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ROLF BERTSCHI GLOBAL CHART OUTLOOK

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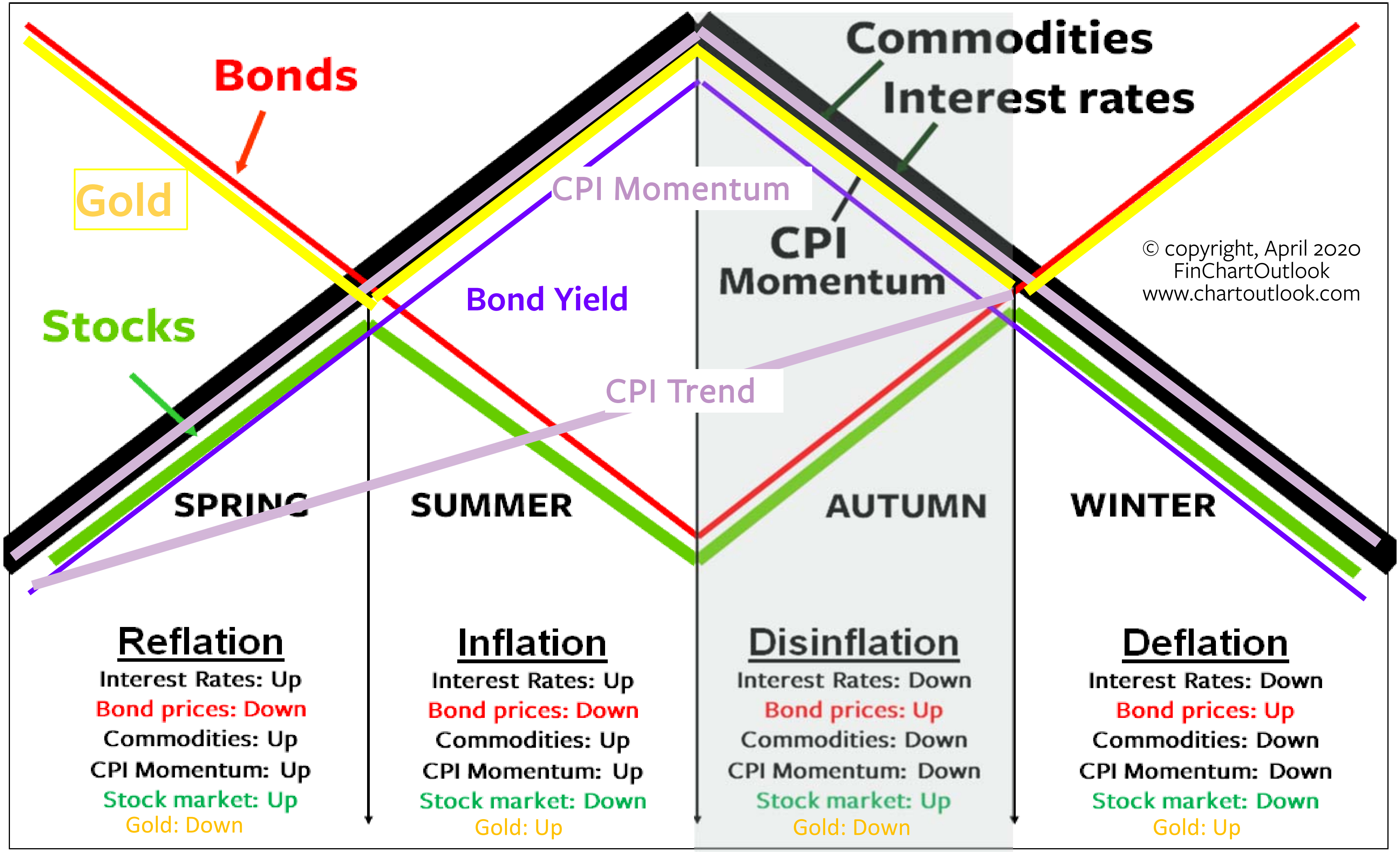
GLOBAL MARKETS

