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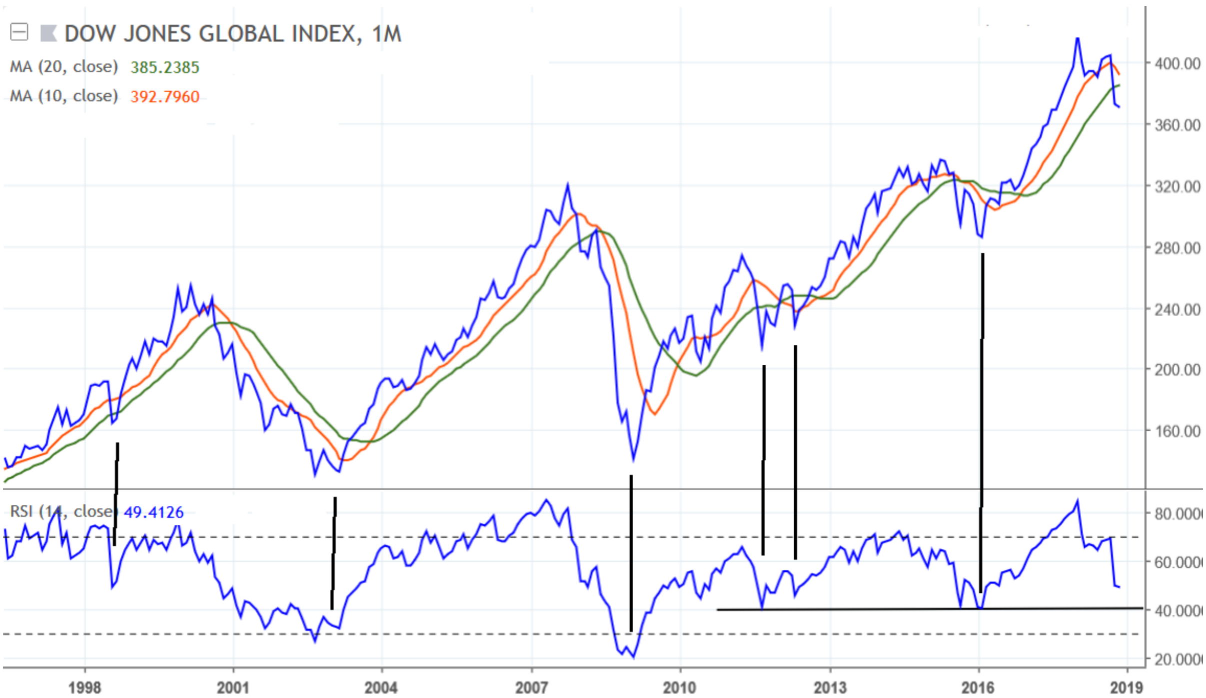
Booms and Busts Report

Have you heard the one about the crashing stock markets which may or may not be crashing? If you listen to the media it's going to be the worst ever...

As we come to the end of the year, let us consider what markets are actually doing and consider the outlook.

First, **global shares'** historic:



In the September 2018 Booms & Busts Report I showed the near 100 year chart of the US S&P 500 index. I repeat, we may see 15-20 years of stocks' rises. See that chart and Report by clicking ***here***.

The Global Stocks' index over 20 years+.

What I see, on the chart, is the following:

- Stocks remain in bull trend, bigger picture. Higher highs and higher lows. The 10 month moving average line is above the 20 and the latter points upwards.
- The RSI indicator is in the bullish upper half of the chart (50 or above).
- We saw the RSI fall to 40 or so 3 times this decade, coinciding with sizeable falls in the index. However, this marked the lows in the correction.
- We are in a correction, since January 2018.
- I can conceive further falls to c 340, as this level marked the prior peak in 2015. That would be a global stocks' fall of some 20%, before resuming the bull market. That would be a further 8% from where we are now.

In the scheme of things, a 10-20% fall is entirely NORMAL for the stock market, most years, without changing the bigger picture.

IF - big if - January 2018 saw something like a 2000 or 2007 top then we will see that after this initial push down, during 2018. After this fall, we will see a rally.

If the rally is weak and we do not rise above the January highs then a MAJOR crash is happening.

If the rally is strong and we rise above the January highs, and sustain, then 2018 has been a normal correction in a bull market.

