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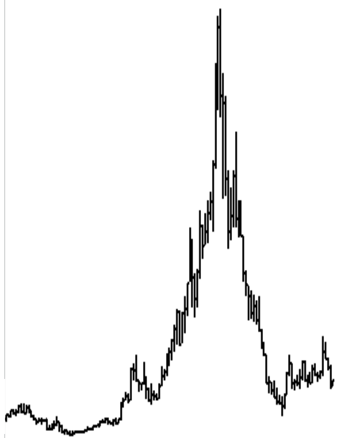

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BERTSCHIS CHART OUTLOOK

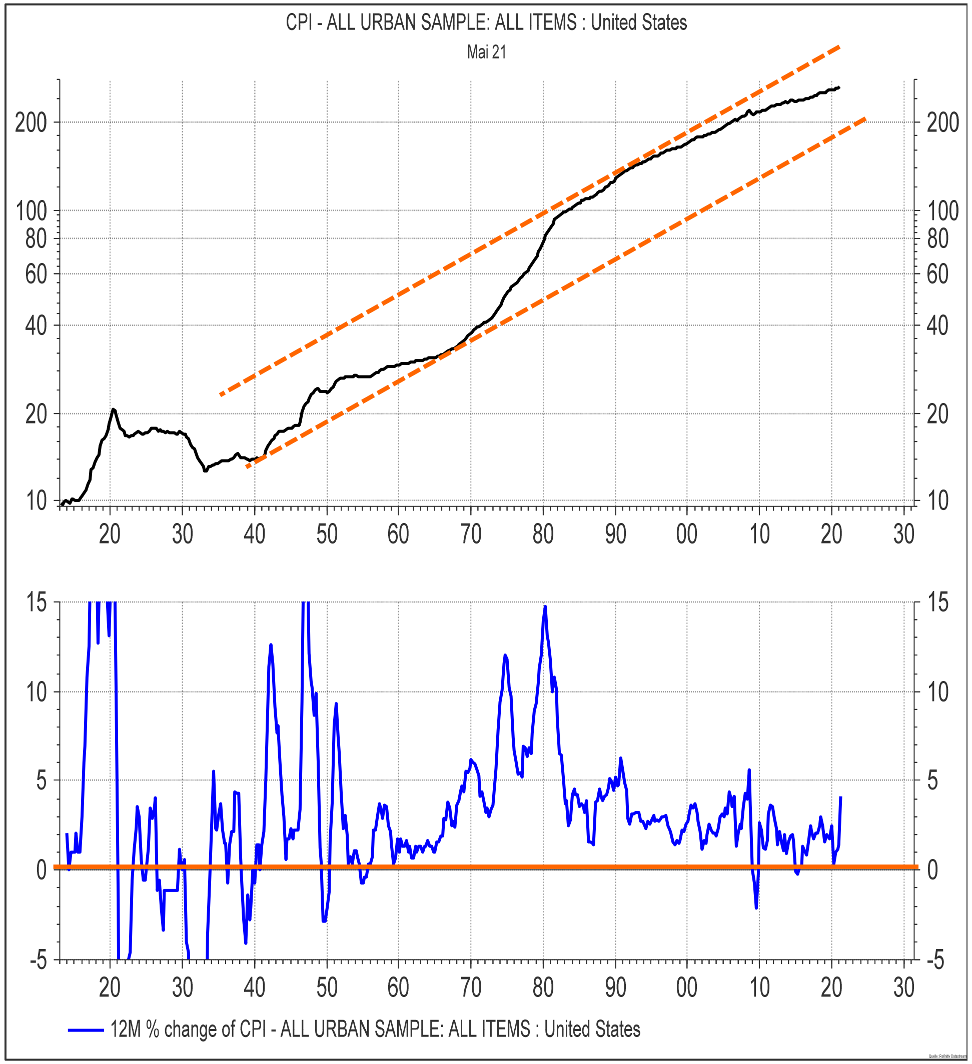
Global Markets

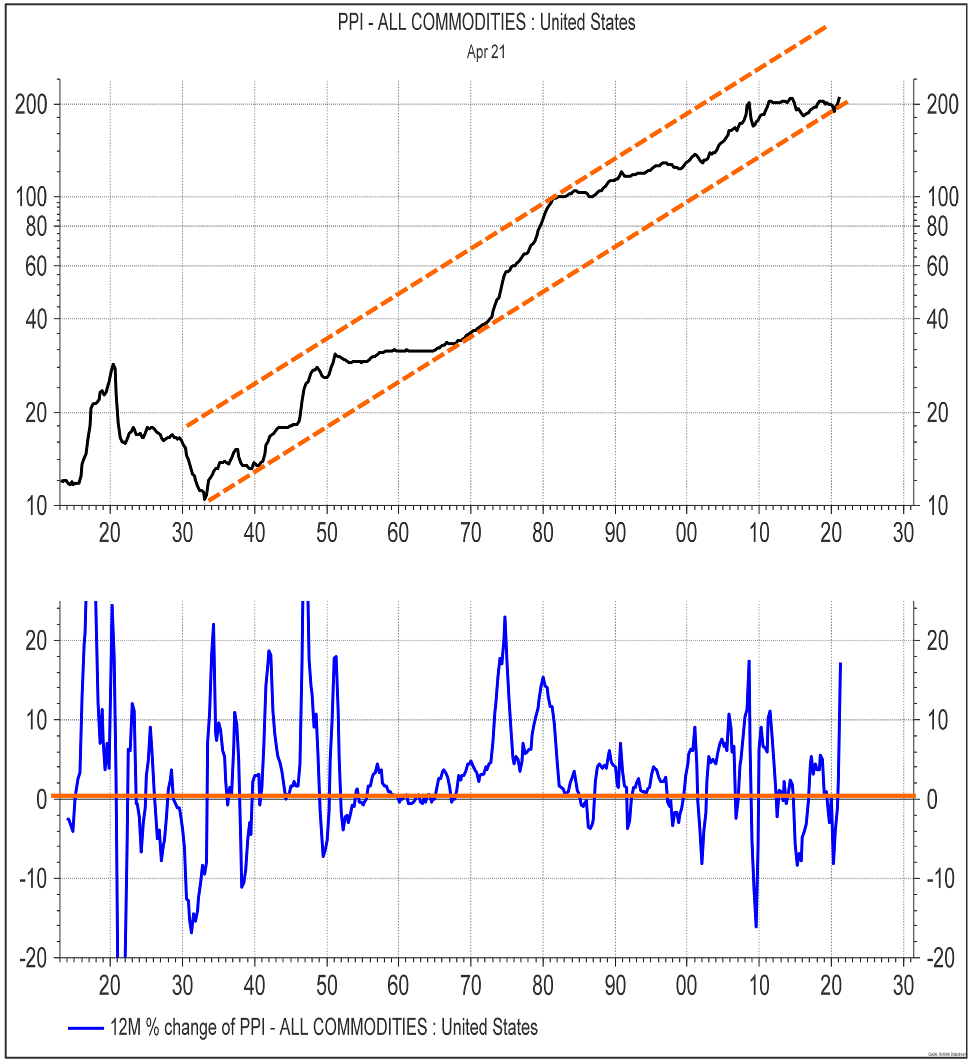
14th June 2021 / Issue 2021 #23

US Consumer Price Index (left) and US Producer Price Index (right) since 1913

The charts below show the present rise in the US CPI and the US PPI relative to their history from 1915. The 2 charts clearly show the price decline in the Deflation of 1920 to 1932 in both Indices. This deflationary depression of the 1930s laid the ground for the uptrend in both indices, which has been unfolding for 88 years. I call this uptrend in the price indices a secular SUPERINFLATION, during which the US and global economies went through an unprecedented growth path. It was my view, until about 1 year ago, that these uptrends would give way to a prolonged deflationary downtrend. However, the rise in the PPI above the Zero Line and the rise in the CPI above the resistance at 2% made me reassess this scenario, looking for the resumption of the secular uptrend in the CPI and PPI for at least another 1+ year(s).

The big question is, how long will this uptrend in the price indices persist? Will it shift from the present reflationary phase to the inflationary phase or even hyperinflationary phase? Moreover, will the uptrend be stronger in the Consumer Price or in the Producer Price Index? The FED says that the present price surge is only temporary due to the base-effect in the 12-month rate-of-change. BUT, as I show on the next few pages, I believe the uptrend could well embark from the presently cyclic rise to a new secular uptrend. Moreover, as I show on the next page, the Producer Price Index is already rising faster than the Consumer Price Index, which, in the past, has gone hand in hand with an inflationary price pressure. This price upward pressure could well trigger a major stock market correction.

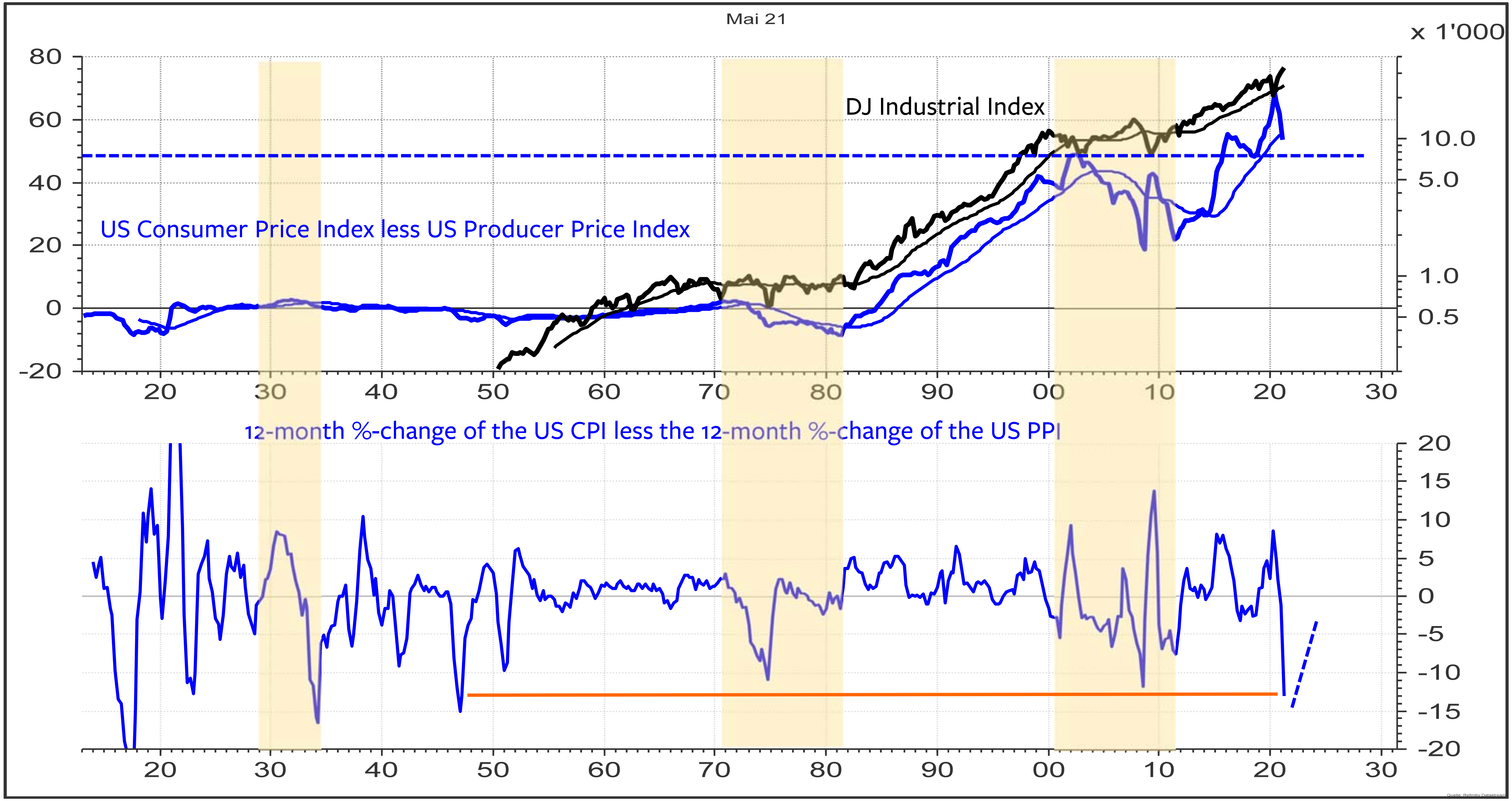




US CPI relative to the US PPI (blue) compared to the S&P 500 Index (black)

There are two inflationary measures in the economy, the Consumer Price Index (CPI) and the Producer Price Index (PPI). CPI is a measure of the total value of goods and services consumers have bought over a specified period, while PPI is a measure of inflation from the perspective of producers.
A review of basic economic theory suggests there should be a pass-through effect--that is, producer prices should lead and thereby help predict consumer prices. Moreover, somewhat simplified, one could see the difference of what producers pay and what consumers pay as a kind of profit margin. Interestingly enough, the relative performance of the CPI to the PPI shows a positive correlation to the stock market.

When the CPI outperforms the CPI, then it means that the profit margin is rising. But, when the CPI underperforms the PPI, the profit margin is narrowing and the stock market is likely to declining. Most often, this is a sign of Inflation when commodities are rising strongly.
Presently, the relative chart (marked in blue) is declining and breaking the moving average. This is per se a bearish signal for the stock market. But, the differential in the 12-month %-change of the CPI less the PPI (bottom chart) has already declined to an oversold level. This means that only if the relative chart breaks the support at 48 (upper chart, dashed horizontal blue line) would the stock market be in real danger.



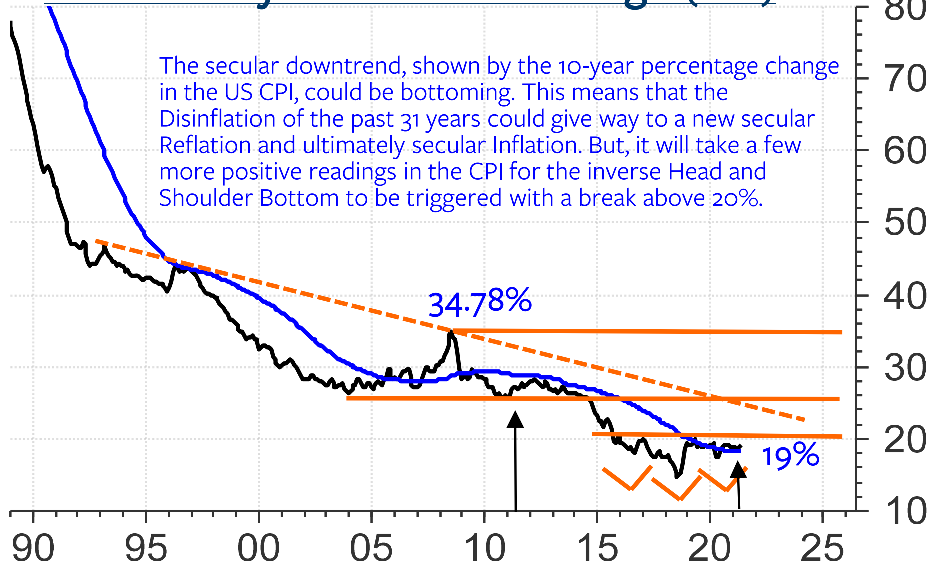
The present cyclic rise in the CPI (as measured by the simple 12-month %-change, upper left chart) is likely to embark upon a sustainable uptrend. The chart above right and the two bottom charts show that the US CPI is close to testing the next major resistance levels, a break of which would confirm that the uptrend in the CPI is of secular degree, i.e. it could last for a few years.