9th April 2020

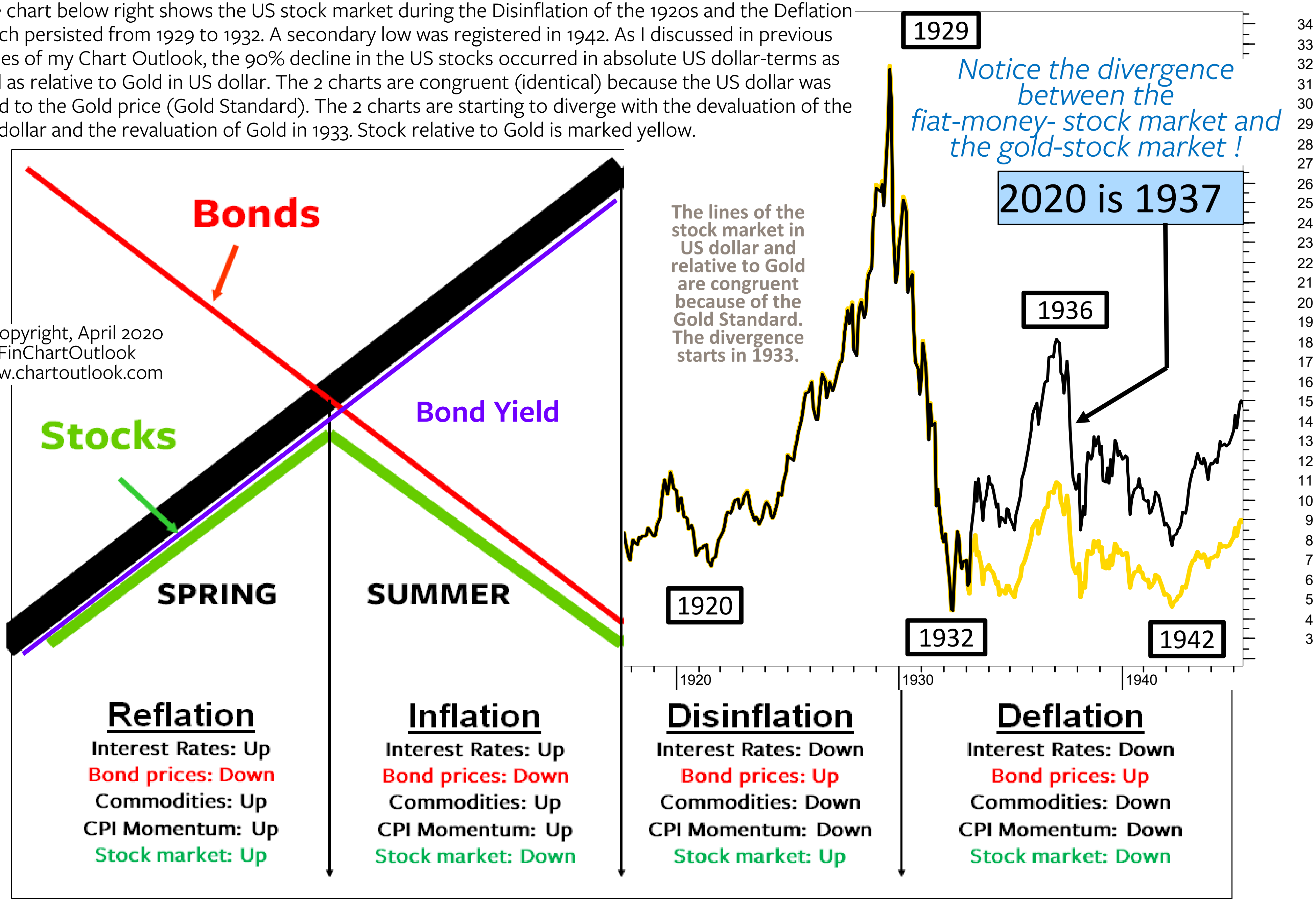
Seasonal Secular Economic and Financial Market Model

Below I reprint my Seasonal Economic and Financial Market Model. It is a schematic which displays the trend of the three asset classes stocks, commodities and bonds (interest rates) during the four cycle phases Reflation (Spring), Inflation (Summer), Disinflation (Autumn) and Deflation (Winter). The Model allows you to identify the phase in progress. This is because the combination of the trends in the 3 asset classes is different in each cycle phase. For example, when stocks are rising and commodities are rising and interest rates are rising (bonds declining), then you can conclude that the trend is Reflation. I believe that with the stock market decline of February and March 2020, the US and core European financial markets entered Deflation. Other European and global stock markets have been in Deflation since 2007.



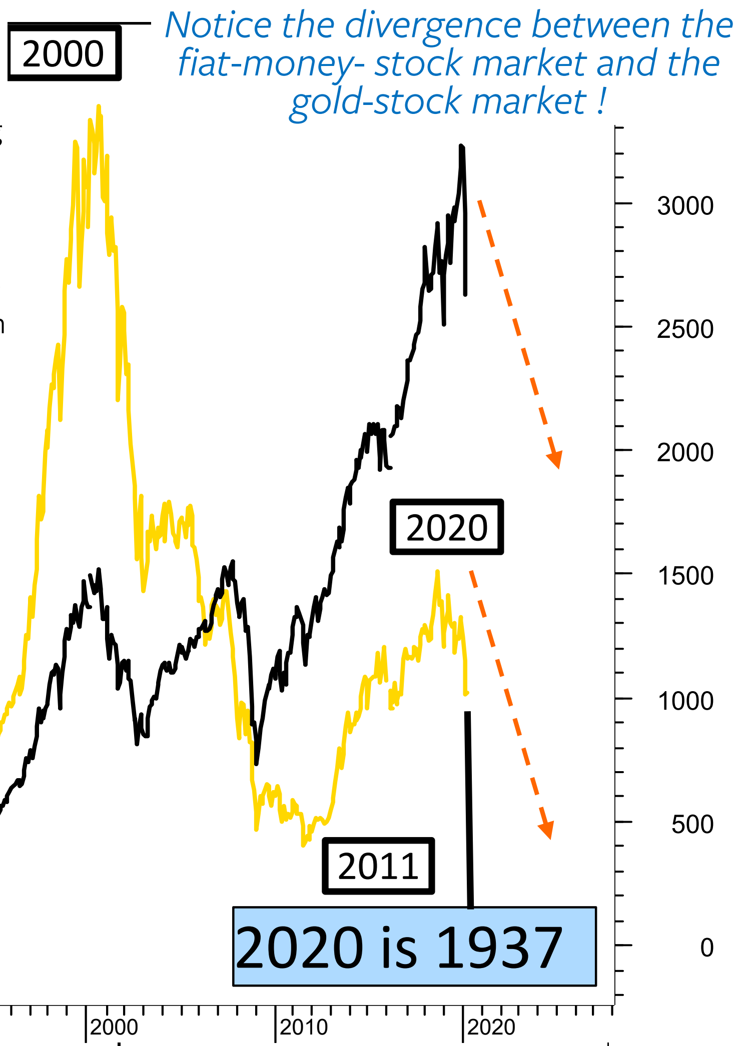
Seasonal Secular Economic and Financial Market Model - The Deflation from 1929 to 1942

