 to \$75.71.

- On 14 September 2020, Ukrainian President Volodymyr Zelenskyy approved Ukraine's new National Security Strategy, which included partnership with NATO.
- On 10 November 2021, the United States reported an unusual movement of Russian troops near the borders of Ukraine. By 28 November, Ukraine had reported a build-up of 92,000 Russian troops.
- On 7 December 2021, US President Joe Biden warned President of Russia Vladimir Putin of "strong economic and other measures" if Russia attacked Ukraine.
- On 17 December 2021, Putin proposed a prohibition on Ukraine ever joining NATO, which Ukraine rejected.
- On 17 January 2022, Russian troops began arriving in Russia's ally Belarus, ostensibly "for military exercises".
- On 19 January 2022, the US gave Ukraine \$200 million in security aid.
- On 19 January 2022, Biden stated in a press conference: "Russia will be held accountable if it invades. And it depends on what it does." Many critics of the US president felt this left the door open for President of Russia Vladimir Putin to invade.

- On 24 January 2022, NATO put troops on standby.
- On 25 January 2022, Russian exercises involving 6,000 troops and 60 jets took place in Russia near Ukraine and Crimea.
- On 10 February 2022, Russia and Belarus began 10 days of military manoeuvres.
- On 17 February 2022, fighting escalated in separatist regions of eastern Ukraine.
- On February 24 Putin announced his decision to launch a "special military operation" in eastern Ukraine. He claimed there were no plans to occupy Ukrainian territory and that he supported the right of the peoples of Ukraine to self-determination.

Now it is true that on February 24 the price of oil surged from \$98.32 to \$103.77 but it fell back to \$98.02 the following day before surging to its highest point in many years of \$131.80 by March 8. However, as the graph makes clear, once the uncertainty was removed the price began falling sharply all the way back to \$99.78 on April 11.

Since then it has been rising at a dramatic annualised rate of 520 percent since May 9 at a time when it had become clear, both that Russian oil was continuing to reach world markets via middle men and that supplies were returning from US shale oil producers who had gone out of production after they were bankrupted in recent years by global overproduction and a consequent collapse of oil prices from their 2018 peak of \$84.23 on October 3 2018 to the aforementioned low of \$19.70 on April 27 2020 when the world was locked down in the teeth of the Covid 19 pandemic.

So, while none of this is going to give beleaguered consumers the world over any cause for comfort and, indeed, ShareFinder projects that Brent crude oil prices will continue surging to finally peak at around \$139.40 in September, it is clear that the war in the Ukraine had very little to do with the rising cost of oil! Nor can it be blamed for most of the other living cost surges the world is currently suffering under!

The real cause can be laid squarely at the door of US President Joe Biden whose pressure upon the US Federal Reserve for a \$1.9-trillion stimulatory package was unveiled on January 14 2021. Back then the crude oil price was a mere \$54.73.

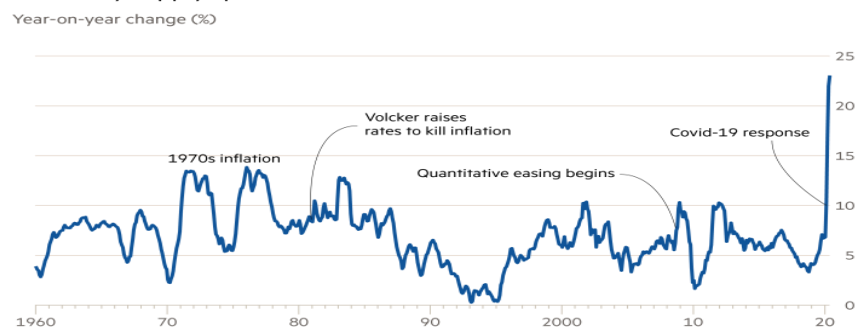
To put that event into perspective, the proposal came at a critical time for the United States because two days before a record number of over 4,200 Americans had died of the Corona virus and the economic recovery appeared to be backsliding, with jobless claims spiking to a new high.

The previous week nearly a million Americans had filed for unemployment. And it was also just six days before Biden's inauguration and a day after the House of Representatives impeached President Trump, highlighting the president-elect's challenge of trying to get his top agenda item passed as the Senate was likely to be enmeshed in an impeachment trial.