US CPI-12-month Rate-of-Change (in %)

US CPI-24-month Rate-of-Change (in %)

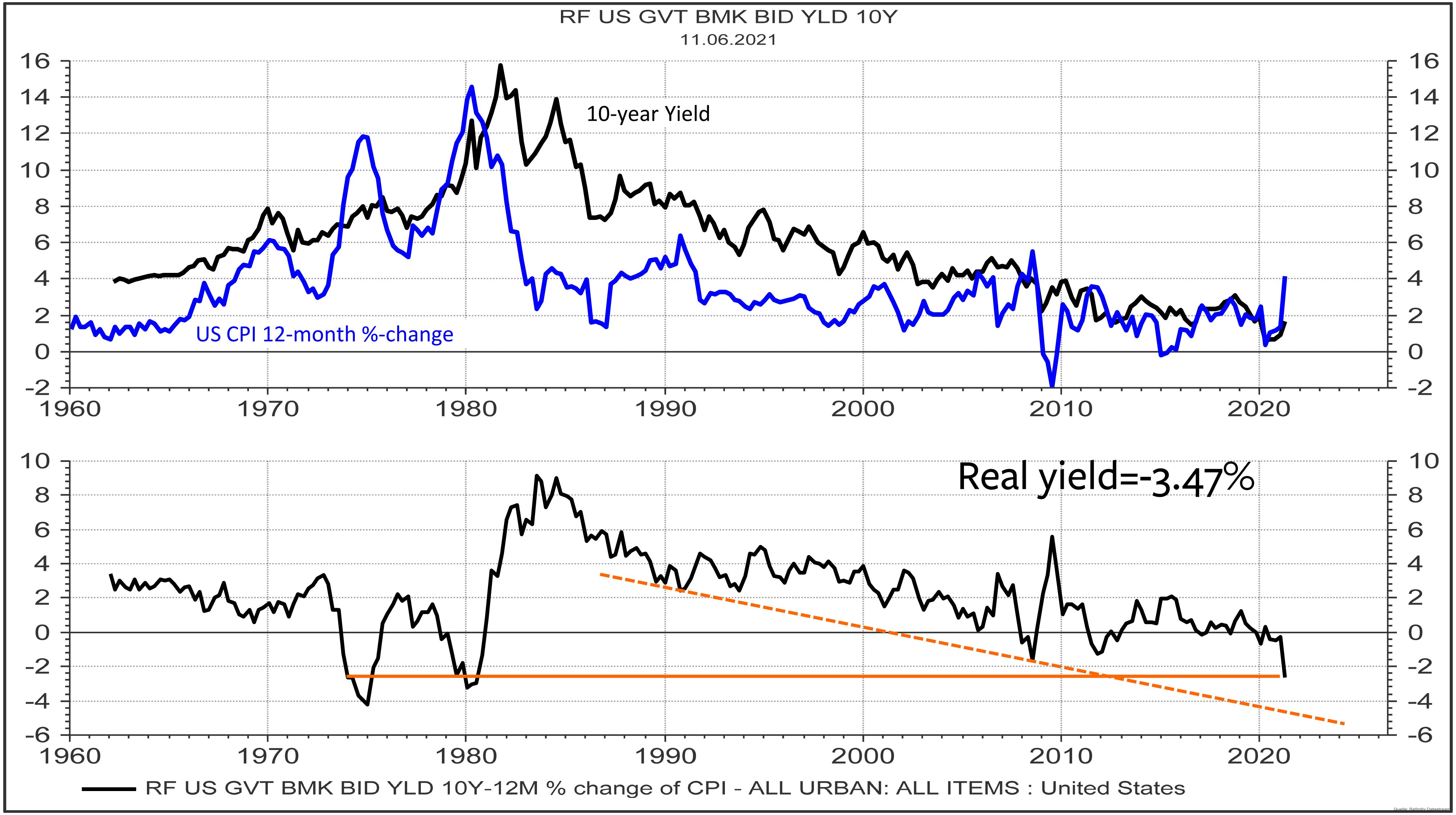
US CPI-5-year Rate-of-Change (in %)

US CPI-10-year Rate-of-Change (in %)



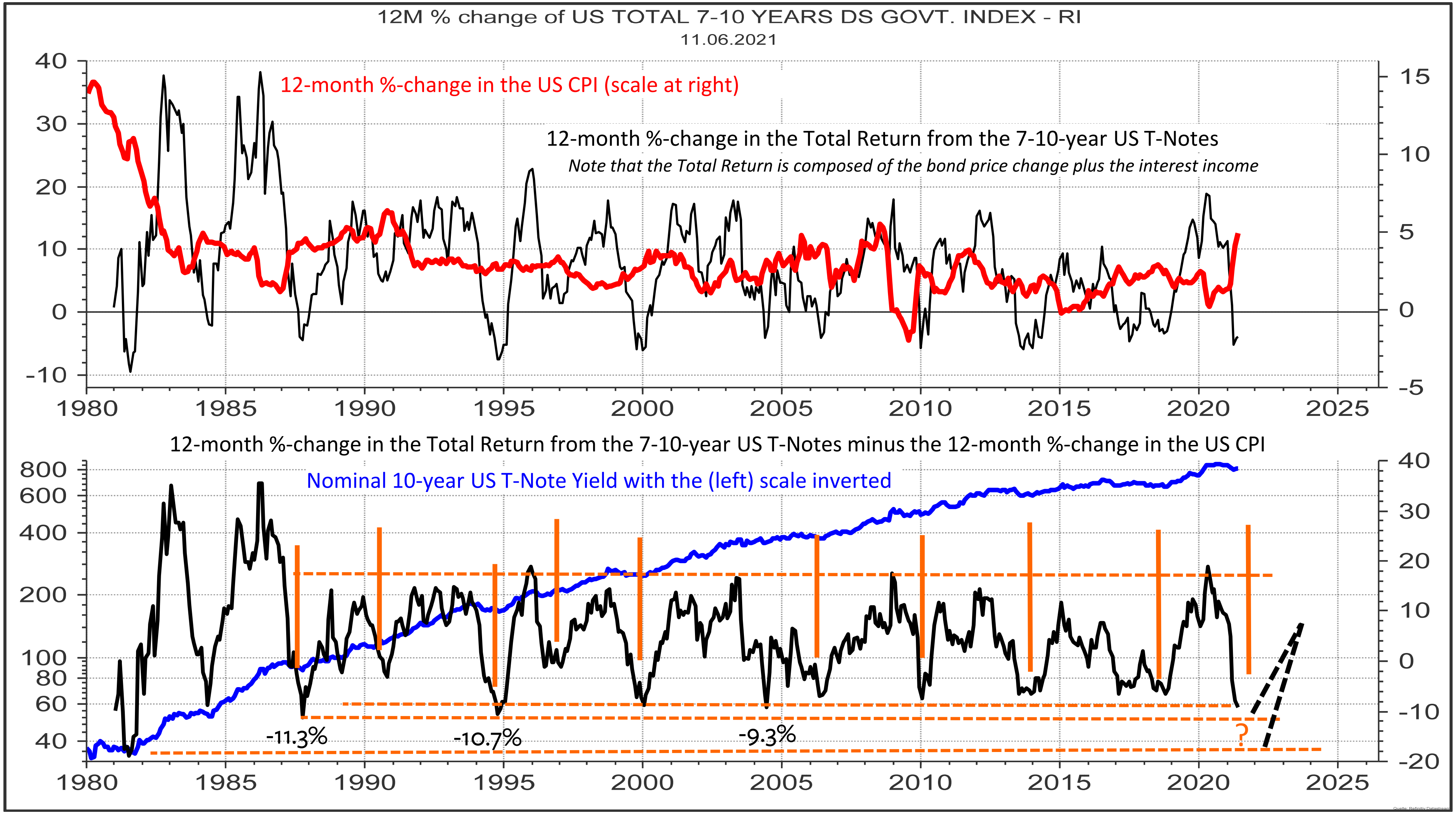
US 10-year T-Notes Yield, the US CPI 12-month Rate-of-change and the Real Yield

Presently, the US CPI 12-month %-change is at 4.93%. The 10-year T-Note Yield is at 1.46%. This means that the Real Yield is -3.47%. This is as low as it was the last time in 1980 and 1973. But, in those years inflation went though the roof and interest rates were at much higher levels. While the negative Real Yield is good news for the debtors, it remains to be seen, if the bond holders are willing to live with it. Or, will the bondholders reduce or sell their positions so that the declining bond prices will push the yield higher? On the next page, I am looking at the correlation of the US CPI to the Total Return from the 7-10-year US T-Notes.



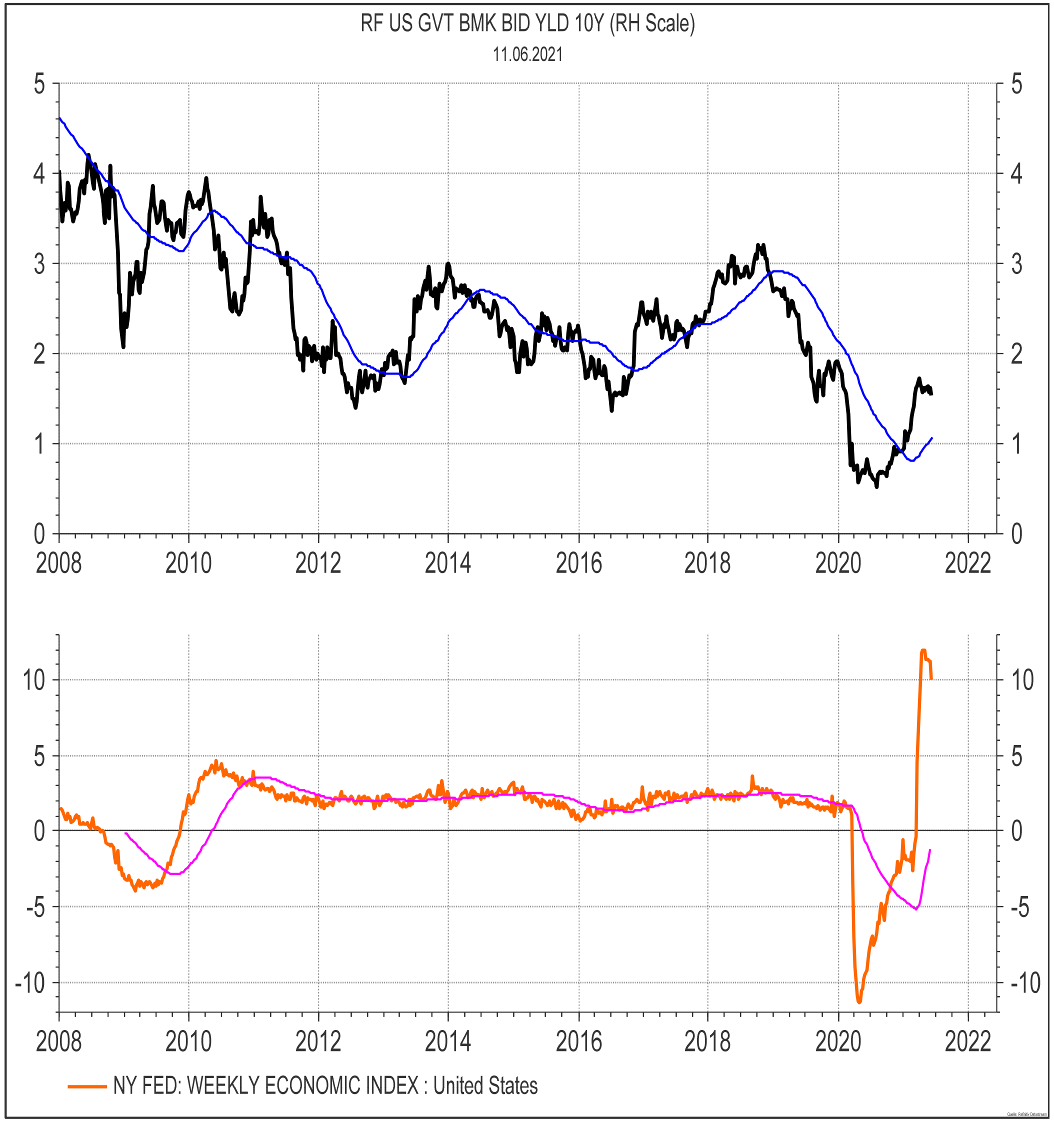
12-month %-change in the Total Return from the 7-10-year US T-Notes minus the US CPI

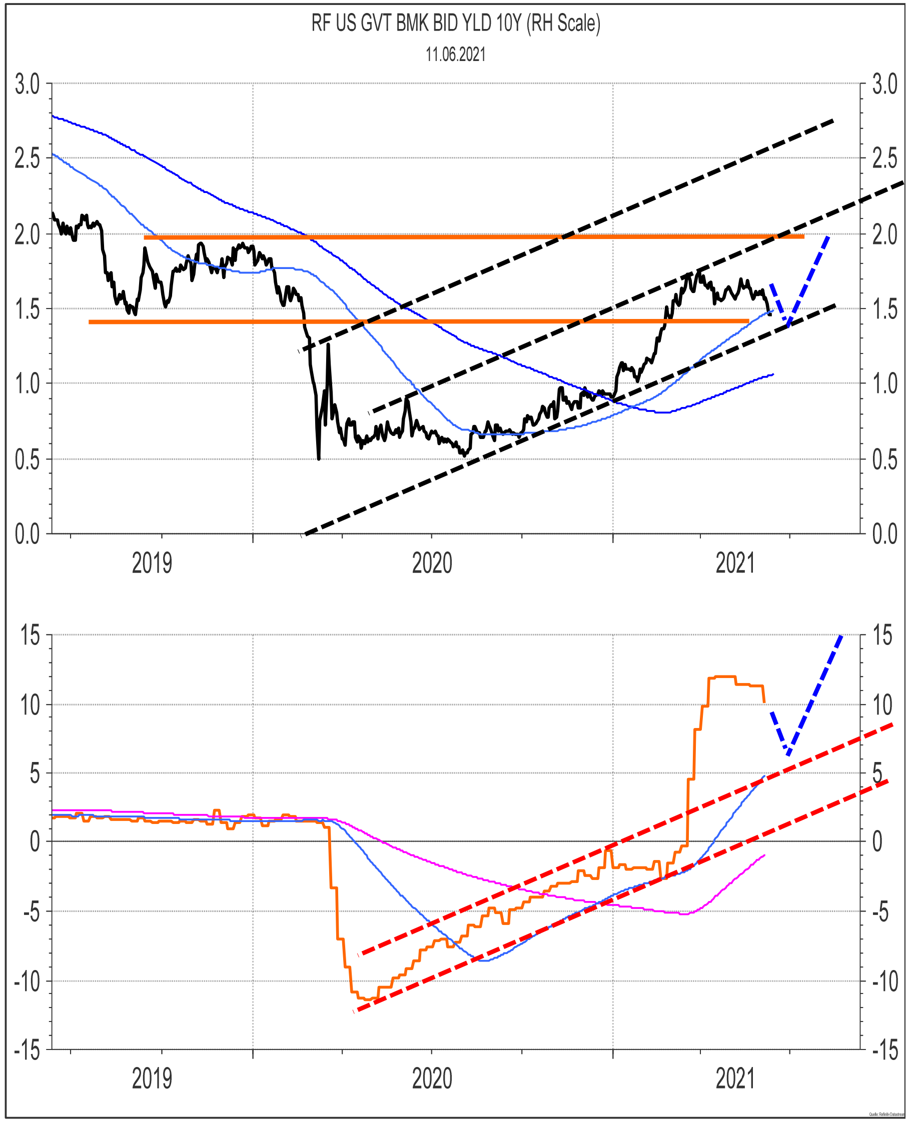
I have composed the chart below to find out if the recent rise in the US CPI and the decline in the Total Return (bond price change plus interest income) from the 7-10-year US T-Notes is already signaling a bond market bottom or if the yield can still move higher towards 2% or 2.20%. This is the level which the Yield must break for the secular yield decline to give way to a new secular yield advance. Based on the bottom chart, which shows the real bond price changes, my conclusion is unchanged. The Total Return is likely to fall somewhat lower so that it registers the deepest oversold level since 1987 or 1981. This means that the yield is still likely to rise to 2% before a major top is signaled. Moreover, the chart implies that the US Yield is unlikely to break 2% to 2.2% but that a yield correction (or yield downtrend) and bond price rebound (or bond price uptrend) will be seen to last for 1 to more years. This bond price rebound would then allow the bottom chart to be relieved of its oversold condition. In other words, it could provide a buying opportunity in the bond market.