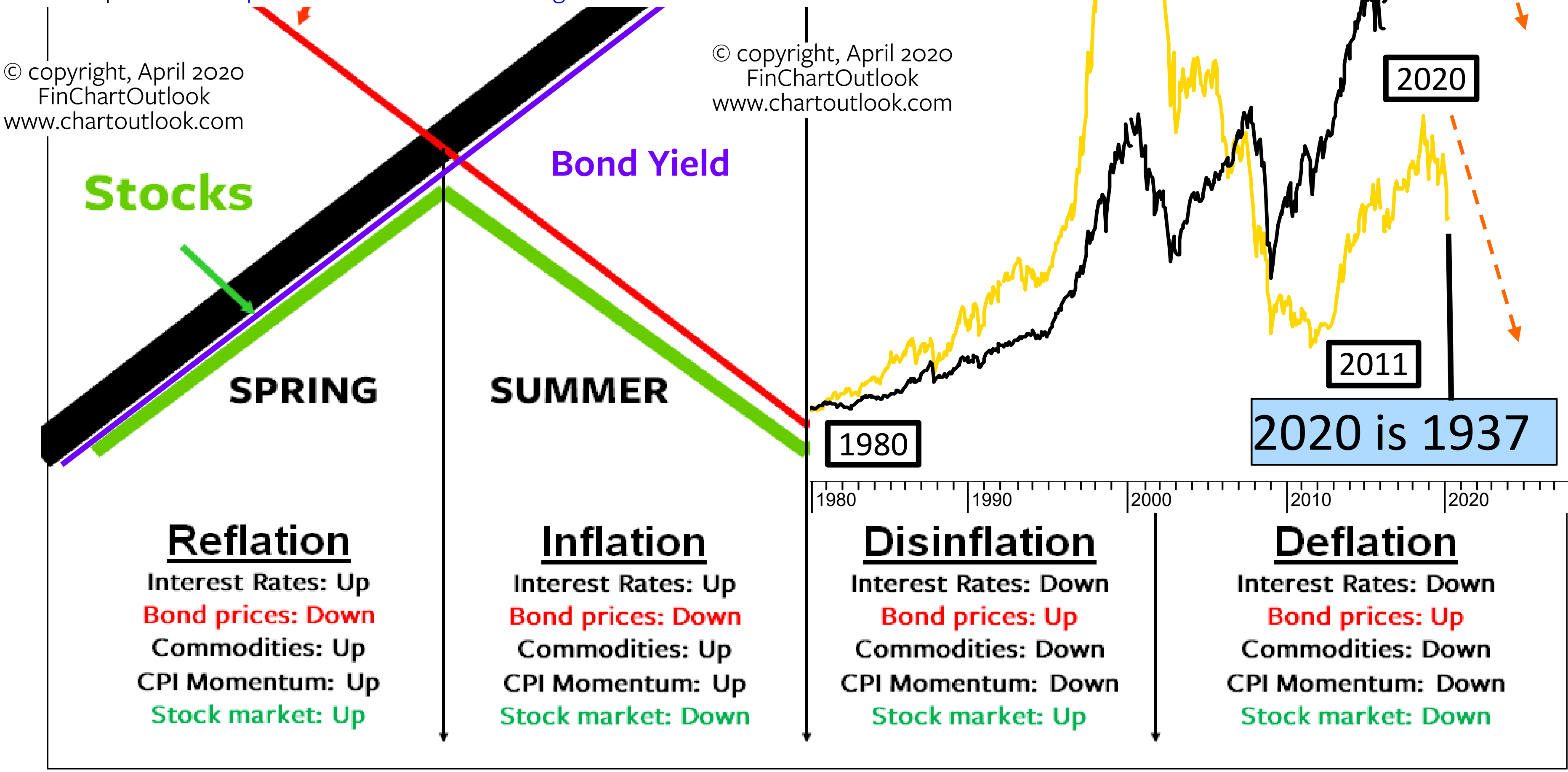
The chart below right shows the US stock market during the Disinflation of the 1920s and the Deflation which persisted from 1929 to 1932. A secondary low was registered in 1942. As I discussed in previous issues of my Chart Outlook, the 90% decline in the US stocks occurred in absolute US dollar-terms as well as relative to Gold in US dollar. The 2 charts are congruent (identical) because the US dollar was fixed to the Gold price (Gold Standard). The 2 charts are starting to diverge with the devaluation of the US dollar and the revaluation of Gold in 1933. Stock relative to Gold is marked yellow.



Seasonal Secular Economic and Financial Market Model - The Deflation from 2000 to ??