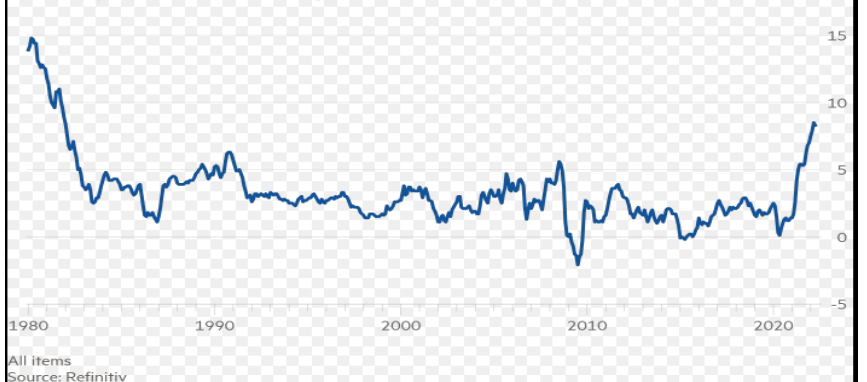
Readers have seen the graph on the right before, courtesy of the Financial Times, which illustrates how the US money supply spiked to twice the excesses of the 1970s era of hyperinflation.

It's basic economic theory that, in the absence of simultaneous rises in economic productivity, if you print more money you will decrease the value of money by a like amount and so, the second graph from the Financial Times was pretty well inevitable.

US money supply spikes on central bank stimulus



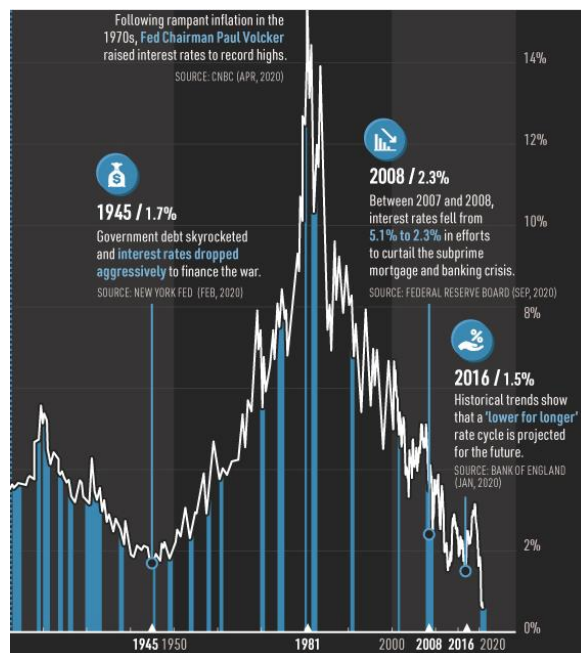
Consumer price index, annual % change



That is why US inflation figures that are due out today will probably have a major impact upon global share market prices since it is universally understood that the best long-term insurance against the loss of monetary buying power is Blue Chip shares. I stress the word long-term since, in the short-term there is only one way that Central Banks are able to fight off the curse of inflation and that is by basically slowing the economy and reducing the money supply.