US 10-year T-Note Yield and the New York FED Weekly Economic Index

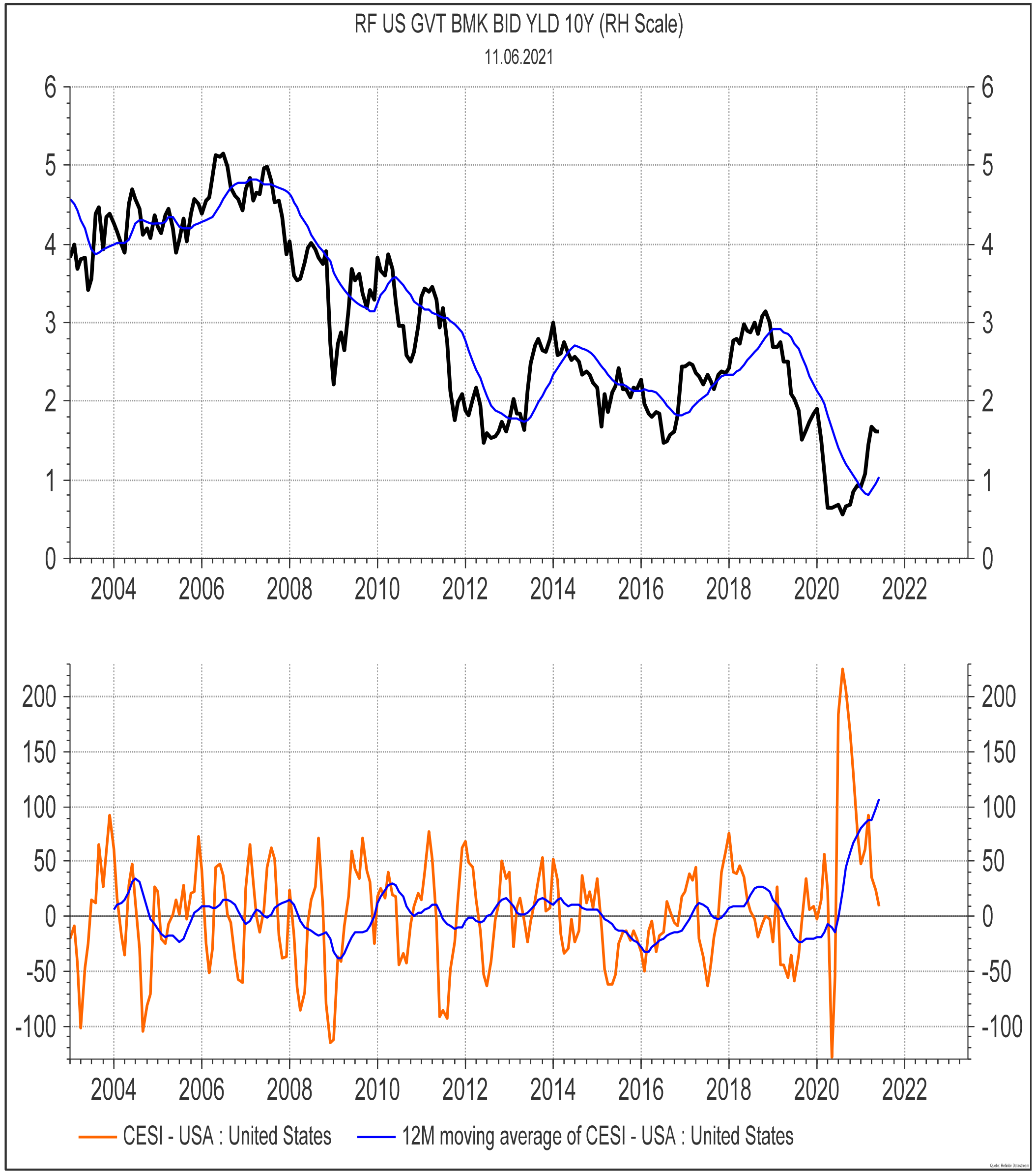
Following the surge in March and April the FED Weekly Economic Index is correcting. This correction is relieving the Index from its highly overbought reading, which it had reached in April. The correction in the FED Index is being matched by the correction in the 10-year US T-Note Yield, which has been correcting from its high of 30.3.2021 at 1.78% to last week's low at 1.43%. There is still room for more corrective action in both, the FED Index and the T-Note Yield. However, as I show on the next 2 pages, the Citigroup Economic Indicators Surprise Index (next page) and the Economic Cycle Research Index as well as the US Weekly Jobless Claims (page 9), still point towards more economic growth. Also, these indicators speak in favour of another upleg in the 10-year T-Note Yield.



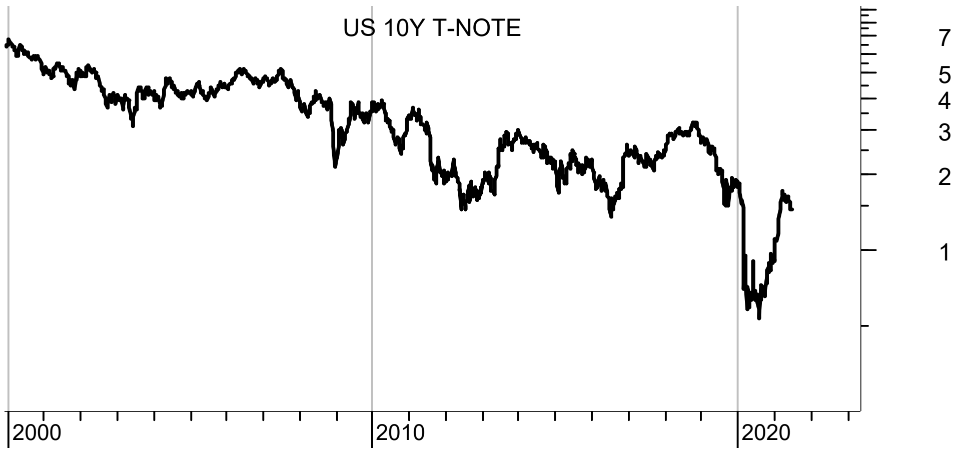


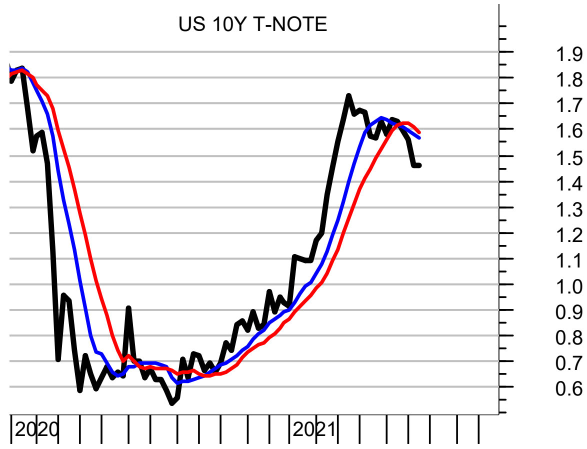
US 10-year T-Note Yield (black) and the Citigroup Economic Indicators Surprise Index (orange)

Following the surge from May to July 2020, the Citigroup Economic Surprise Index has been fully relieved of its overbought condition, which it had reached in July 2020. The Index is bottoming and another upleg is about to be signaled. This upleg could support the 10-Year T-Note, which could extend the uptrend towards 2%.

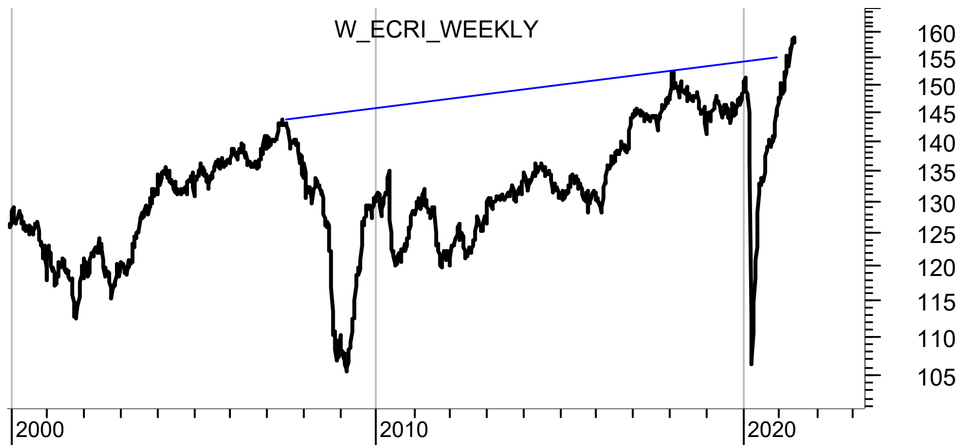


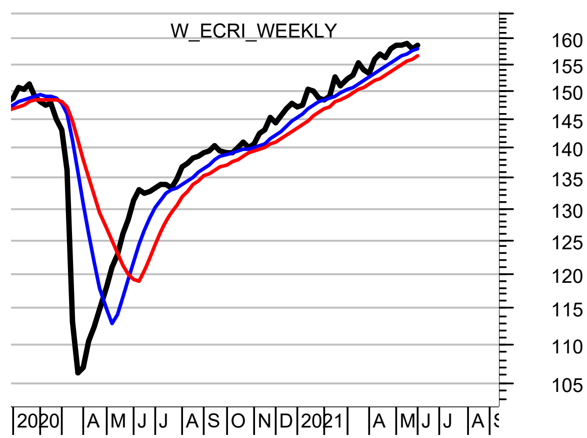
US ECRI and Weekly Jobless Claims



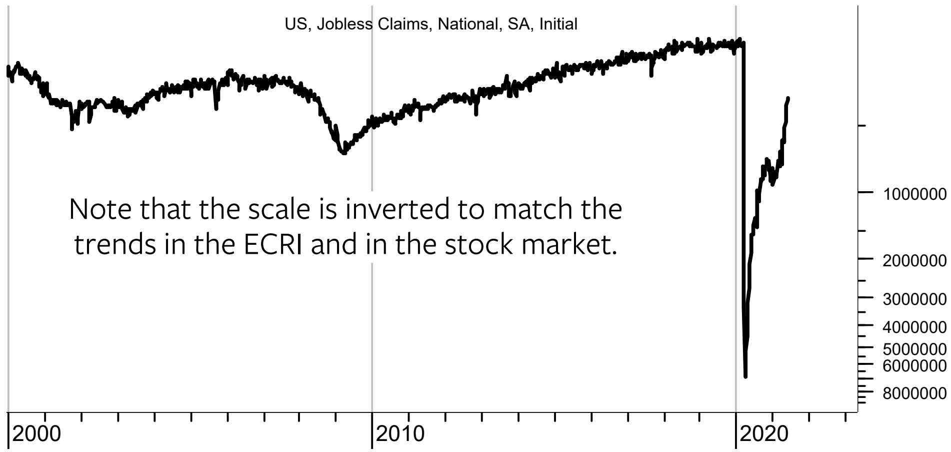


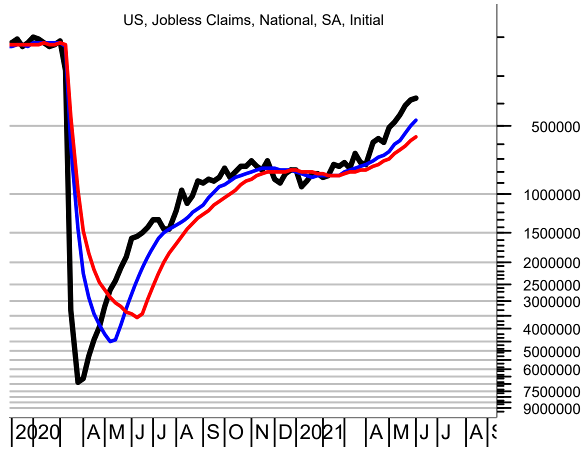
The US 10-year T-Note has been correcting from its high in March at 1.75%. But, based on the intact uptrend of the 2 indicators below, there is not yet evidence that the economic growth trend has already ended. Thus, the yield uptrend could soon resume.





The Weekly Economic Cycle Research Index has remained in its uptrend since the low in March 2020. It has remained above the 2 moving averages. Clearly, a break below the 2 moving averages would provide initial evidence that the economic growth trend is topping.

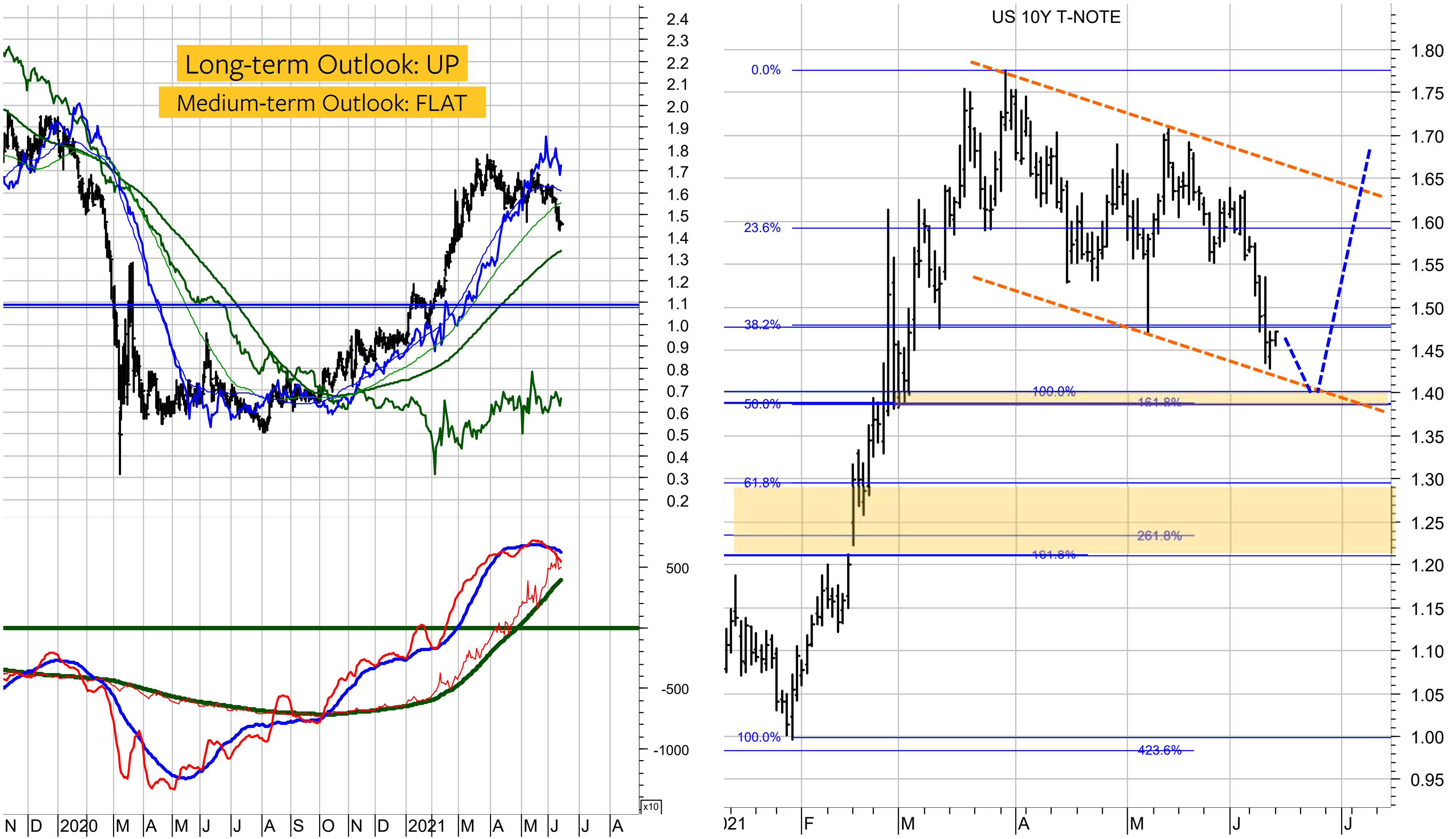




The Weekly Initial Jobless Claims fell (inversely) to 376k. The Jobless Claims would have to fall below the 2 moving averages to provide initial evidence that the economic uptrend from March 2020 is topping.

