Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 37th year of service to the investing public of South Africa

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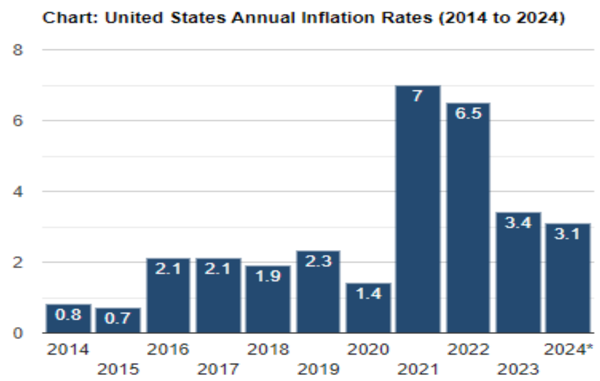
The latest US inflation figures came out this week indicating a lesser increase than Wall Street had expected: to 3.1 percent for the 12 months to January 31 and spooking financial markets which had anticipated a figure of 2.9 percent. It sparked fears that the US Federal Reserve will accordingly feel obliged to hold interest rates higher for longer. Nevertheless it represented a marked reduction from the December end figure of 3.4 percent!

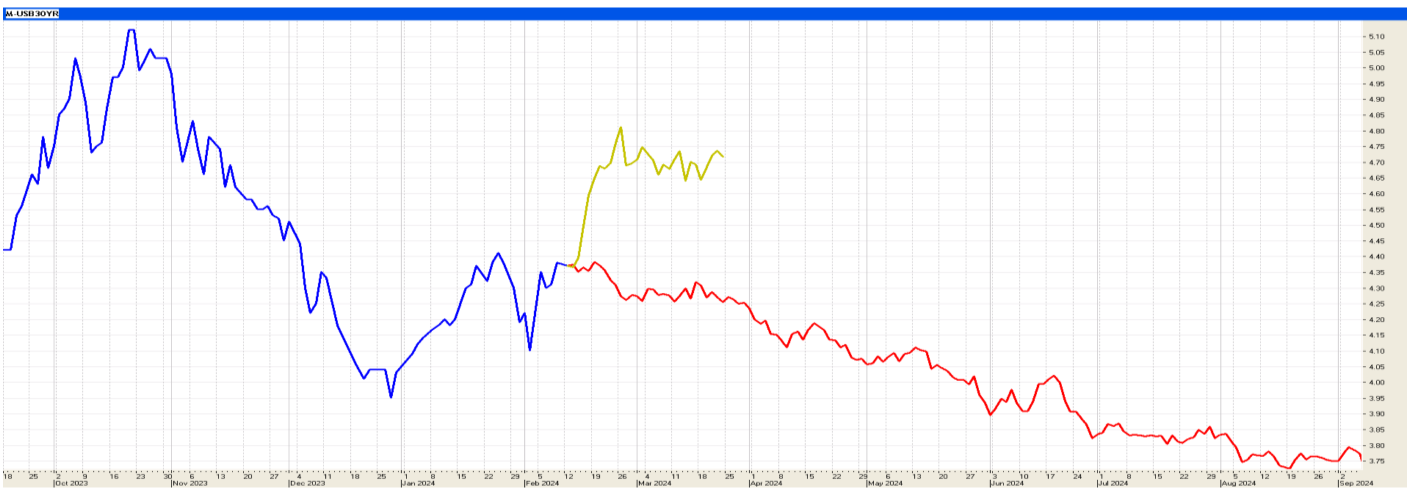
The widest indicator of Wall Street share prices, the S&P500 Index responded by falling 1.4 percent and 10-year T Bonds jumped from 4.17 percent to 4.32. According to the Wall Street Journal, while over half the industry's traders were expecting a rate cut in April or May, only a little over a third now expect it.