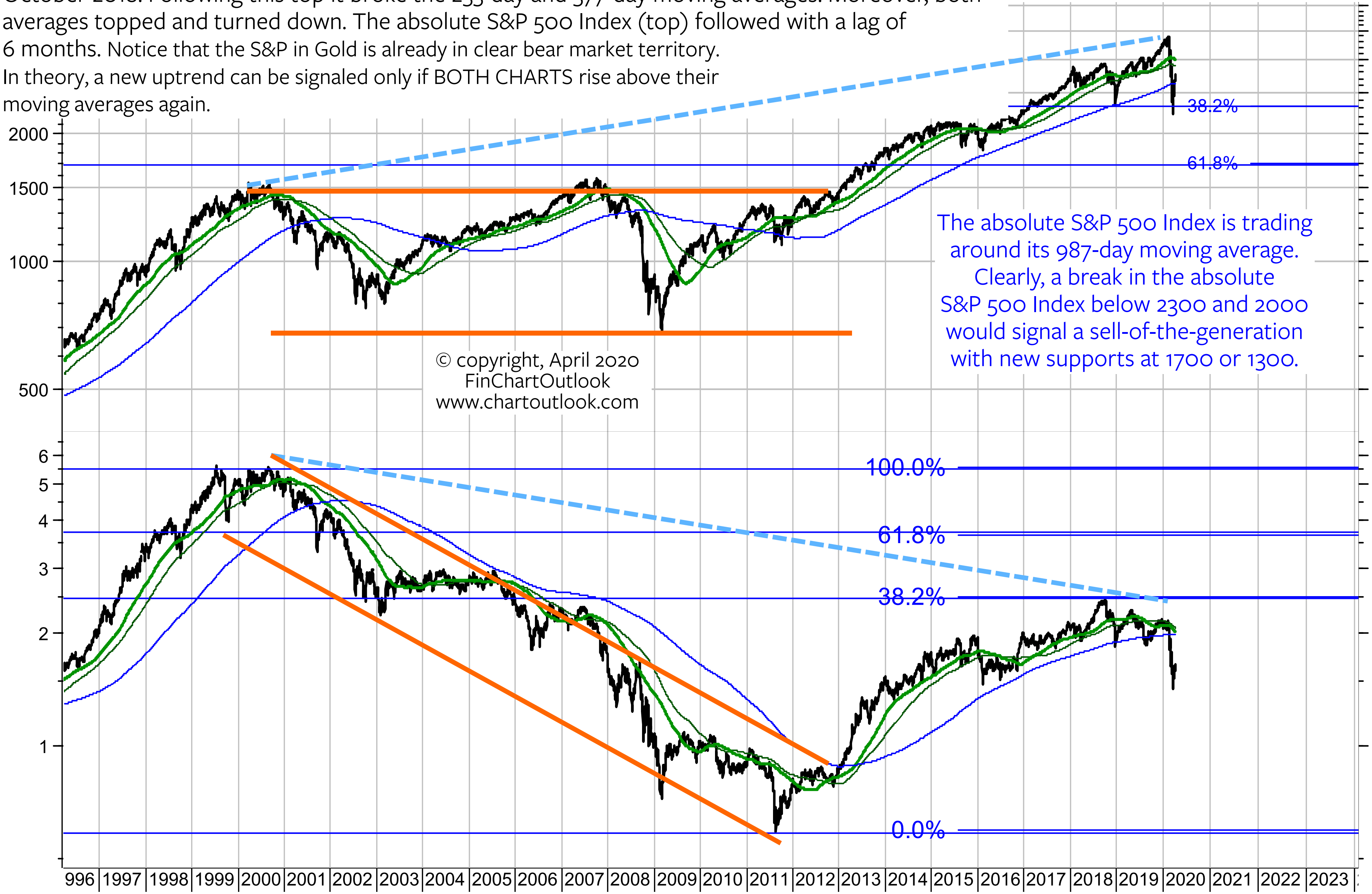
The chart below right shows the US stock market during the Disinflation of the 1980s and 1990s and the Deflation which has been persisted since 2000. The year 2000 marked the peak of the Disinflation from 1980, during which stocks outperformed massively relative to Gold.
It is no coincidence that the chart of the stock market (below) from 1980 to the present shows a strong similarity to the chart of the stock market from 1920 to 1937. On both charts the stock market lost almost 90% of its value. The single distinction is the time scale. Gold was revalued (Gold rose) and the US dollar was devalued in 1933. Before the Gold revaluation the stock market had collapsed by 90%. The cycle from 1980 is different because both, Gold and the US dollar, were not fixed, but were traded in the free market. This has allowed for a stretching of the time scale by the factor of about 3.6. In other words, the stock market decline from 1929 to 1932 has repeated but stretched from 2000 to 2011, which is a factor of about 3.60. Thanks to the existence of the fiat-money system and the Fed interventions the divergence between the fiat-money-stock-market-chart and the gold-stock-market-chart has become exponential. I expect the two charts to converge from here on.





S&P 500 Index absolute (top) and relative to Gold (bottom)

The S&P 500 Index relative to Gold (bottom chart) clearly signaled a top to the uptrend from 2011 in October 2018. Following this top it broke the 233-day and 377-day moving averages. Moreover, both averages topped and turned down. The absolute S&P 500 Index (top) followed with a lag of 6 months. Notice that the S&P in Gold is already in clear bear market territory.
In theory, a new uptrend can be signaled only if BOTH CHARTS rise above their moving averages again.