USA - 10-year nominal T-Note Yield

The 10-year T-Note Yield is likely to test the major support at 1.41% to 1.38%. This is also the level, where the T-Note Future will test the rising 144-day moving average, a break of which would question the long-term bullish yield outlook.
My Medium-term Outlook would move to DOWN if 1.37% is broken. This would signal a shift in my Long-term Outlook to FLAT.



Summary table: MSCI Stock Market Indices in local currencies

The Long-term and the Medium-term Outlook for the MSCI World Stock market Index remains UP. Medium-term corrections are still unfolding in the MSCI Japan, the MSCI Emerging Markets and in 10 other stock market indices (third column from left). But, it appears that these corrections can be followed by another medium-term upleg, which will allow for an extension of the long-term uptrend.

Last week, I noted that the strong rise in the SMI is no consistent with my wave count. Because if Wave 5 was to be traced out, then the rise should not be stronger than the rise in Wave 3. This is why I am presently focusing on the test of the Fibonacci resistances more than on the wave labeling. Clearly, the Swiss Market Index SMI is reaching the resistances at 12000 to 12500, a break of which would then signal 14300 to 14700. Such a break would also mean that the uptrend has reached the center of the “Generation-Bubble” rather than a Buying Climax. Still, I am watching 12000 to 12500 next.

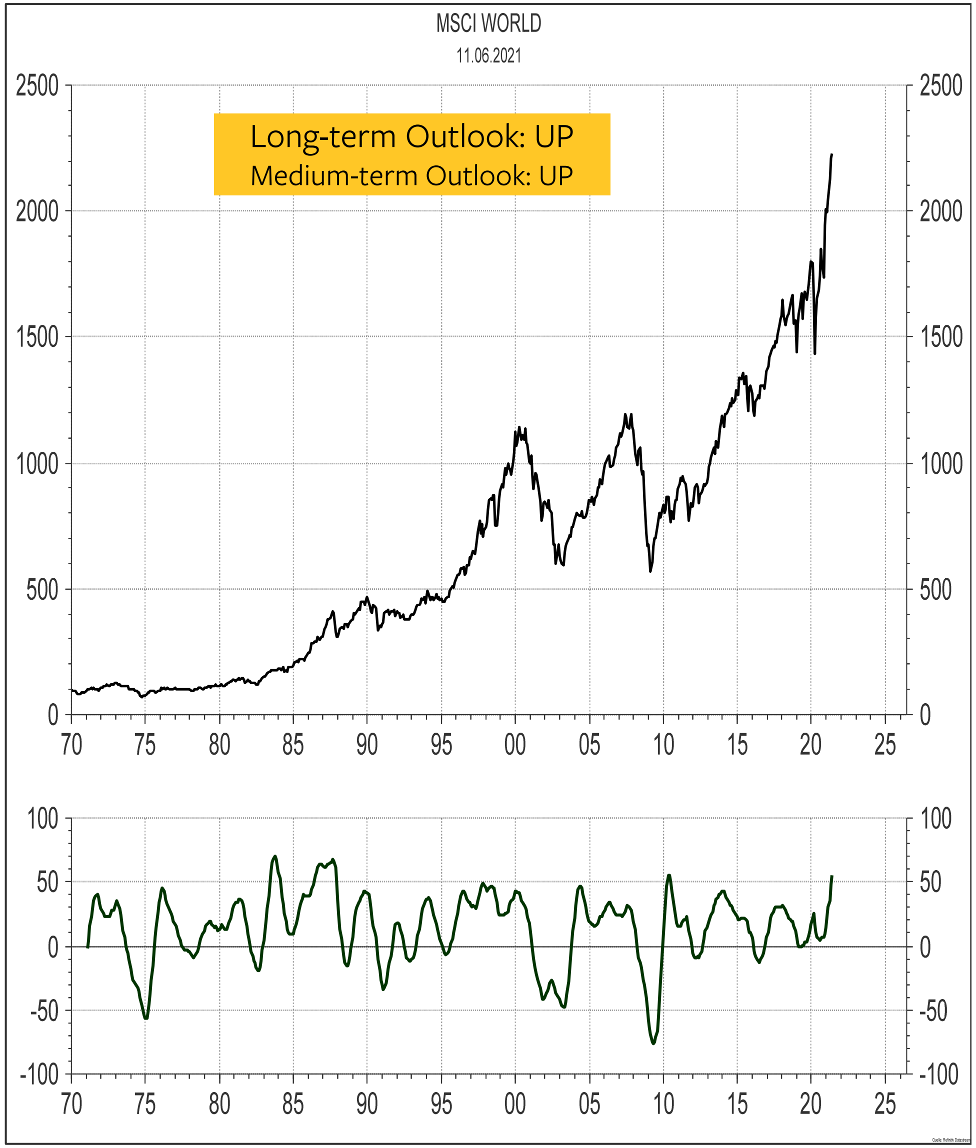
Not much has changed on the table at right. Most outlook ratings remain UP long term. The column of the medium-term outlook shows 14 markets with a rating FLAT. Only China and New Zealand are long-term and medium-term DOWN.

I believe that the performance of the asset classes depends on the US CPI. Investors will try to figure out if the recent surge to 5% is likely to reverse (as the FED says). If it continues, then the 10-year yield will rise further and the stock markets could correct.

GLOBAL STOCKMARKET INDICES IN LOCAL CURRENCIES	IN LOCAL CURRENCIES		IN LOCAL CURRENCIES		COMMENT
	OUTLOOK ABSOLUTE	OUTLOOK ABSOLUTE	RELATIVE TO MSCI WORLD	RELATIVE TO MSCI WORLD	
COUNTRY	LONG-TERM	Medium term	LONG-TERM	Medium term	
MSCI World	UP	UP			
MSCI Switzerland	UP	UP	UNDERWEIGHT SWITZERLAND	NEUTRAL	
MSCI USA	UP	UP	OVERWEIGHT USA	OVERWEIGHT USA	
MSCI EMU	UP	UP	UNDERWEIGHT EMU	NEUTRAL	
MSCI Japan	UP	FLAT	UNDERWEIGHT Japan	UNDERWEIGHT Japan	
MSCI Emerging Markets	UP	FLAT	UNDERWEIGHT EM	UNDERWEIGHT EM	
MSCI Argentina	FLAT	FLAT	UNDERWEIGHT ARGENTINA	UNDERWEIGHT ARGENTINA	
MSCI Australia	UP	UP	UNDERWEIGHT AUSTRALIA	UNDERWEIGHT AUSTRALIA	
MSCI Austria	UP	UP	OVERWEIGHT AUSTRIA	OVERWEIGHT AUSTRIA	
MSCI Belgium	UP	UP	UNDERWEIGHT BELGIUM	UNDERWEIGHT BELGIUM	
MSCI Brazil	UP	UP	UNDERWEIGHT BRAZIL	NEUTRAL	
MSCI Canada	UP	UP	UNDERWEIGHT CANADA	NEUTRAL	
MSCI China	DOWN	DOWN	UNDERWEIGHT CHINA	UNDERWEIGHT CHINA	
MSCI Czech Republic	UP	UP	OVERWEIGHT CZECH REPUBLIC	OVERWEIGHT CZECH REPUBLIC	
MSCI Denmark	UP	UP	UNDERWEIGHT DENMARK	NEUTRAL	
MSCI Finland	UP	UP	UNDERWEIGHT FINLAND	UNDERWEIGHT FINLAND	
MSCI France	UP	UP	UNDERWEIGHT FRANCE	NEUTRAL	
MSCI Germany	UP	UP	UNDERWEIGHT GERMANY	NEUTRAL	
MSCI Greece	UP	UP	UNDERWEIGHT GREECE	NEUTRAL	
MSCI Hong Kong	UP	FLAT	UNDERWEIGHT HONG KONG	UNDERWEIGHT HONG KONG	
MSCI Hungary	UP	UP	NEUTRAL	OVERWEIGHT HUNGARY	
MSCI India	UP	UP	NEUTRAL	NEUTRAL	
MSCI Indonesia	FLAT	(u) FLAT	UNDERWEIGHT INDONESIA	UNDERWEIGHT INDONESIA	Medium-term rebound.
MSCI Italy	UP	UP	UNDERWEIGHT ITALY	NEUTRAL	
MSCI Malaysia	FLAT	FLAT	UNDERWEIGHT MALAYSIA	UNDERWEIGHT MALAYSIA	
MSCI Mexico	UP	UP	UNDERWEIGHT MEXICO	NEUTRAL	
MSCI Netherlands	UP	UP	OVERWEIGHT NETHERLANDS	NEUTRAL	
MSCI New Zealand	DOWN	DOWN	UNDERWEIGHT NEW ZEALAND	UNDERWEIGHT NEW ZEALAND	
MSCI Norway	UP	UP	UNDERWEIGHT NORWAY	NEUTRAL	
MSCI Philippines	FLAT	FLAT	UNDERWEIGHT PHILIPPINES	(d) NEUTRAL	Relative medium-term rebound.
MSCI Poland	UP	UP	UNDERWEIGHT POLAND	NEUTRAL	
MSCI Portugal	FLAT	FLAT	UNDERWEIGHT PORTUGAL	UNDERWEIGHT PORTUGAL	
MSCI Russia	UP	UP	NEUTRAL	NEUTRAL	
MSCI Singapore	UP	FLAT	UNDERWEIGHT SINGAPORE	UNDERWEIGHT SINGAPORE	
MSCI South Africa	UP	FLAT	UNDERWEIGHT SOUTH AFRICA	UNDERWEIGHT SOUTH AFRICA	
MSCI South Korea	UP	FLAT	NEUTRAL	UNDERWEIGHT SOUTH KOREA	
MSCI Spain	UP	UP	UNDERWEIGHT SPAIN	NEUTRAL	
MSCI Sweden	UP	UP	NEUTRAL	NEUTRAL	
MSCI Taiwan	UP	FLAT	NEUTRAL	(d) NEUTRAL	Relative medium-term rebound.
MSCI Thailand	UP	FLAT	UNDERWEIGHT THAILAND	UNDERWEIGHT THAILAND	
MSCI Turkey	FLAT	(u) FLAT	UNDERWEIGHT TURKEY	UNDERWEIGHT TURKEY	Medium-term rebound.

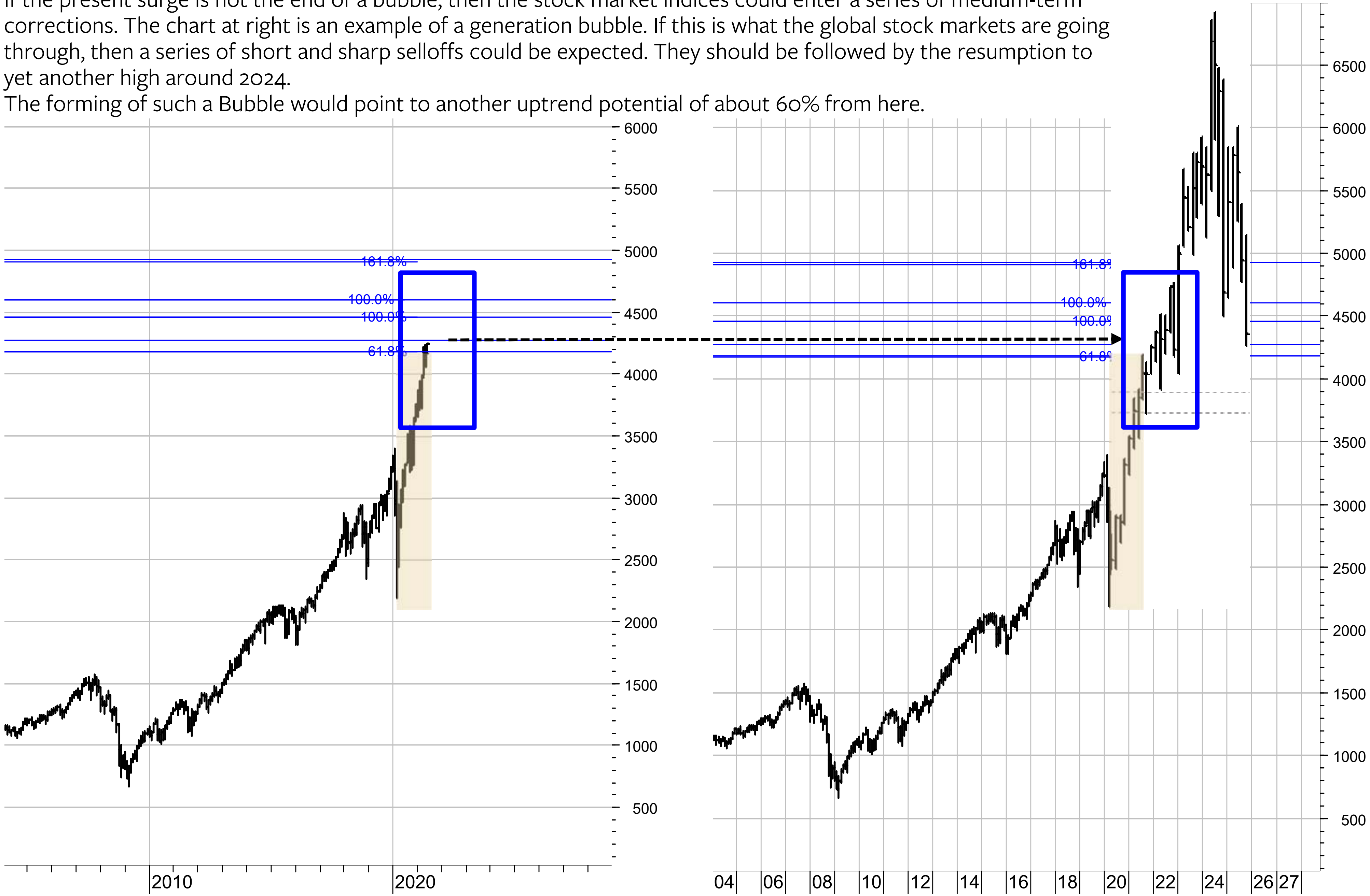
MSCI World

So far, the medium-term correction in the global 10-year yields has allowed the long-term uptrend in the MSCI world Index to extend. But, the extension is still not yet confirmed by the medium-term momentum indicator (bottom right). This lack of upward momentum leaves the stock markets at risk of a medium-term correction of 10% to 15%. It would take a clear re-acceleration of the uptrend and a break above the upper trendline (marked dashed orange) t around 2320 to signal substantially higher targets at around 2600. If this resistance line can be broken, then I would have to assume that the global stock markets are in the middle of a generation bubble as shown on the next page.