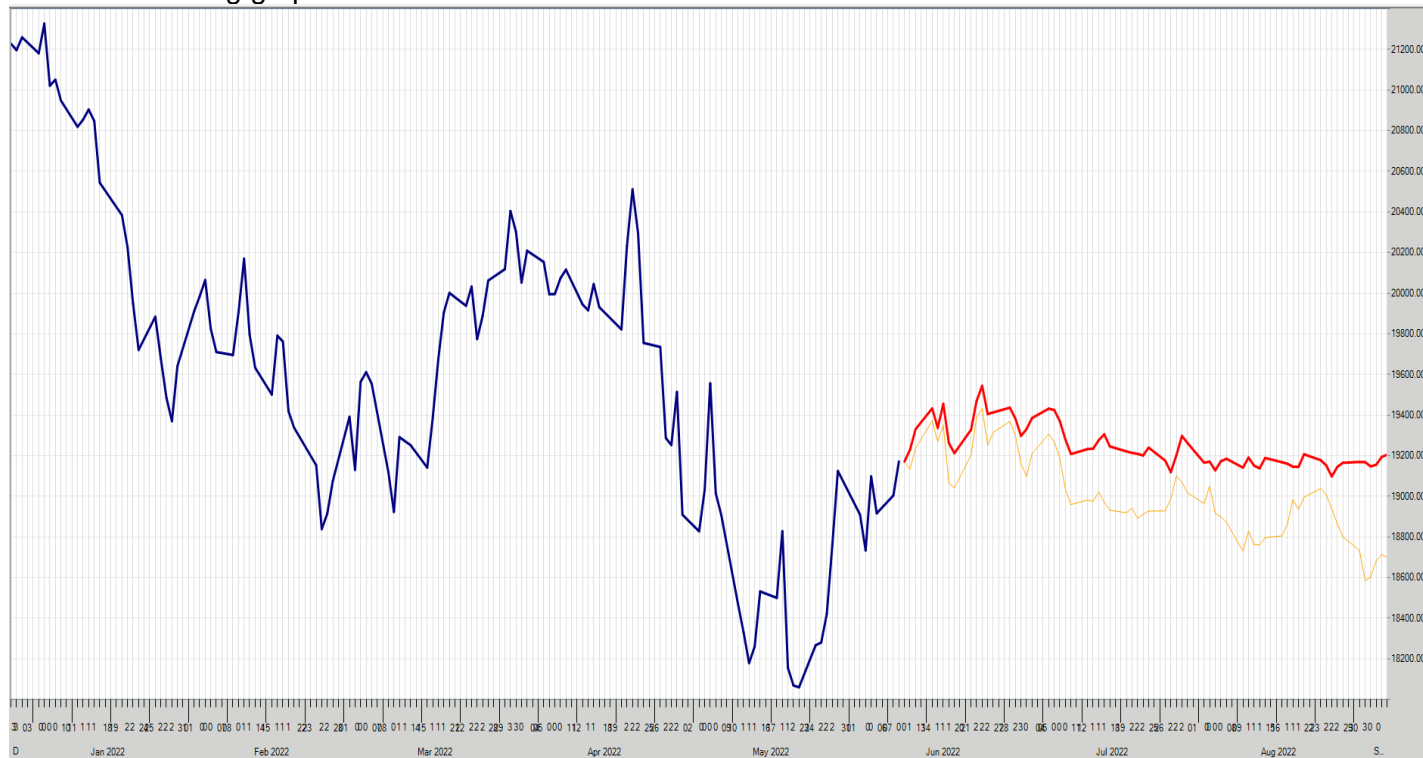
Without going into excessive detail about the process, the consequence of fighting inflation is a rise of interest rates and, since my earlier graph made it clear that the Biden stimulation resulted in approximately twice the US money supply of the last inflation surge of the 1970s, it would not be too unreasonable to assume more drastic interest rate increases will be necessary this time. Since sovereign bond yields and average share market dividend yields are inextricably linked, average share prices have to fall unless corporate profits are rising commensurately.

So let's do the maths. My ShareFinder software notes that the average dividend yield on the safest of all US listed companies, what we name the Grand Old Favourites, is currently 1.7 percent. More importantly, however, this category of shares is on average yielding a Total Return (that is the sum of the dividend yield and share price average growth) of 16.8 currently and the five-year average of this figure is 13.76.