Can it be a crash? Absolutely, yes. For this, we would need to see the RSI fall below 40, the 10 month MA fall below the 20 AND the 20 point down.

But we cannot deduce ANYTHING, of the big picture, from 2018's move down.

For now, global stocks are in a bull market, bigger picture. Until they are not.

Some readers will be saying "But Tariffs, Brexit, Italy, Ukraine, Saudi Arabia, Crude oil, Venezuela, property prices ... or something else that is, variously, in the 'News'?"

Well, we always have 'issues'. That hasn't stopped stocks rising over 100 years, or nine years or three years, depending on your timescale.

So, while global stocks remain in, big picture, uptrend, we remain invested in global stocks. We are investors, not traders.

If you read the press or listen to the TV/Radio you will hear lots of bearish punditry. Of course, you heard only bullishness in January...

If the chart does turn big picture bearish, so will we.

Interest rates

We have found what is happening to government bond interest rates to be informative. The government bond market is a multiple the size of the stocks' markets. Yet, you rarely hear the pundits mention it**.**

US 10 Year borrowing rate

As everyone knows, interest rates have fallen for nearly 40 years.

I take the US government 10 year borrowing rate as proxy for global rates. It affects mortgages and it reflects the market's expectations for future inflation.

The above shows the very long-term downtrend. It has been touched 5 times, over the decades. It has now been breached...

The 10 quarters (this is a quarterly chart, not monthly, as the prior) moving average is above a rising 20 quarters line. Also, notably, the interest rate is, currently, higher than the last peak, in 2013. That high preceded a sharp fall in rates. Over nearly 40 years, we have only once seen a higher high. It proved short lived.

What we have never seen is the rate rise above the falling downtrend line. Until now.

Until recently, I had been saying we still await a break up of rates. Having taken the chart back to the peak in 1981 I see that the break up has already occurred.

Flat for the last few months* and could easily (and appropriately) fall back to the trend line at around 2.5-2.8%. Staying above the trend line confirms the break up.

This would suggest, strongly, markets expect higher inflation in the future.

If the rate falls back under the trend line and falls below c 2.5% then we remain in an era of falling rates.

If the rate stays above the falling trend line we are confirmed as in an era of rising rates.

Nobody working today (unless you are 90) has worked in an era of rising rates.

Isn't that something?

What will our world be like with interest rates trending up for 10-20 years?
It's not possible? Look at the chart again.

In that scenario, the world will be very different to the one we have experienced over the last few decades of falling rates. For one thing, house prices CANNOT rise incessantly. They can fall. (As it's nearly panto season...)
Oh no, they can't.
Oh yes. They can.

Do the maths as regards how much people can borrow and then consider how much they can pay.

So, why might markets see inflation rising?

* Above, I noted (as you can see on the chart) interest rates have been flat for the last few months, having been rising strongly for a couple of years.

Recent deflation. China and Crude Oil.