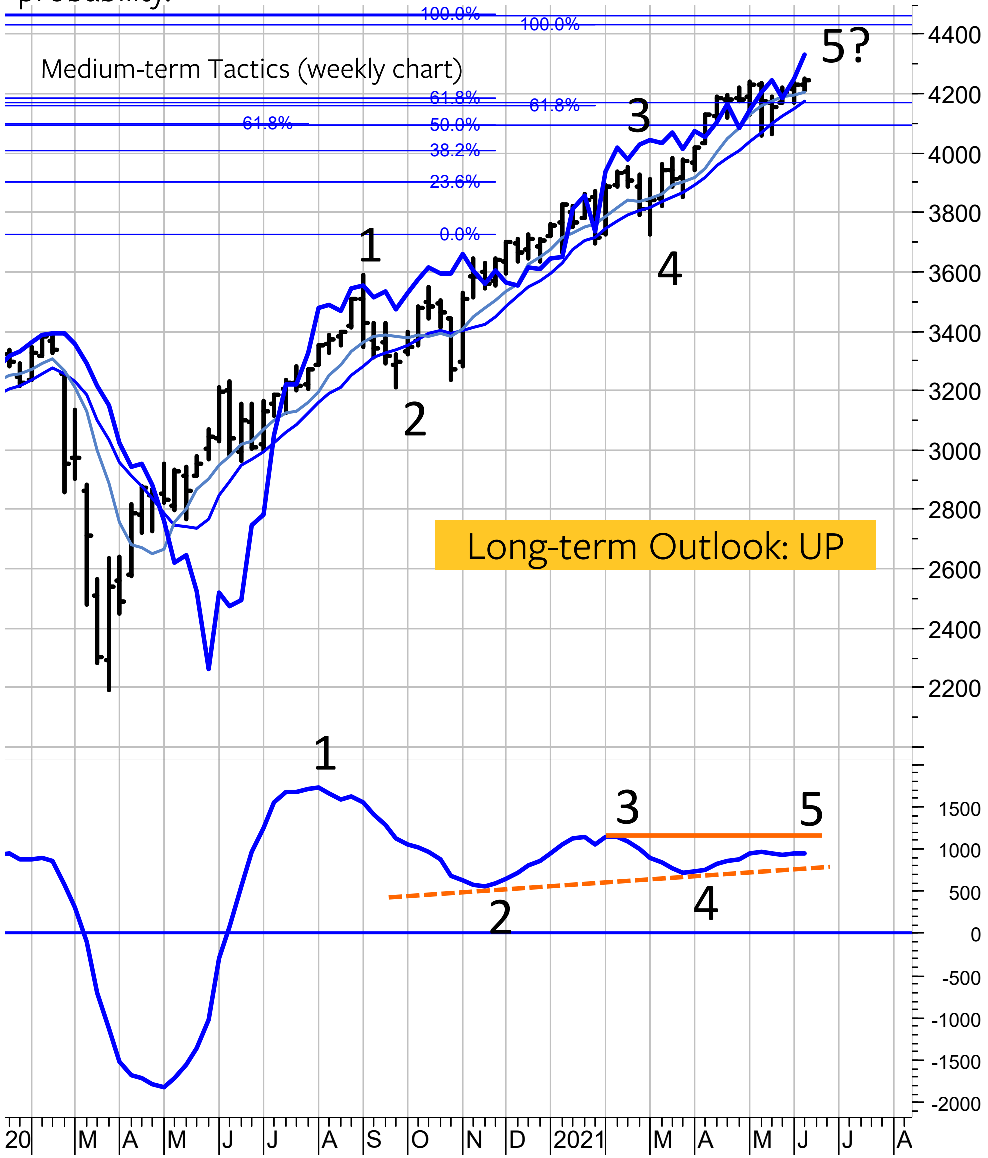
Not a Buying Climax but the acceleration of the Bubble – an example of such a Bubble

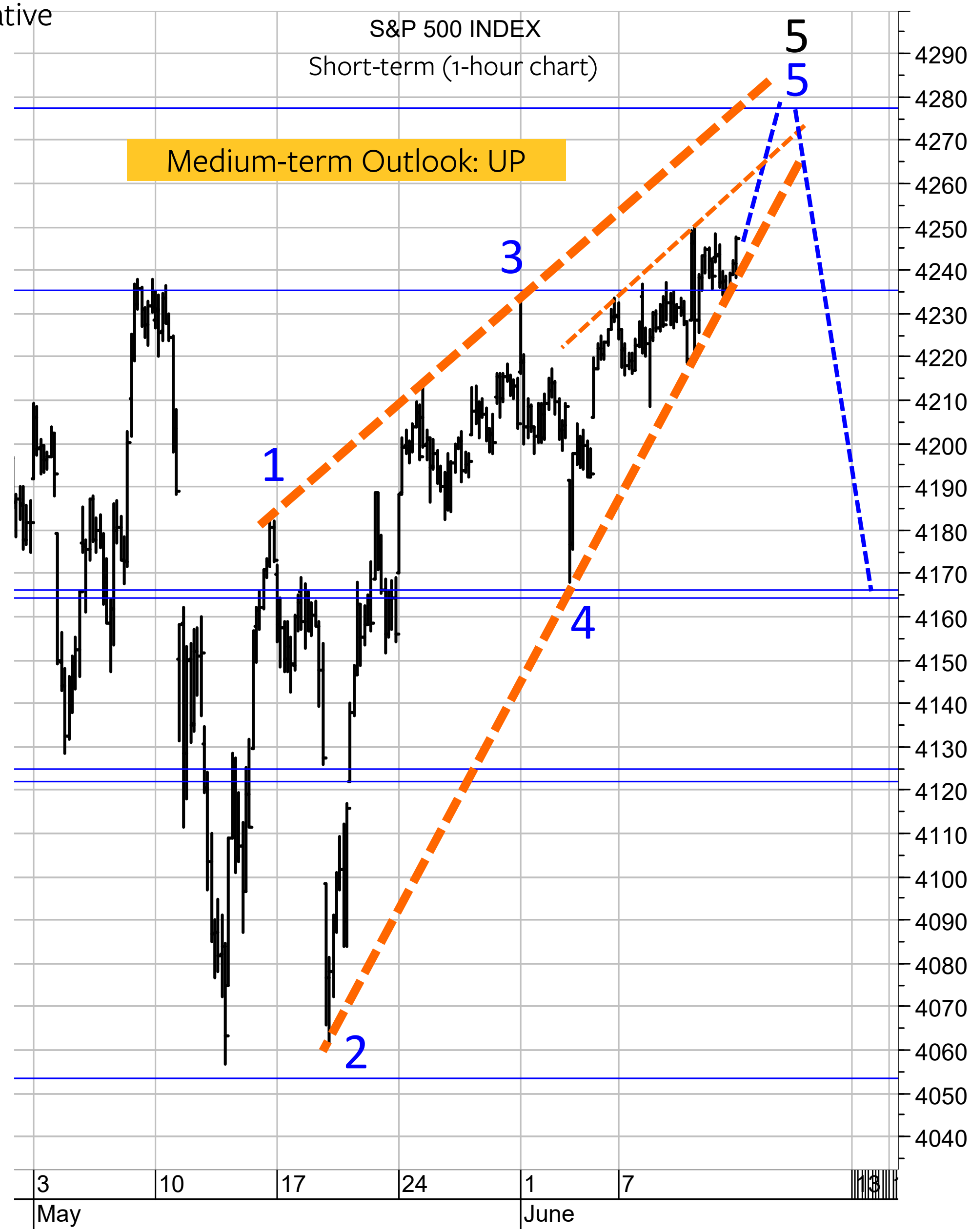
If the present surge is not the end of a bubble, then the stock market indices could enter a series of medium-term corrections. The chart at right is an example of a generation bubble. If this is what the global stock markets are going through, then a series of short and sharp selloffs could be expected. They should be followed by the resumption to yet another high around 2024.
The forming of such a Bubble would point to another uptrend potential of about 60% from here.



S&P 500 Index

For the S&P 500 Index to signal the acceleration of the generation bubble (see previous page), it must rise above the Wedge, which has been forming since mid May. This means, it must rise above 4280, 4345 and 4450. Given the negative momentum divergence, it appears a top around 4280 has the strongest probability.



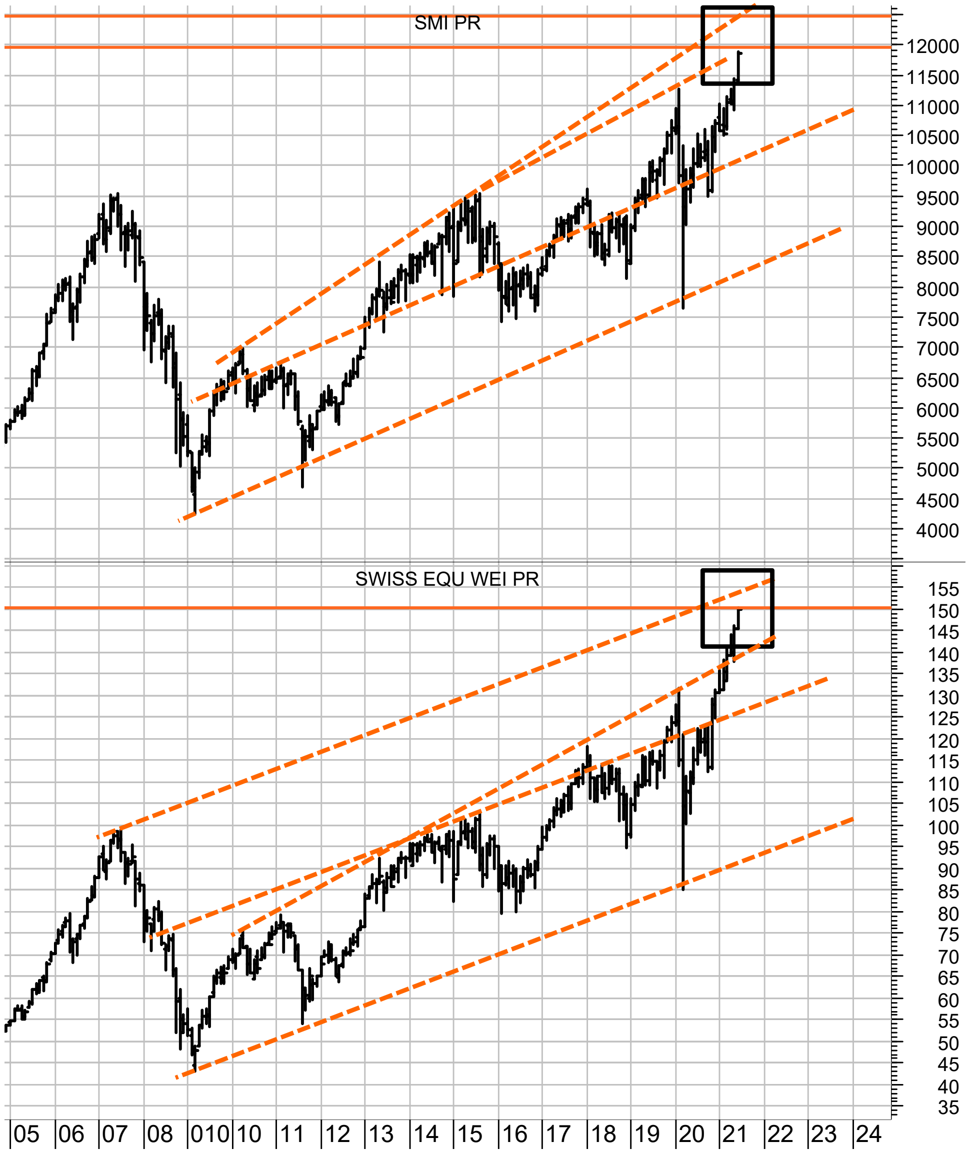


Swiss Market Index

Also the SMI could now show, which should be the preferred scenario? The Buying Climax or the Generation-Bubble? Last week, stated that: “Because the rate-of-rise in the SMI from the low in May registered a higher level in the 5-day Rate-of-Change compared to the high of the rise from February to April, I am slightly uncertain regarding my wave count.” Indeed, the present acceleration is either the buying climax or it is a Wave 3 of 3 of iii. If the resistance at 12000 to 12500 is broken, then the next target could be at 14300 to 14700. Clearly, this would show that a Generation Bubble is unfolding.

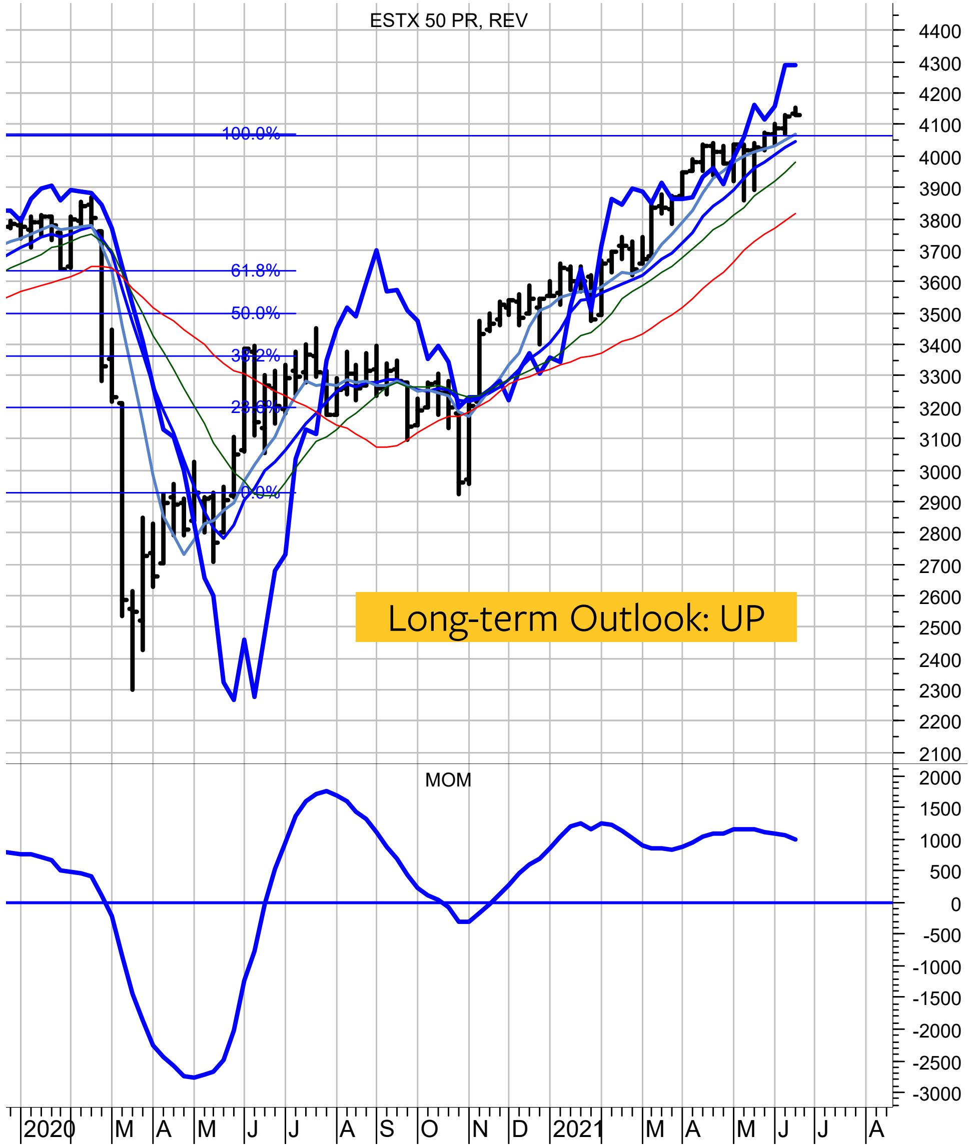
SMI (upper left) and the Swiss Equally Weighted Stock Market Index (below left and right)