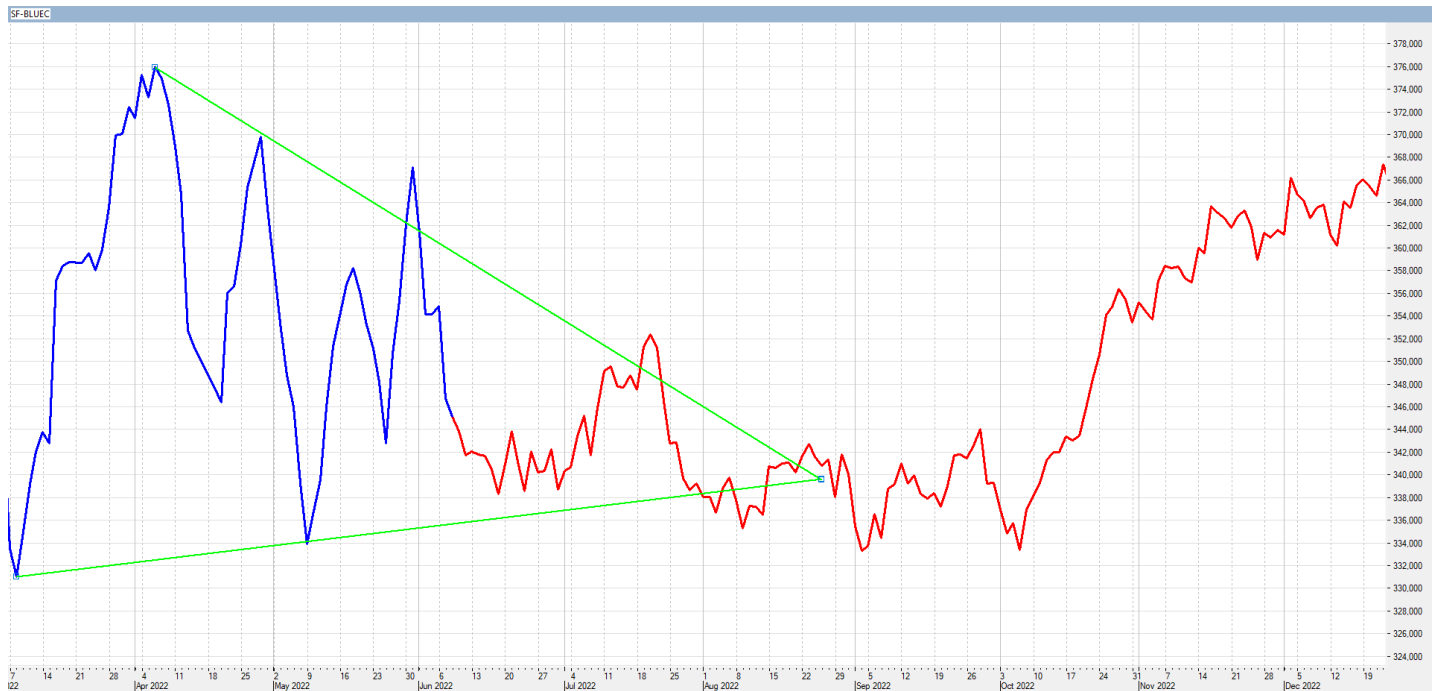


Compare that to the US long-bond yield of 3.17 percent and the April US Consumer Price Index increase of 8.3 percent and it is clear that investors like pension funds which are obliged to invest large portions of their funds in bonds are currently experiencing significant capital losses (3.17 minus 8.3 = -5.13). In order to yield a real return after inflation the price of an average bond thus needs to fall by approximately two thirds.

Conversely, however, the average Grand Old Favourite is yielding a positive return of 8.5 percent and is accordingly an attractive long-term investment. That is why Wall Street Blue Chip shares have been rising in price since May 20 and why ShareFinder projects that they will continue rising until the end of this month. Note the following graph:



Here in South Africa, Blue Chips have been experiencing considerable volatility because of the deep economic uncertainty resulting from ANC misrule of the economy and so it is hardly surprising that they remain in decline. As the following graph makes clear, ShareFinder projects that they will continue falling until early October.



## The month ahead:

**New York's SP500:** I correctly predicted the start of a short recovery which I expect to last until the end of the month.

**Nasdaq:** I predicted the present brief gains and said they would likely be over by the second week of June ahead of a prolonged phase of weakness. I was correct and continue to hold that view with the peak likely around the 15<sup>th</sup>.

**London's Footsie:** I correctly predicted a month of gains followed by losses starting early in June ahead of a brief recovery in July. Overall, however the dominant trend remains down into the New Year.

**France's Cac 40:** I correctly predicted the brief up-tick would last until early June against a longer-term downward trend until the end of July when a six-week recovery is likely ahead of longer-term declines until the New Year.

**Hong Kong's Hangsen:** I correctly predicted a brief recovery which now seems to be over until mid-July. Longer-term I see gains until the end of September before global uncertainty begins to bite once more taking the market down until next March.

**Japan's Nikkei:** I correctly predicted a recovery until mid-July and then declines until the end of September.

**Australia's All Ordinaries:** I correctly predicted declines which I now expect to last until January.

**JSE Top 40 Index:** I correctly predicted declines until early May ahead of a brief a recovery which is now over. I expect the index to bounce along the bottom for most of this month ahead of gains until early September ahead of declines for the rest of the year.

**ShareFinder JSE Blue Chip Index:** I correctly projected a decline which I still see ending around the 17<sup>th</sup> ahead of a brief recovery until mid-July and then another decline until the second week of August. However I do not see the bottom until early October.

**Rand/Dollar:** I correctly predicted that the gains would end with the new month with short-term weakness to mid-June when another last-gasp recovery is due until the end of the month ahead of weakness until the first week of August.

**Rand/Euro:** I correctly predicted further gains until around June 10 when a second phase of weakness could last until the end of July.

***The Predicts accuracy rate on a running average basis since January 2001 has been 86.67 percent. For the past 12 months it has been 94.68 percent.***