Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 36th year of service to the investing public of South Africa

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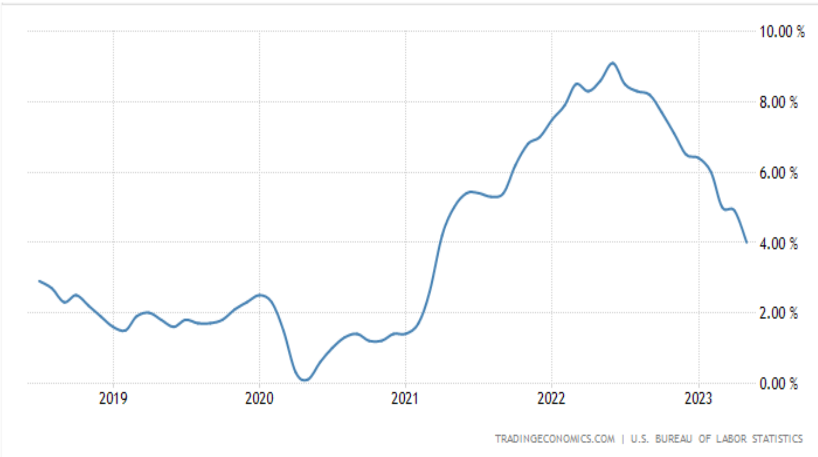
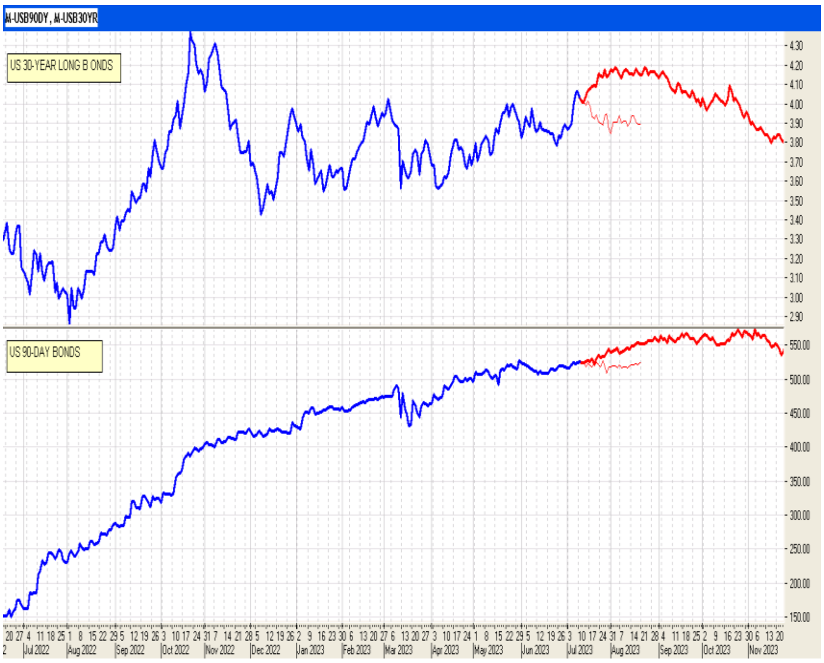
It is no small irony that as ordinary folk everywhere despair that rising interest rates are threatening the health of their families because they cannot any longer afford a balanced diet, financially savvy investors are salivating at the capital gains that potentially lie ahead once rates begin falling once more.

The critical question for the latter group then is when will the interest rate graph direction change because, if you can get in at the last minute and buy long bonds, a significant money multiplier will kick in if previous trends are repeated. So let's start with the direction of US inflation which sets the trend for the rest of the world because the US Dollar is the world's most traded currency. Thus, as the first graph on the right makes clear, US inflation has been on the decline since last July when it peaked at 8.5 percent.



On Wednesday, markets everywhere were anticipating that US inflation would fall to 3.1% from 4% in May, - so the actual figure of 2.97 was a welcome surprise. The S&P 500 rose 0.7% to a 15-month high, the Nasdaq gained 1.2% and the Dow rose 0.3%. Ten-year Treasuries fell to 3.86% from 3.98%, continuing a trend that had pushed yields above 4% last week. Across the 'Ditch' stock markets rose on the news with the Stoxx 600 in Europe rising 1.5% and the FTSE adding 1.8%.