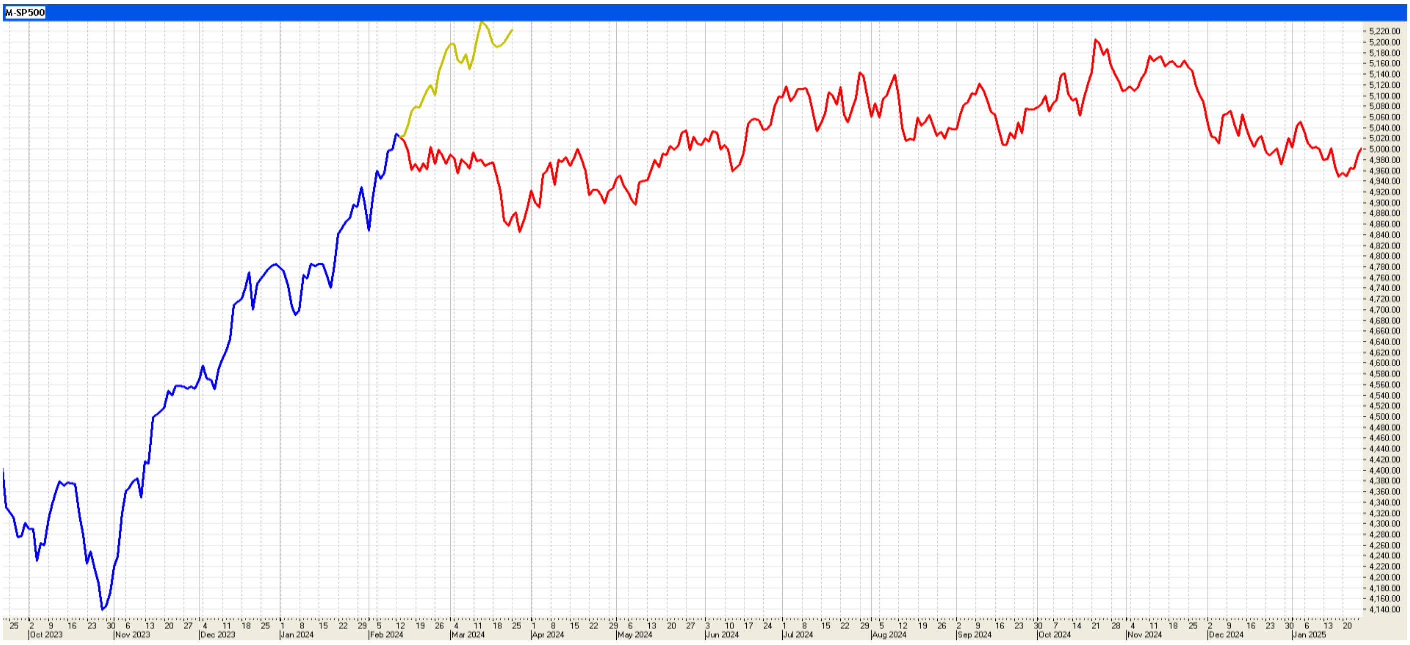
For a graphic picture of the US Bond market, I prefer the 30-year T Bond graph which I have reproduced below which fully illustrates how expectations that the war on US inflation was thought to be over in late October when the 30-year T Bond yield began falling from a peak of 5.15 percent all the way down to a year-end figure of 3.95 percent on December 28. But then Fed Chairman Jay Powell began issuing cautionaries leading right up to his latest comment when he told a TV audience that ".....a March rate cut was probably not on the cards, warning that the "….danger of moving too soon is that the job's not quite done," and adding that the Fed was still waiting for clear evidence that inflation was under control before making a decision.

Fed officials have said they want to be confident inflation is on a sure path down to a 2% annual rate before cutting the fed funds rate from its current 23-year high, where it's been since July. It is, however important to note that concerns about a recession and mass labour layoffs have faded recently because US economic and labour data both confirm that the high interest rates have not resulted in a significant slowdown.

Noting that bond yields are showing slight signs of more sanguinity and that ShareFinder's red AI medium-term projection still expects rates to decline steadily to a December 2024 low of 3.54 percent, the yellow short-term projection still expects an interim continuation of the rise.



That caution has, however, barely altered the optimism of investors in Wall Street shares. The S&P500 graph below is still rising at a compound annualised rate of 91.8 percent and ShareFinder's yellow short-term AI projection sees that continuing unabated for the next month. The red, medium-term AI projection does suggest greater caution, however, with the annualised rate seen to slow to 5.1 percent between now and late October when it senses the beginning of a concerted decline to year-end.



Interestingly, though the MSCI World Market Index offers a far more optimistic graph – although the rate of gain has been a slightly more modest 85 percent compound since the last October low, ShareFinder nevertheless projects a continuing 11.81 percent compound average rate for the next 12 months:

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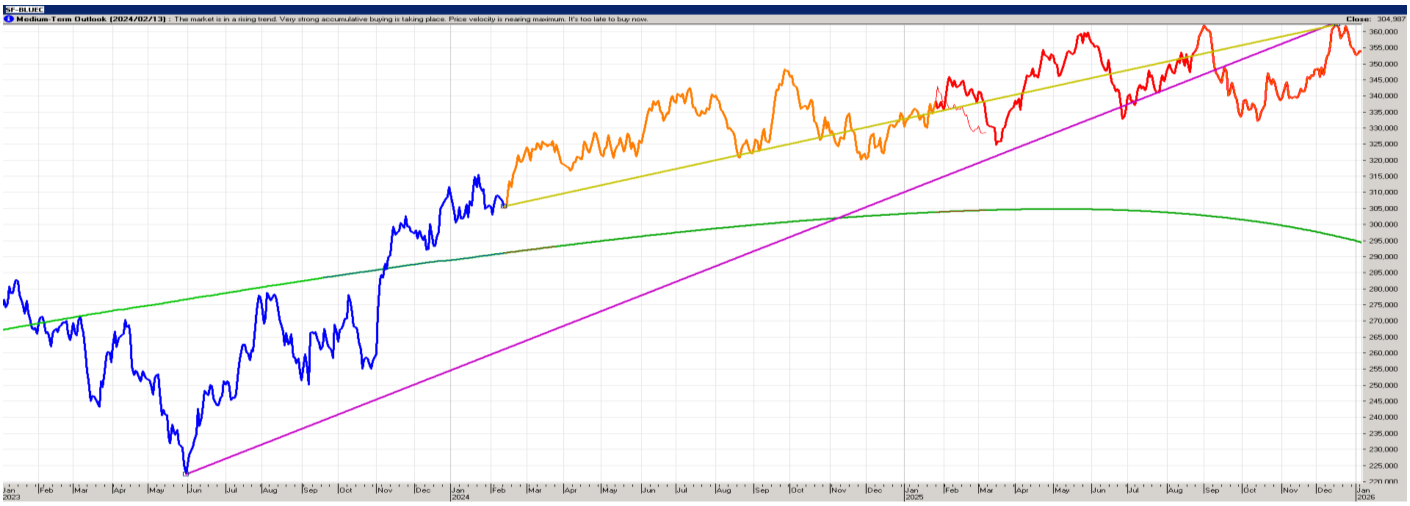
The JSE All Share Index is, however, somewhat different in aspect, adequately reflecting local economic pessimism as uncertainty dominates our political future. The index has been in decline since early last year and the pennant formation I have drawn over ShareFinder's AI projection completely reflects the indecision of local investors. Overall, the upper trend line forecasts a minus 7.8 percent rate of decline presently until a marked break-out from the pennant happens around the end of June while the more optimistic (reflected by the green trend line of the initial pennant formation) promises just minus 6 percent.

The AI projection itself senses a marked decline until April 26 when it projects the start of a strong up-tick until late May when a sharp decline until June 10 precedes a more sustained recovery to a peak in early September.

Here I need to point to the accuracy record of these projections which we have been monitoring weekly since January 2002. Throughout, the average accuracy rate has averaged nearly 90 percent, and for the past 12 months 92 percent which is why I have come to entirely trust these projections. That the market gains ShareFinder senses for the All Share Index from late April are so positive can only augur well for South Africa's post-election progress!

All of which takes me to ShareFinder's analysis of the future of South African Blue Chips which, if the purple trend line is correct, forecasts a compound growth average of 21.2 percent together with an average dividend yield of 3.4 percent which, if you have been on board since the end of May last year will offer you an overall average Total Return rate of 24.6 percent. The yellow trend line from now to the end of December 2025 furthermore suggests a compound annualised average rate of 9.6 percent for the next 23 months! That's rather better than the 5.1 percent ShareFinder senses for the New York average!



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The month ahead:

New York's SP500: I correctly warned that the signs were for continuing weakness and I still expect a continuation to the end of March followed by a bumpy recovery to mid-July and then further declines to the end of the year.

Nasdaq: I correctly predicted the down-turn which I expect to last to the first week of May followed by two months of gains and then further declines to the end of the year.

London's Footsie: I correctly predicted the dip which I expect to last until April. Overall, however I now see weakness amid steadily-increasing volatility right through to November.

France's Cac 40: I wrongly expected the recovery to last until the end of the month. However I now see the present next down-hill phase lasting until April 10 followed by volatile gains until the end of August.

Hong Kong's Hangsen: I correctly predicted weakness until the end of April. Thereafter I see a long recovery into the New Year.

Japan's Nikkei: I warned that this week's brief recovery was unlikely to last and now I see declines until early March followed by gains until mid-April and then further weakness.

Australia's All Ordinaries: I correctly warned of declines through to late March ahead of a brief recovery to mid-June and then a decline until September.

JSE Top 40 Index: I wrongly predicted a recovery from last Friday but it has, I believe, been merely delayed. It is likely to very brief, however and from the 22 I see declines until April 25. Thereafter I see a volatile recovery to early September.

ShareFinder JSE Blue Chip Index: I correctly expected continued gains which I see lasting until mid-July followed by six weeks of declines and then another six of gains to a market peak in late September.

Rand/Dollar: I correctly predicted the start of the long-term Rand recovery until the end of the year.

Rand/Euro: I correctly predicted gains until mid-March but thereafter I see weakness for most of the year.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.14 percent. For the past 12 months it has been 91.67 percent.

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