MSCI Switzerland relative to Gold in Swiss franc

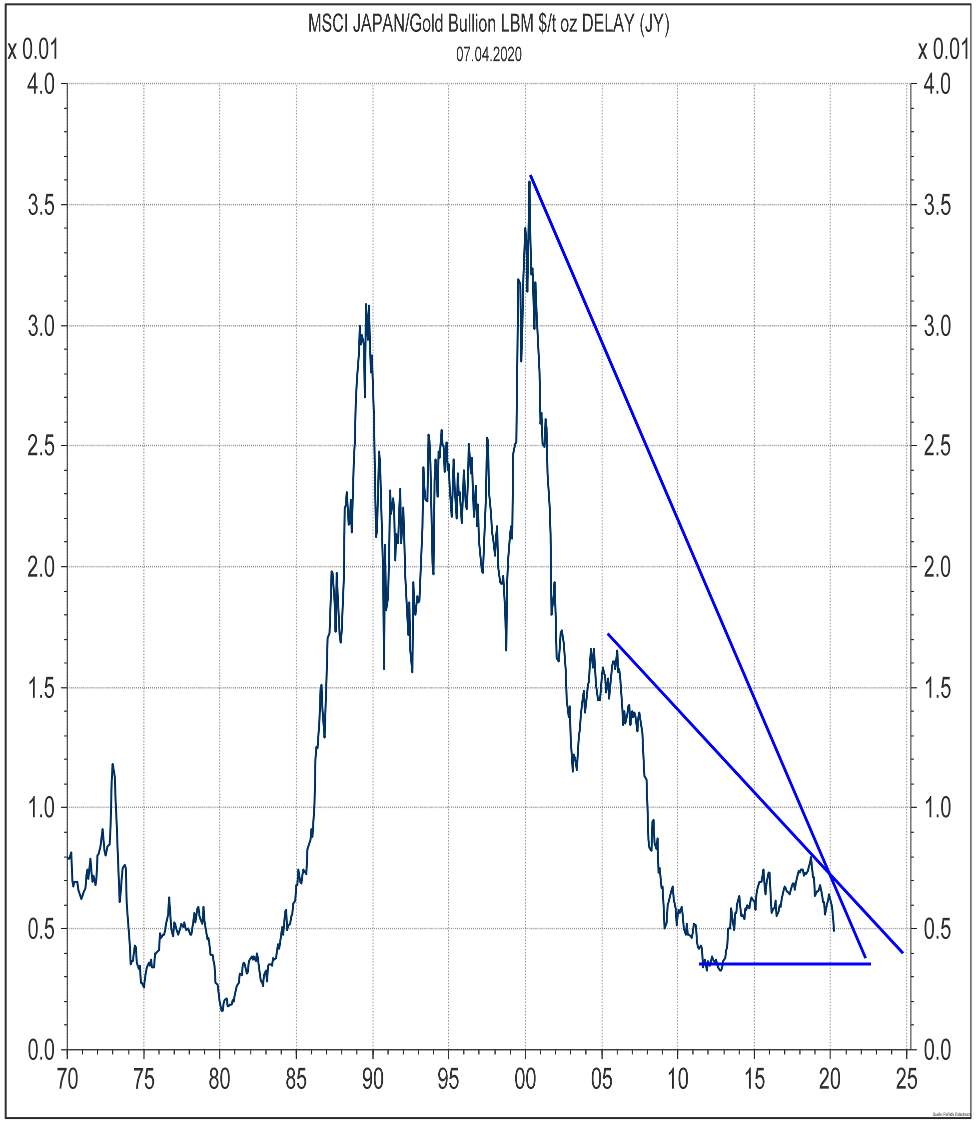
I show the charts below to demonstrate that the Swiss stock market relative to Gold in Swiss franc has shown a performance which is similar to the US stock market relative to Gold in US dollar. From 1999 to 2011 the Swiss stock market lost 80% of its value. The question in both charts is the following: Was the rise in the stock markets from 2011 to 2020 the beginning of a new secular Reflation (which would imply that the equity uptrend will resume from here on), or is it simply an extension of the Deflation, which began in 1999? When I take a look a the same chart of the stock market index relative to Gold for the MSCI Europe, MSCI U.K. and MSCI Japan (on the next pages), then I can argue that the US and Swiss stock markets were exceptionally strong. In most other stock markets, and therefore also for the USA and Switzerland, the rise from 2011 belongs to the DEFLATION from 2000. This means that the downtrends are likely to persist for another few years.

MSCI Europe and MSCI Germany relative to Gold in Euro

The MSCI Europe and MSCI Germany the rise from 2011 to 2018 clearly belongs to the Deflation, which began in 2000.
Most likely, both charts will register new lows. In fact, both charts could test their lows from 1980.