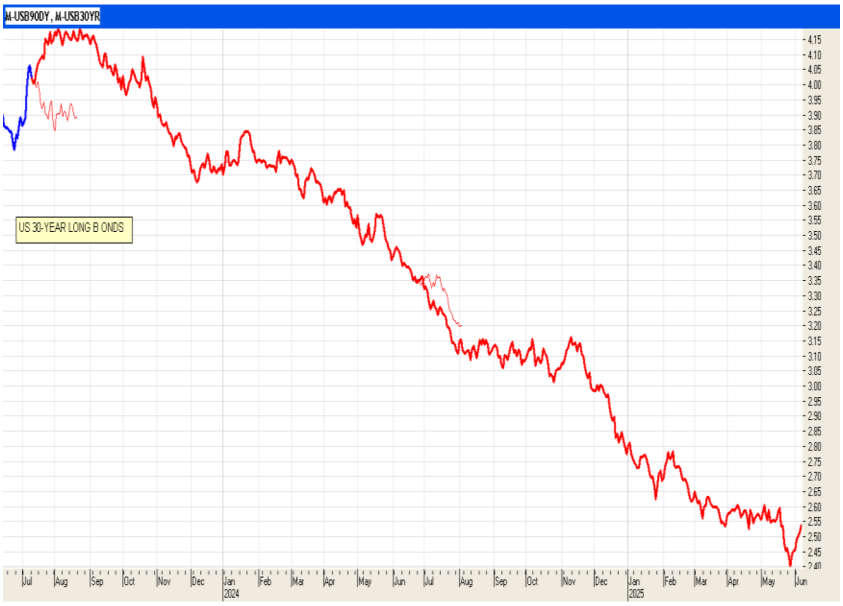


The more serious inflation measure, Core inflation which excludes the most volatile short term effects, had been expected to moderate to 5% from a previous 5.3%....and it came in much lower at 4.83%.

Now, to understand my graph composite, the second on the right, note that the upper graph traces out the daily price of US bonds due to mature 30 years hence which recently peaked at a yield of 4.6 percent while short-term money represented by 90-day loans in the lower graph are still on the rise at 5.22 percent.

This “yield inversion” can be interpreted simply as the market anticipating that in the long term interest rates are likely to come down as inflation abates but, in the short-term they are expected to continue rising. And ShareFinder’s artificial intelligence projection in that second graph suggests that the short-term peak is still nearly four months away, projected currently to be at 5.725% in the first week of November. Long before then, in fact on or about August 3, ShareFinder expects long bonds to peak at 4.18 percent.

Now, in this third graph on the right, I have pushed ShareFinder’s projection skills to the limit of their reliability so please do not shoot the messenger if things do not work out quite as currently envisaged. If they do, however, and by May 2025 US long bonds are standing at a yield of 2.4 percent as the graph projects, those who bought them this August will have stood to nearly double their money.



Of course, as bond yields fall, there is an inverse consequence for share market prices because interest rates and dividend yields move in harmony with one another with only perceived investment risk causing the difference between actual rates. So, to put it crudely, if long bond yields halve you might expect the same to happen with the average yield of the S&P500 Index which tracks the 500 most highly valued Wall Street shares. For that to happen share prices should rise unless there is an unexpected commercial boom.

So what does ShareFinder expect will happen to Wall Street share prices over the next two years? My last graph on the right suggests that they will peak well ahead of the Bond rate peak; by September 2024, rising from now at a compound annualised rate of 7.9 percent representing a total gain from now of plus minus ten percent.

As I have warned, this is the product of artificial intelligence rather than holy writ so please don’t shoot the messenger if things don’t work out precisely as I have suggested. What I was really seeking to illustrate is the huge capital gain differential that potentially exists between bonds and shares in anticipation of which the S&P500 lost a quarter of its value between January and September last year as market professionals sold off shares to create a cash war chest to allow themselves to buy bonds at this point.....because they sense a once or twice in a lifetime profit-making opportunity looming!

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The month ahead:

New York's SP500: I correctly predicted continued gains and now a retreat starting today or Monday until early September. Note, however, there is some confusion in the marketplace because short-term indicators suggest gains will continue until mid-August.

Nasdaq: I correctly warned of increased volatility ahead of the inflation numbers. Now I expect the gains to peak today with declines to the first week of August before the up-trend resumes.

London's Footsie: I wrongly predicted declines, amid considerable volatility, until late July, but I believe they were merely delayed. From the 26th I expect a fortnight of gains will precede another sharp loss. From late August I expect gains until mid-October.

France's Cac 40: I correctly predicted a short recovery which I still expect to last until the end of July within a longer-term declining trend set to last well into the New Year.

Hong Kong's Hangsen: I correctly predicted the start of a recovery which appears likely to last until late November.

Japan's Nikkei: I did not foresee this week's sharp decline but did warn that for now we can expect considerable volatility within a modestly rising medium-term trend to the end of the year.

Australia's All Ordinaries: I correctly predicted a brief recovery within an overall declining trend likely to last until the end of October.

JSE Top 40 Index: I correctly called a continuation of the volatile down trend likely to continue until the end of October but missed this week's short-term gains. And I expect it to be down again from Monday.

ShareFinder JSE Blue Chip Index: I correctly predicted a brief bounce lasting until the end of this month followed by a volatile slightly declining trend to the end of August ahead of protracted gains until well into the New Year.

Rand/Dollar: I correctly warned of short-term weakness which lasted until the 6th but in the long term I continue to expect gains until next March.

Rand/Euro: I correctly predicted a gain. Now I see brief weakness to the end of the month within an overall long-term recovery lasting until March.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.93 percent. For the past 12 months it has been 91.67 percent.