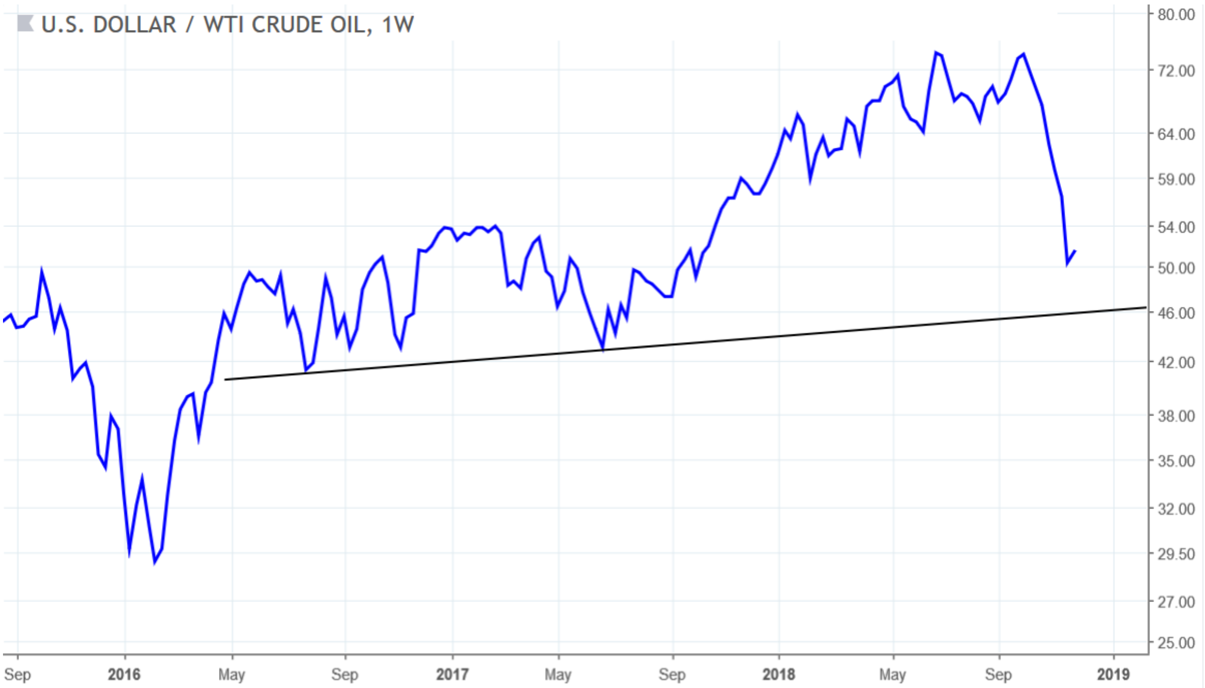
It seems to me there has been weeks or a few months of falling inflation, maybe even deflation, in the system, due to a China slowdown and the crash in the oil price.

China stocks

After a doubling in prices, over the last 2 years, Chinese shares have fallen sharply this year. As the 2nd largest economy on Earth, naturally, this will affect world inflation expectations. If the falls have ended then the Chinese (indeed Emerging Markets, generally) multi-year bull market resumes. #onverra.

Crude oil has had a whomping crash, from $76 a barrel to $50.

West Texan Crude Oil



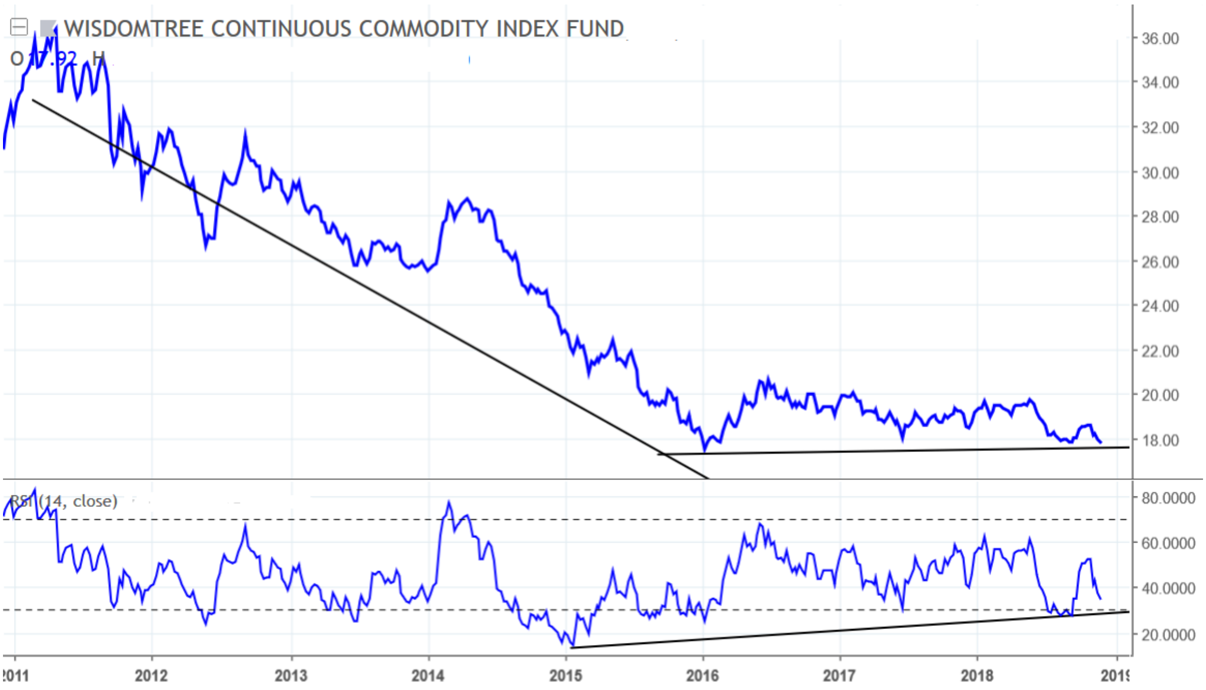
If crude stops falling around here ($46?) that would stop the downward pressure on inflation. If it resumes its uptrend from around here then the upward pressure on inflation would likely resume. Especially, if, as I suggest above, China resumes its growth.