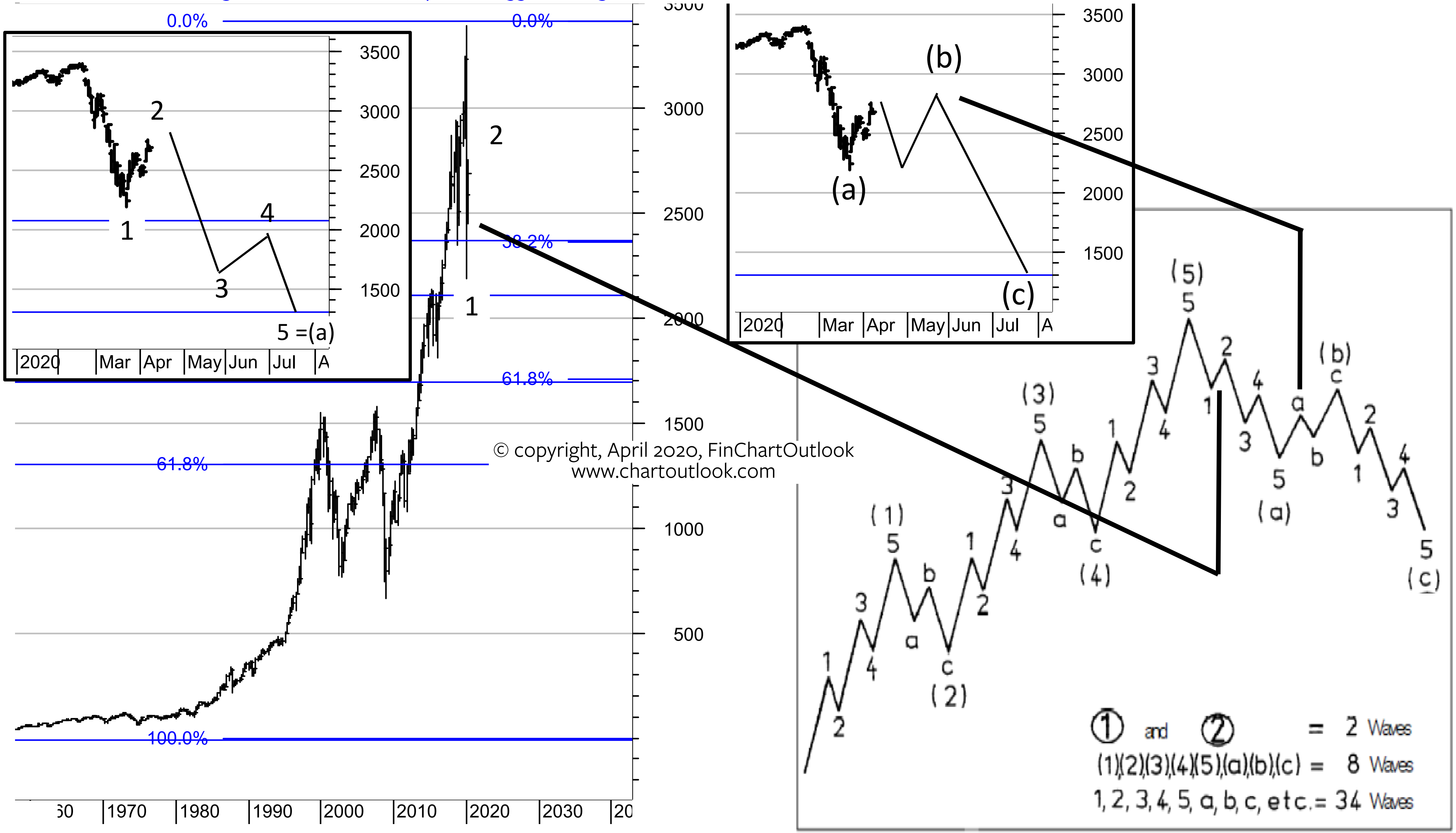
MSCI U.K. relative to Gold in British pound (left) and MSCI Japan relative to Gold in Japanese Yen

The MSCI U.K. and MSCI Japan the rise from 2011 to 2015 or 2018 clearly belongs to the Deflation, which began in 2000.
The MSCI U.K. already fell to a new low. Both charts could well extend their downtrend to test the lows of 1980.