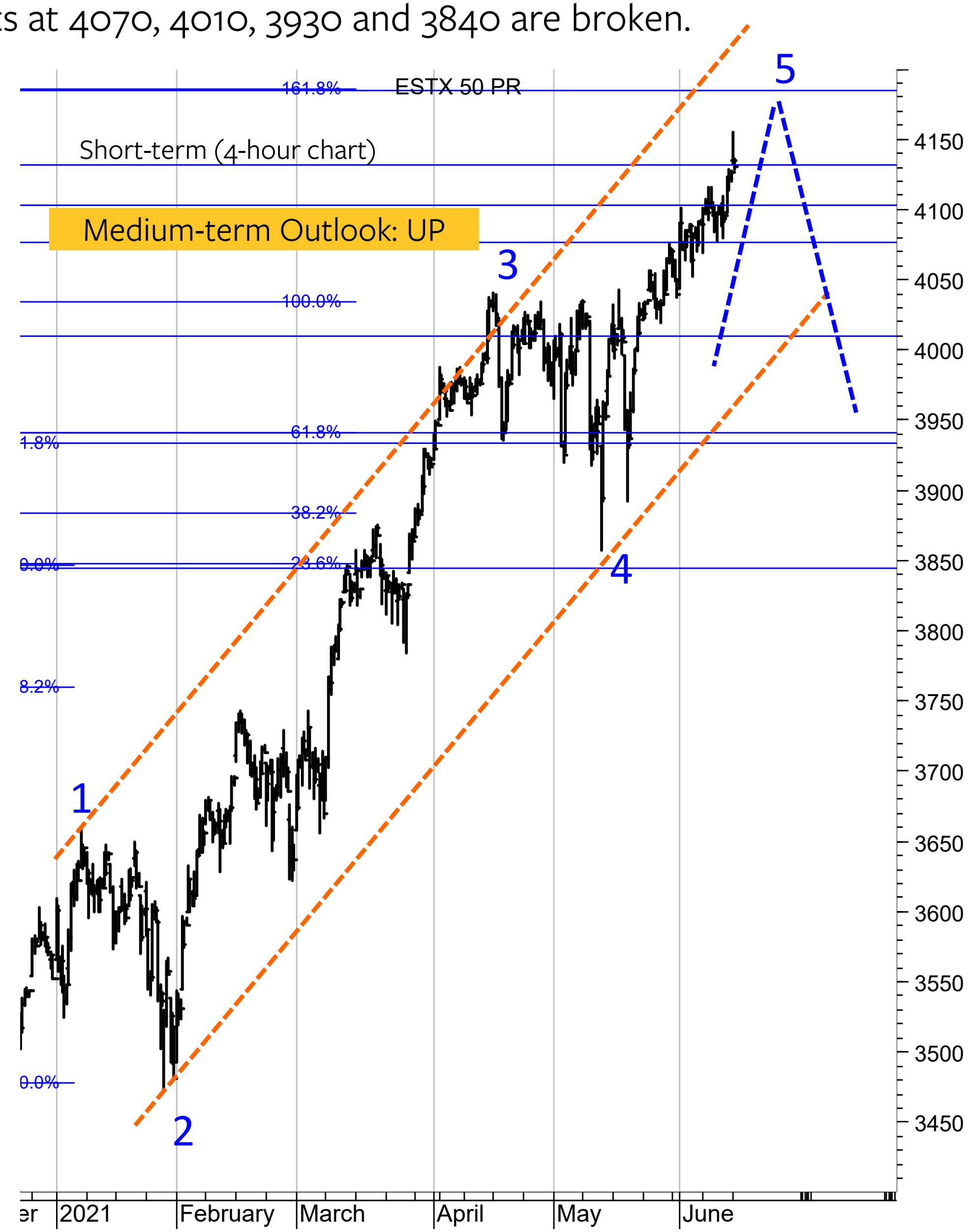
Both indices are close to major resistance tests, the SMI at 12000 to 12500 and the SEQWI at 150.50 to 155.50.



Eurostoxx 50 Index

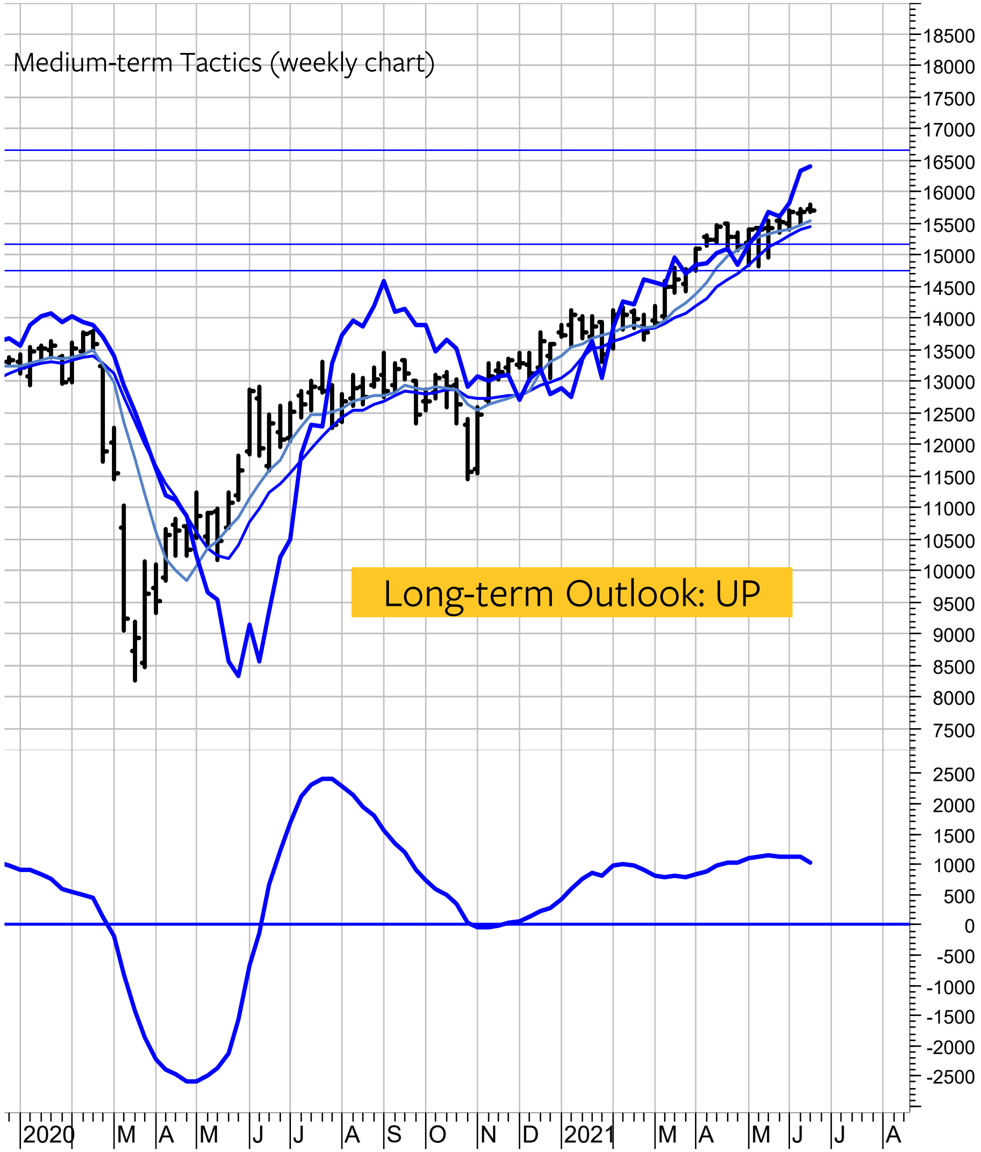
No change in the wave labeling and my overall assessment of the Eurostoxx 50 Index.
The Eurostoxx 50 Index is rising in Wave 5 of the uptrend and testing the next resistance range between 4135 to 4190. The bearish scenario would be activated if the supports at 4070, 4010, 3930 and 3840 are broken.





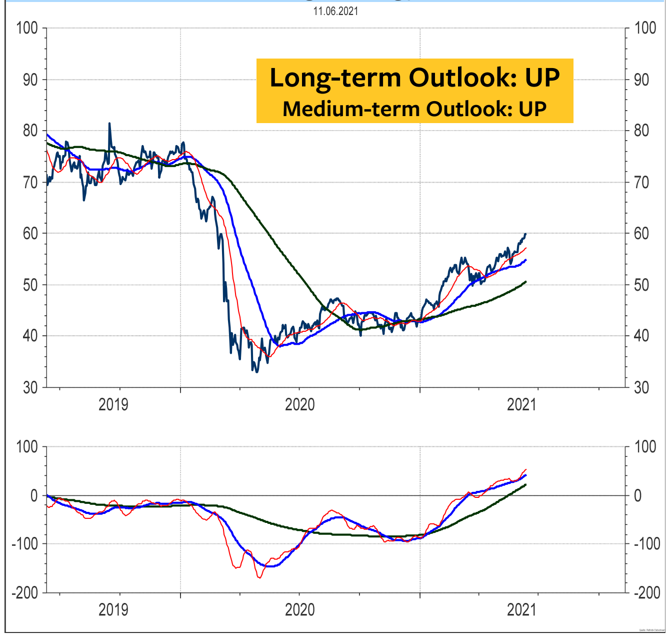
Deutscher Aktienindex DAX

No change in the wave labeling and my overall assessment of the DAX.
It is rising in Wave 5 of the uptrend from January and is testing the resistance at 15800. The bearish scenario would be activated if the supports at 15400, 15050 and 14750 are broken.