Of course, Trump and Xi are meeting this weekend. I wonder what they will talk about. Look out for positive noises next week. (If there are any, the mainstream media is unlikely to report it. If it involves Trump or Brexit, they only report bad stuff.)

So, China and the oil price are, currently, crucial to inflation expectations and, therefore, interest rates.

These will affect Global Stocks' prices, Emerging Markets, Energy stocks, Commodity prices. They have, largely, fallen this year, having risen strongly the prior 2 years. Falling inflation or deflation this year. Rising inflation, 2016 and 2017.

It seems to us we are moving to years of rising inflation. Look at the chart of the **Top 18 global commodities, equally-weighted**



Why equally-weighted? Because it takes out the effect that any one commodity will have on commodities, in general. Crude oil, for example, would have a 30% weighting. Instead, it has the same weighting as, for example, cocoa or palladium. This index gives us a clear picture of what commodities are doing, generally.
For 5 years, they were falling incessantly. Thus, we were in the deflation that I wrote of - incessantly - for years.

Since early 2016, commodity prices have been flat or slightly up (remember crude oil has just crashed 34%... after a 190% rise). If crude has been down so much other commodities have been up, as the chart is flat to up.

Thus, there is some small upward pressure to commodity prices. Unsurprisingly, market expectations for future inflation has been rising. Thus, global interest rates have been rising for the last 2-3 years (not recently).

If the index of commodities, equally-weighted, rises sustainably, we will see inflation and interest rates rise.

Uranium
I have been writing, from time to time, about Uranium Mining shares' opportunities.
They just keep coming.

From where will all the electric vehicles that we will buy over the next decade obtain their electricity?
Nuclear power. What do you need for nuclear power? Uranium.

Over the last 7 days, alone:

- The VW/Audi/Porsche/Seat/Skoda Group has announced a $150Bns (you read right) investment, over 6 years, in electric vehicles and automation.

- General Motors have announced the closure of 5 major car manufacturing plants to focus on electrification.

Still not investing in uranium miners? The opportunity is huge.
As investors, we are excited about the opportunities for portfolios. I have given some of the many reasons why, above.

The bulk of wealth advisers and portfolio managers has NEVER managed money in an era of rising interest rates.
They have only known falling rates, throughout their careers. Just like you.
What is your adviser / manager saying and doing?

What should **YOU** do to secure and grow your wealth and purchasing power?

Don't put it off till it's self-evidently too late.

If your portfolio, altogether (pensions, ISAs, other investments), amounts to at least £500k, why not arrange a no-obligation discussion with me about your plans and objectives?

I have space for 3 new clients.

We work for wealthy families (many with portfolios in 7 figures) and/or high earners, whose portfolios will get there.
We work for clients all over the UK and indeed on 3 continents.

We also have an association with an excellent financial planning firm who can advise interested parties with portfolios materially under £500k. Contact me for details.

Our most important and most often repeated philosophy is :
"We advise you based on what we would do, were we in your shoes, given what we know".

Call me personally to see how we can help.

Please note carefully the following important messages:

I believe most folk do not realise, in big picture, the changes happening right now in our economy and markets (interest rates, government bonds and property).

They will.

I think most folk also do not realise, in big picture, the amazing opportunities in our markets (global stocks, commodities, inflation-directed assets).

They will. But will they benefit?

Click ***[to forward to a friend]*** if you think they could benefit from reading this.

If you have any queries over any of the issues raised do not hesitate to get in touch with me by calling me or emailing me at **jdavis@jonathandaviswm.com**.

Follow me **@J0nathanDavis** where I frequently comment and link to important commentaries on markets and economics.

See my Youtube channel: ***click here.***

Kind Regards

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