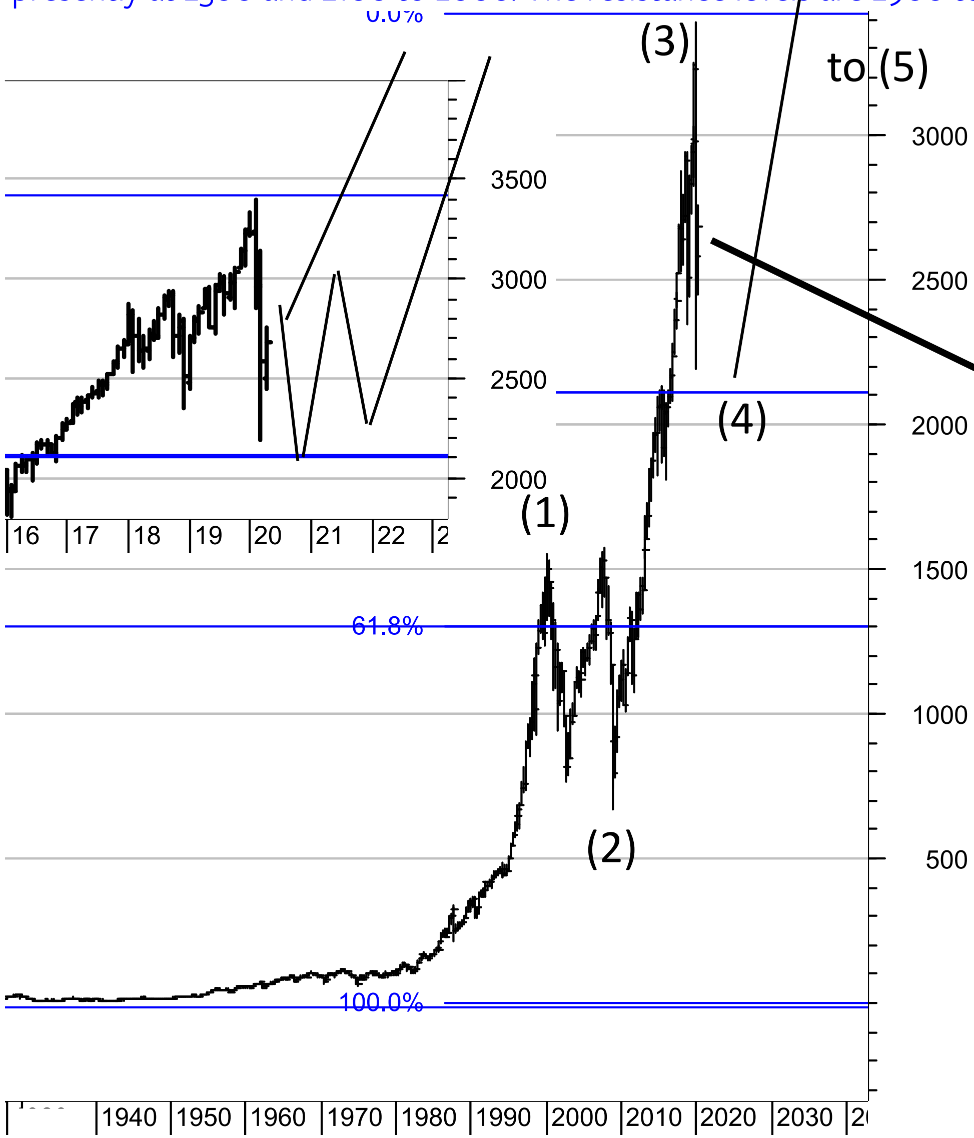
Where are we? The S&P 500 Index and its position in the Elliott Wave schematic – The bearish outlook

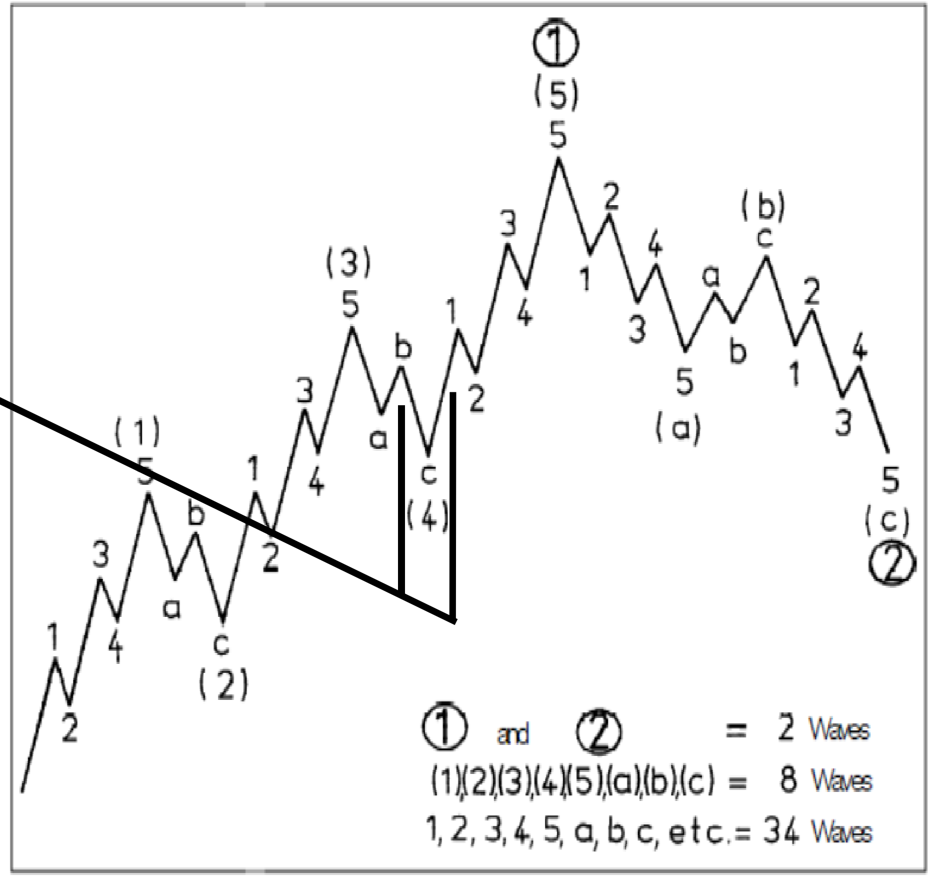
The worst-case scenario: IT WAS A BUBBLE, STUPID ! The secular uptrend in the equity market has peaked. All bubbles MUST burst. The Index will retrace part of the uptrend, either from 2009, or from 1982, or from 1932. Given the linear scale, on which the entire bubble was built from 1990 onwards, it does not matter if it corrects the rise from 1982 or from 1932. Most importantly, for investors to decide, the mega-support-levels to watch are 2300, 2100 to 2000, 1700 to 1550 and 1300.