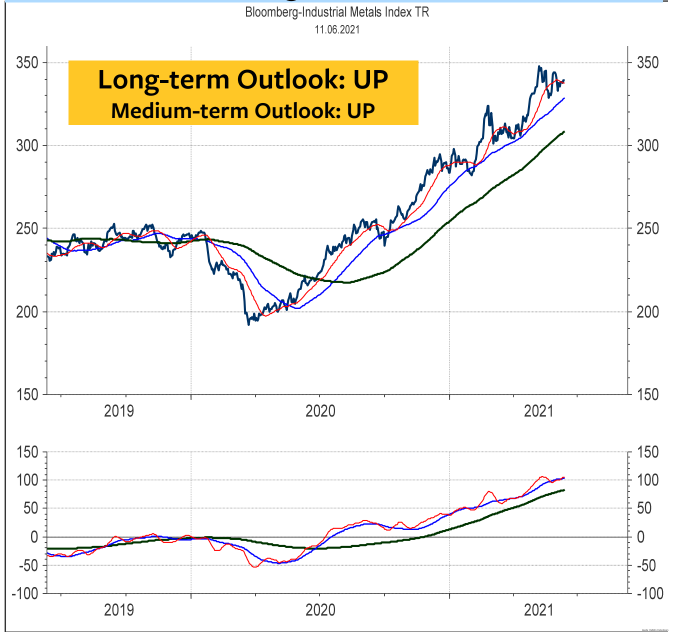


Bloomberg Commodity Sector Indices

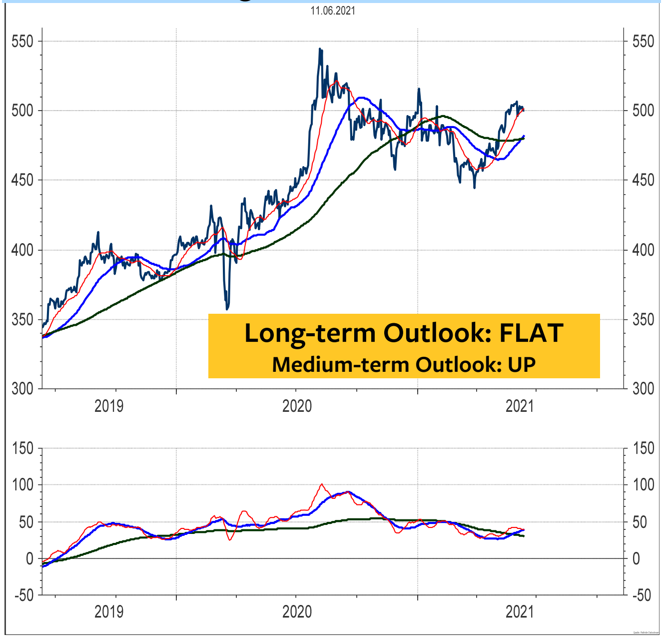
Bloomberg Energy Index



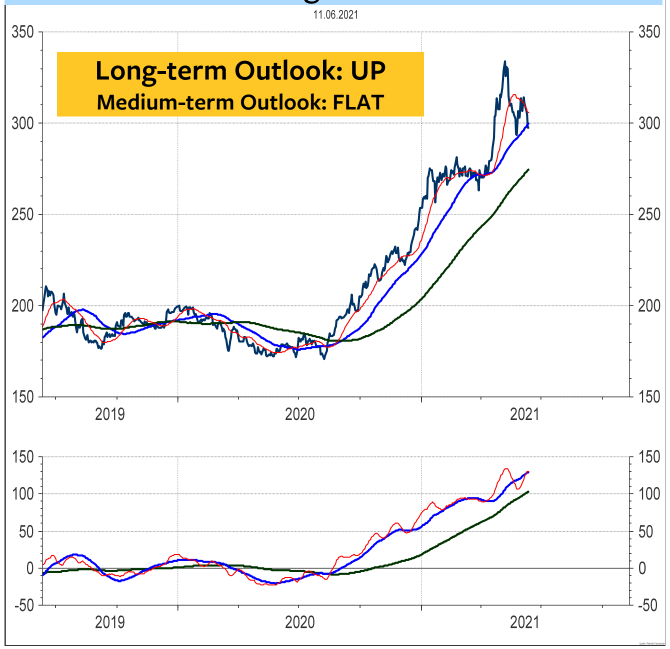
Bloomberg Industrial Index



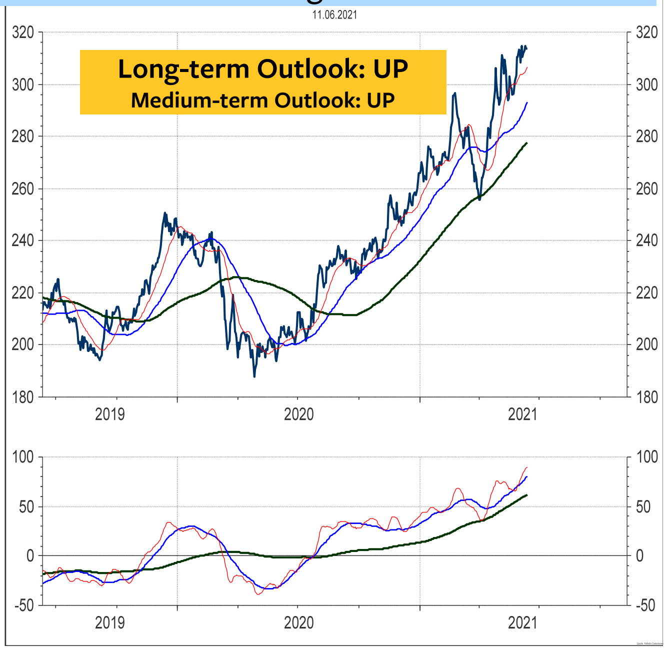
Bloomberg Precious Metals Index



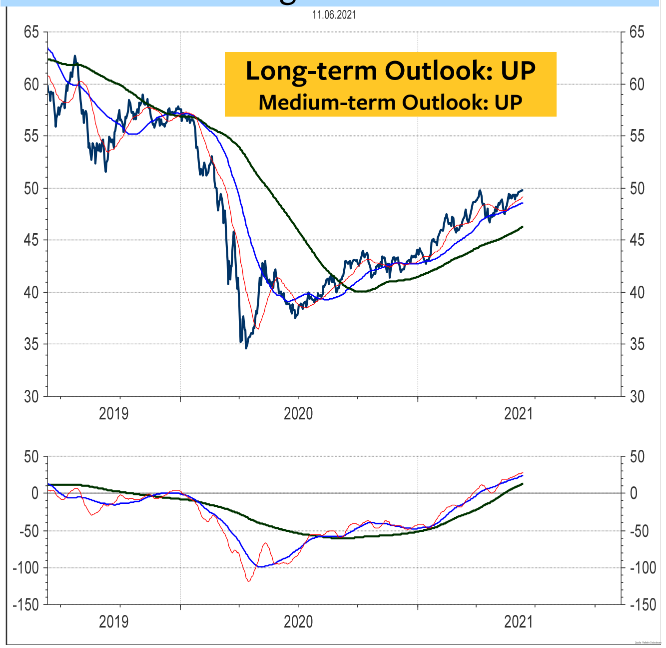
Bloomberg Grains Index



Bloomberg Softs Index



Bloomberg Livestock Index



Brent Crude Oil 1st continuous Future

Last week, I stated: “I give more weight to Pattern as to Trend and Momentum and thus, I am still looking for a medium-term top between 72.50 and 74.50. SELL signals would be triggered if the supports at 71.10 and 70.65 are broken.” With the present rally, the target for Wave 5 is probably at 74 to 74.50. Because the sell level at 70.65 was not triggered, I will look to sell again around 74 to 74.50.

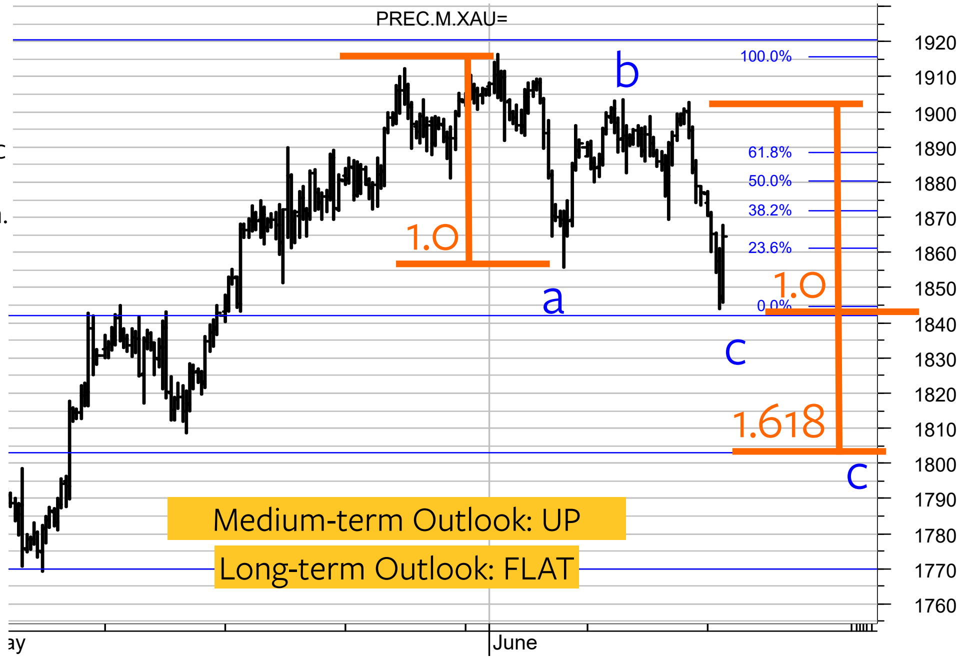
Gas Oil 1st continuous Future

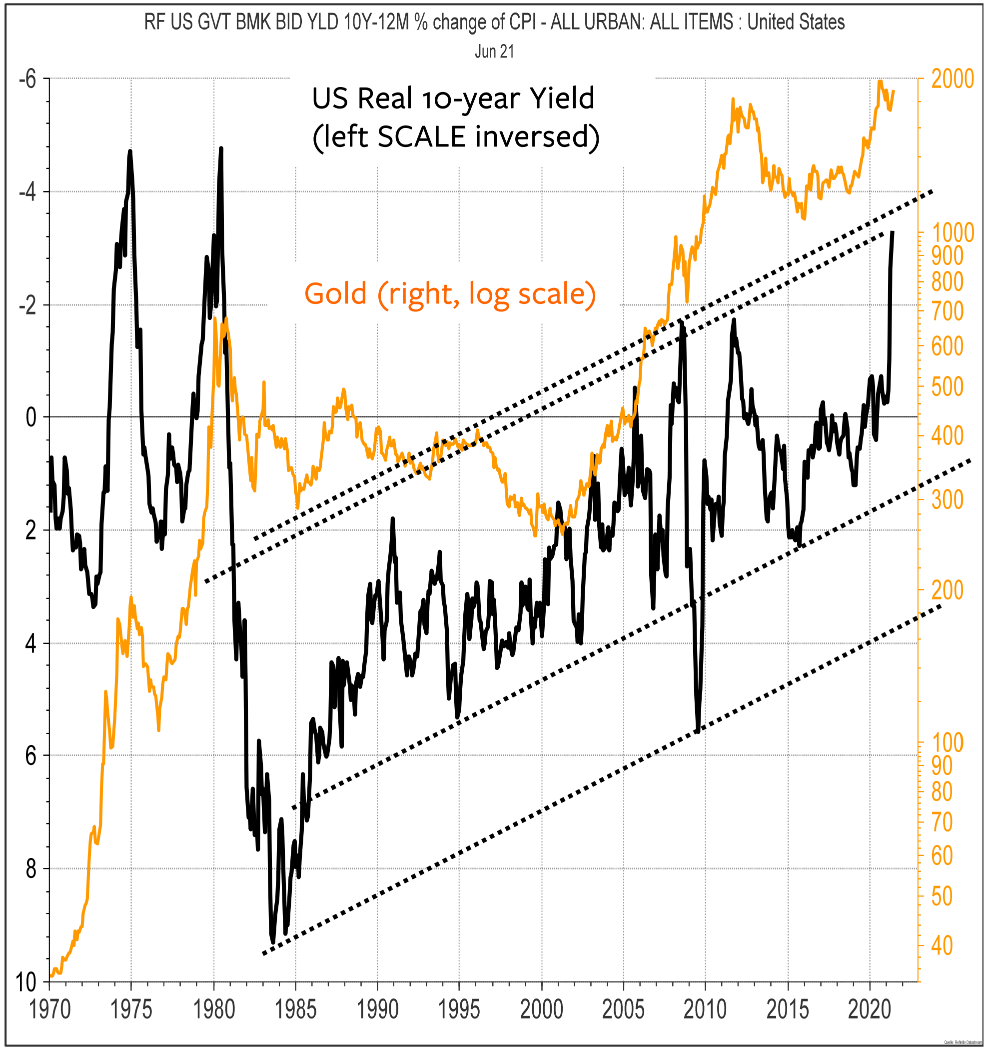
Last week I wrote: “I give more weight to Pattern as to Trend and Momentum and thus, I am still looking for a medium-term top between 587 and 590. SELL signals will be triggered if the supports at 579.50 and 575.50 are broken.” Following the break of 579.50 and 575.50, Gas Oil managed to stand up again. It is extending Wave 5 towards resistances at 602 to 607 or, best case, 615 to 622.
If short from the sell levels of last week, I would place a Stop at 609 or 625 depending on your risk budget.

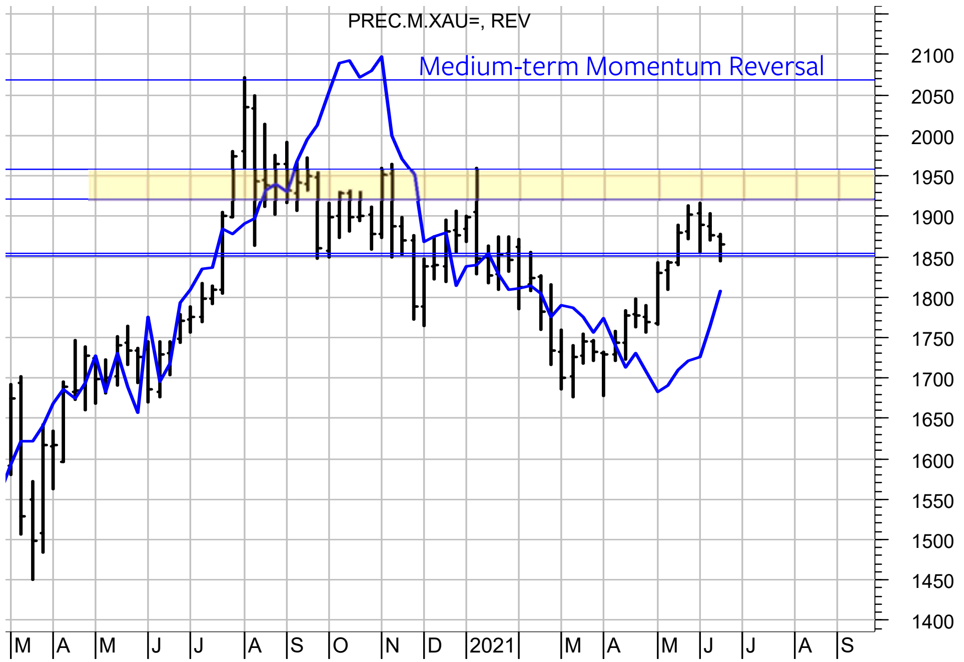
Gold Bullion and the US Real Yield (inverted)

The (inverted) US Real Yield (left, marked in black) continued to surge ahead with the latest CPI number. But, Gold failed to rise. It is still trading below the resistance range between 1920 and 1970. Probably, investors believe in the FED, that says the rise in the CPI is only temporary.

I see that the decline from the high on 1.6.2021 at 1916 can be labeled as a corrective a-b-c (upper right, marked in blue). The supports are at 1840 (c = a) or at 1805 (c = 1.618 x a). Given this corrective nature of the decline I would BUY if the resistance at 1890 is broken. However, if the (inverted) Yield Spread starts declining from overbought, then Gold would be a SELL if 1800 and 1770 is broken.