Where are we? The S&P 500 Index and its position in the Elliott Wave schematic – The bullish outlook

The best-case scenario: THE BUBBLE CONTINUES TO BUILD. The secular uptrend in the equity market is not over yet. The money printing press is saving the system for another round of expansion. The Index has retraced 38.20% of the rise from 2009 to 2020. The support is at 2350. The weekly closing on 20.3.2020 was 2304. The Index could wither resume the uptrend to new all-time highs or as per the alternate view, could see one more selloff to 2100 before resuming the uptrend. Most important, for investors to decide, the mega-support-levels are presently at 2300 and 2100 to 2000. The resistance levels are 2900 to 2950 and 3400.

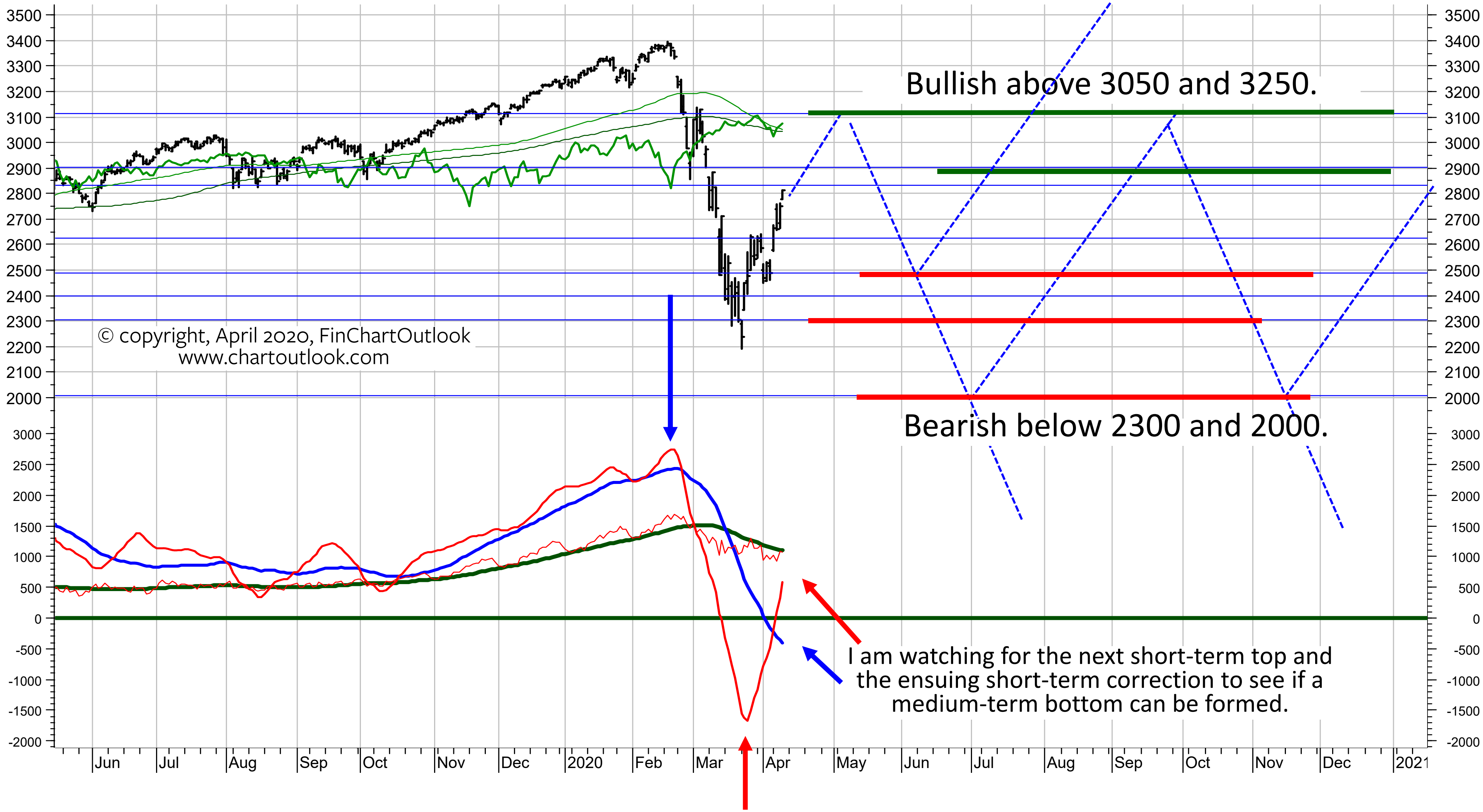




S & P 500 Index

Resistance levels (to buy a breakout) are at 2830, 2900/50, 3110.
Support levels (to sell a breakdown) are 2620, 2490, 2400, 2300 and 2000.

Maybe YOU are a friend of WALTI (We Are Long-Term Investors). But, you should know that WALTI just broke up with TINA (There Is No Alternative).
If you are a long-term investors you should kick WALTI out of your office if 2300 to 2100 and 2000 is broken.
Below is my best-guess of the path of the S&P 500 Index for 2020.
Of course, I will update the Outlook as we move forward.



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Sources

The charts in this publication are from Metastock and Datastream from Thomson Reuters Equis. All indicators and analyses are by Rolf Bertschi.

Explanations

For a more detailed explanation of the Trend and Momentum Models applied in this Chart Outlook, please see

www.chartoutlook.com

www.rolfbertschi.ch

E-Mail

rolf.bertschi@chartoutlook.ch

FinChartOutlook GmbH, Rolf P. Bertschi, Dörflistrasse 17, 8903 Birmensdorf ZH, Switzerland