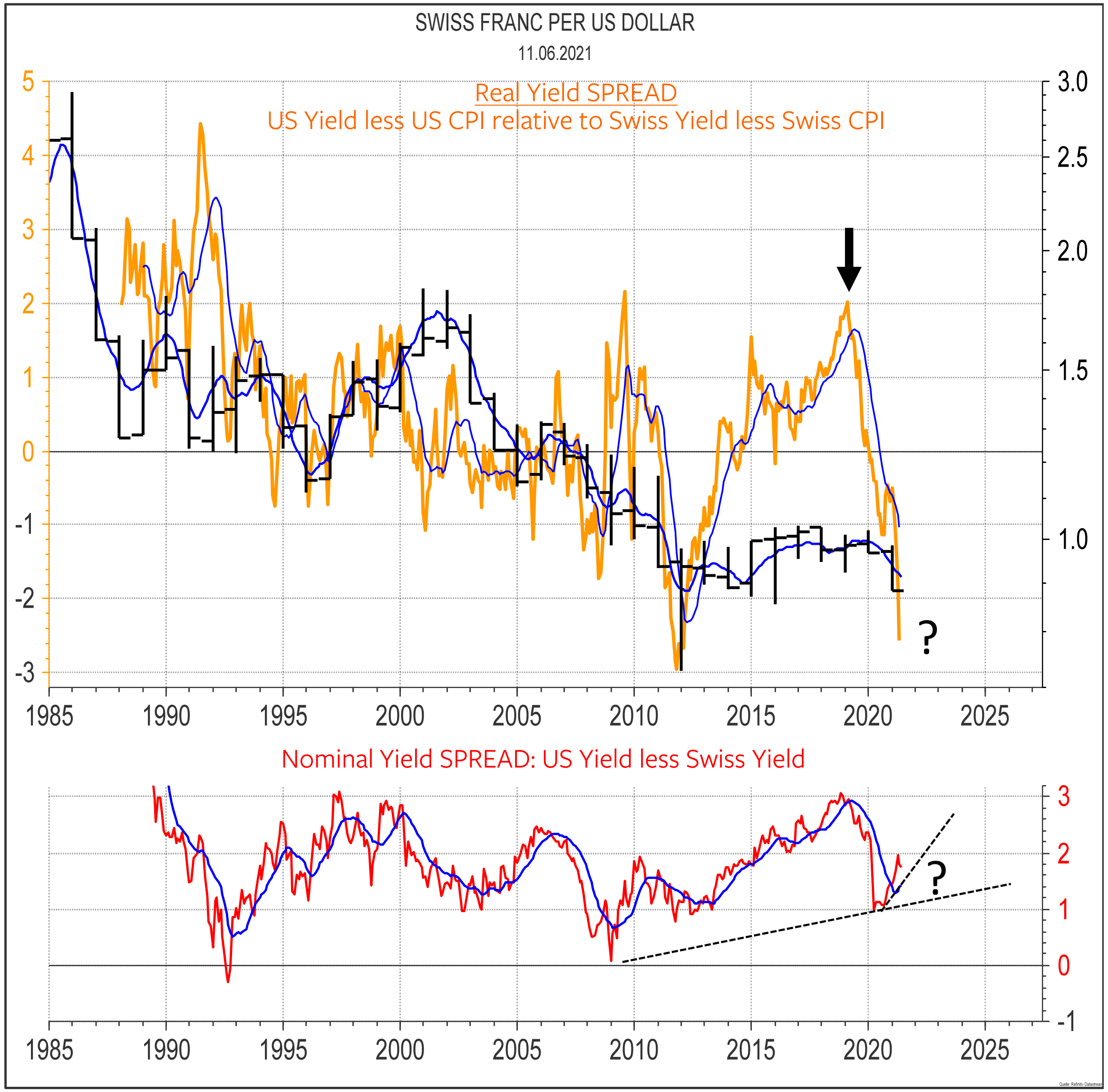


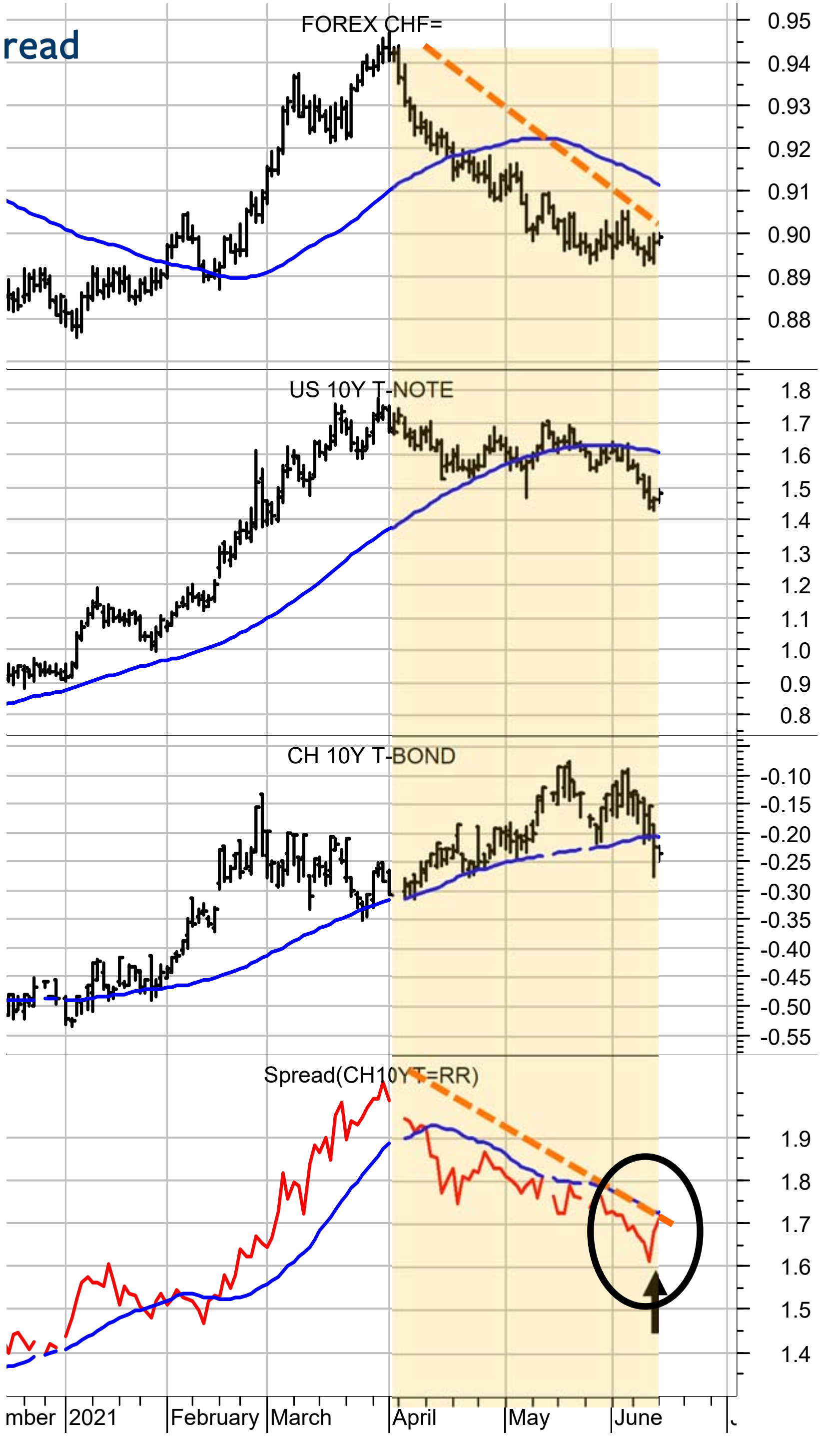




Swiss Franc per US DOLLAR with nominal and real Yield Spread

The Real Spread US to Swiss Yield relative to the CPIs (left, marked orange) has continued to drop. It is now close to the low, which it registered in 2011. But, the US dollar managed to hold its ground. Moreover, the nominal Spread (bottom right, marked with a circle) appears to have turned upwards. If indeed the low level in the Real Spread is similarly oversold as in 2011 and if the nominal Spread starts rising, the US dollar should now starting a new upleg. See the next page for the key levels.



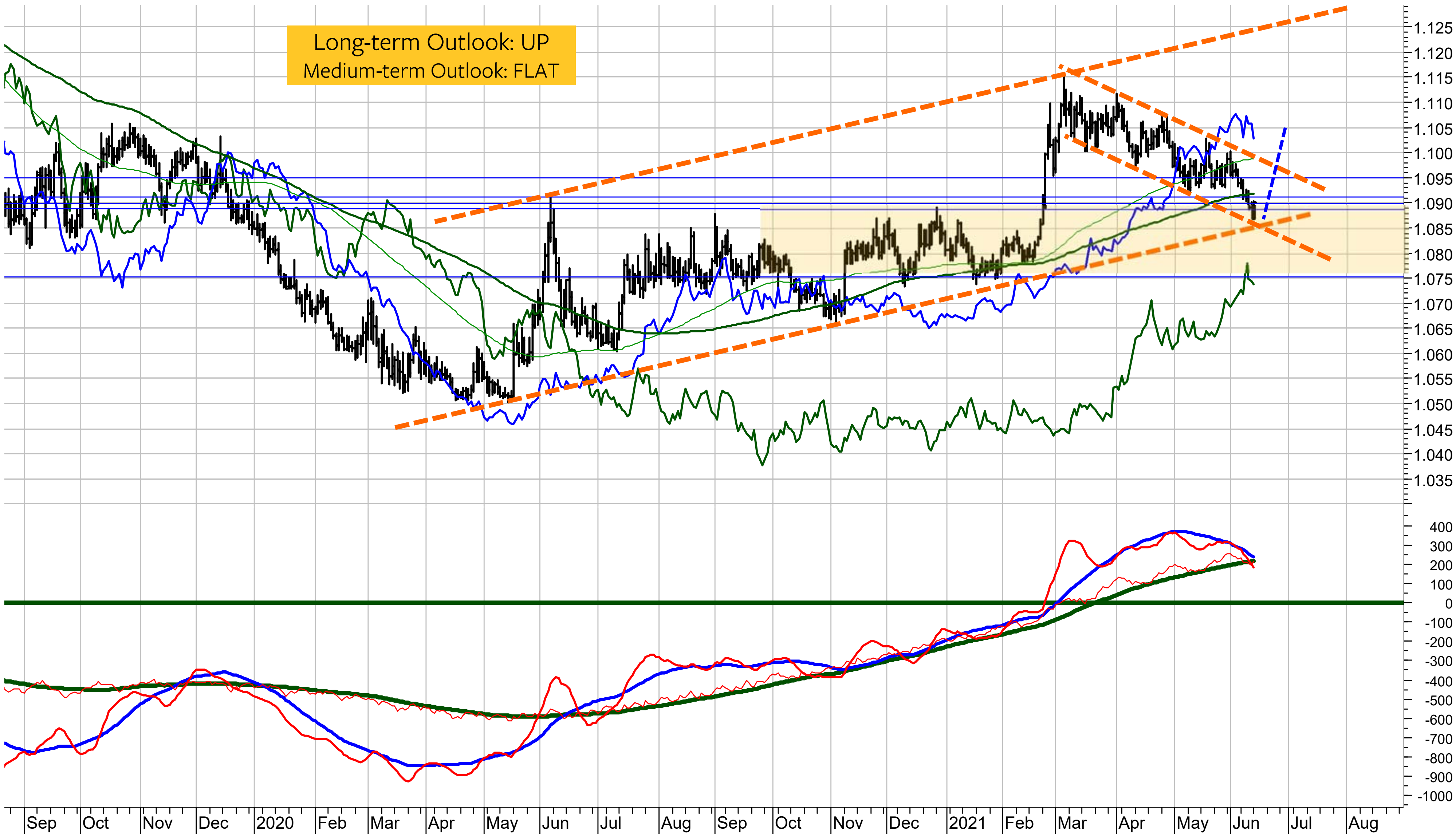


Swiss Franc per US DOLLAR

I am watching the supports at 0.8930 to 0.8780 and the resistances at 0.92 to 0.9380 and look for the US dollar to continue forming a horizontal Triangle between these levels. Based on the oversold level of the Real Spread between the US and Swiss 10-year Real Yield, the US dollar could soon start to rebound.
Buy signals would be triggered if he resistance levels are broken.

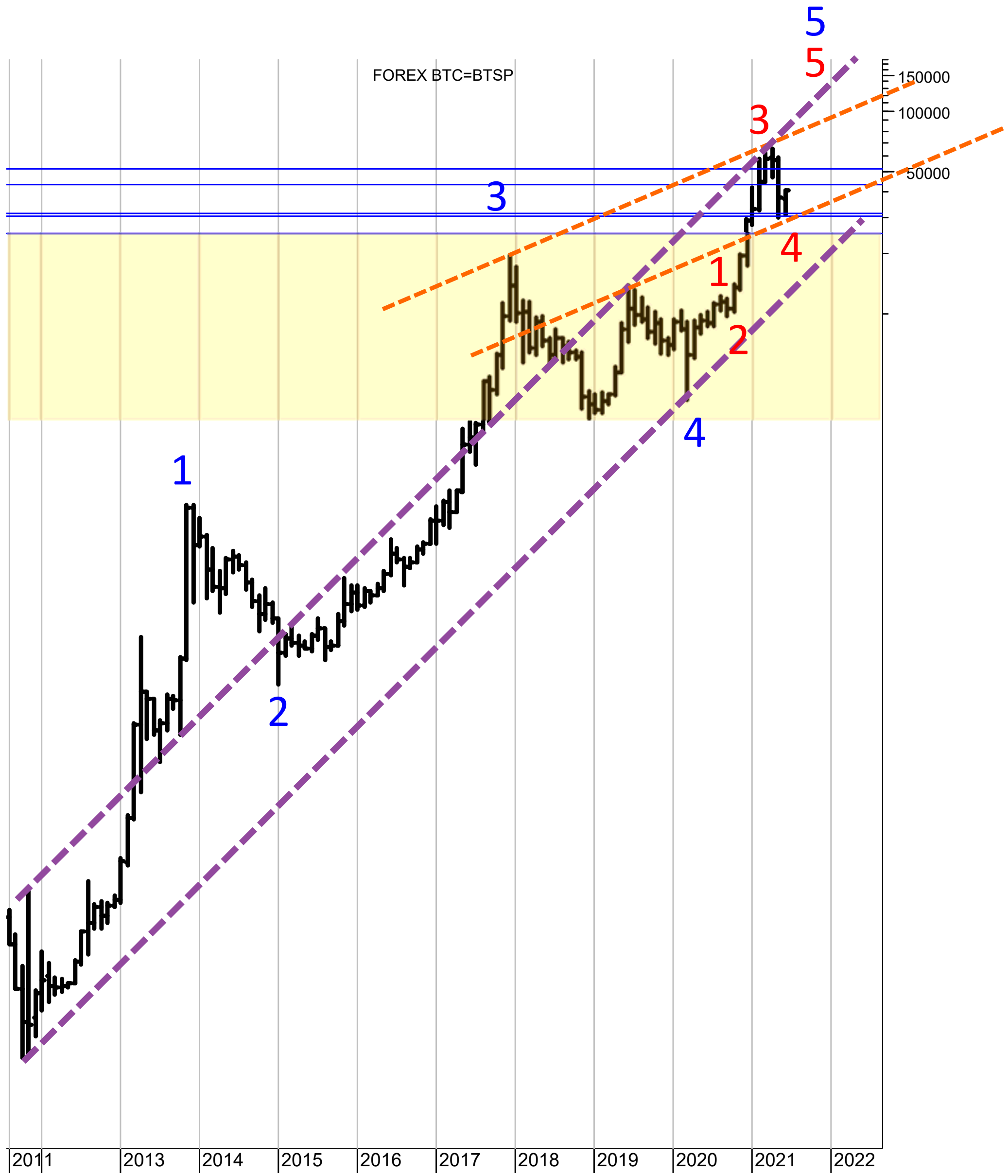
Swiss franc per EURO

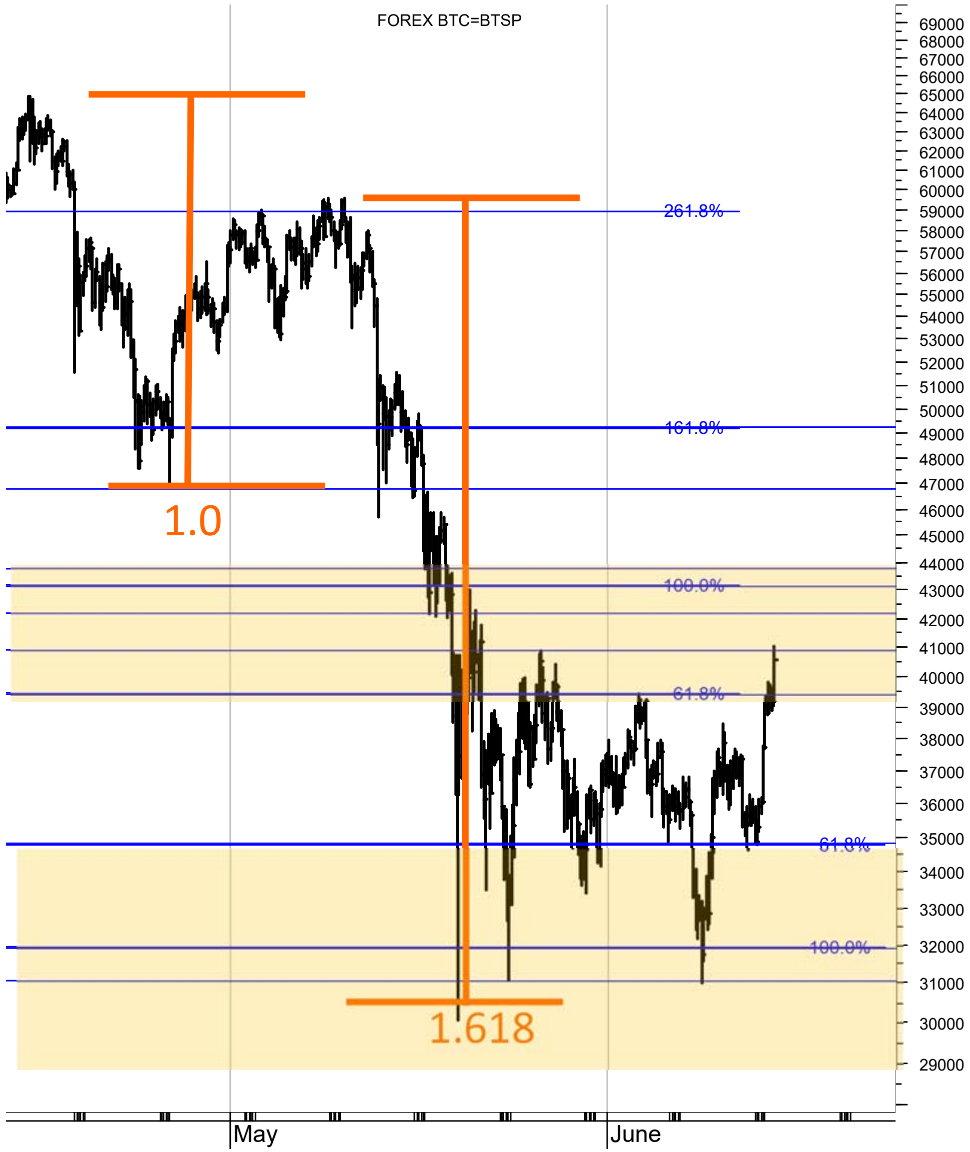
It appeared as if the Euro would break the support cluster between 1.0920 and 1.0880. But now, it is recovering from the intraday low on 11.6.2021 at 1.0868. A bullish turn (medium-term upgrade) would be signaled if the Euro breaks above 1.0950. Downgrades could be triggered if the supports are broken at 1.0860 to 1.0750.



US dollar per BITCOIN

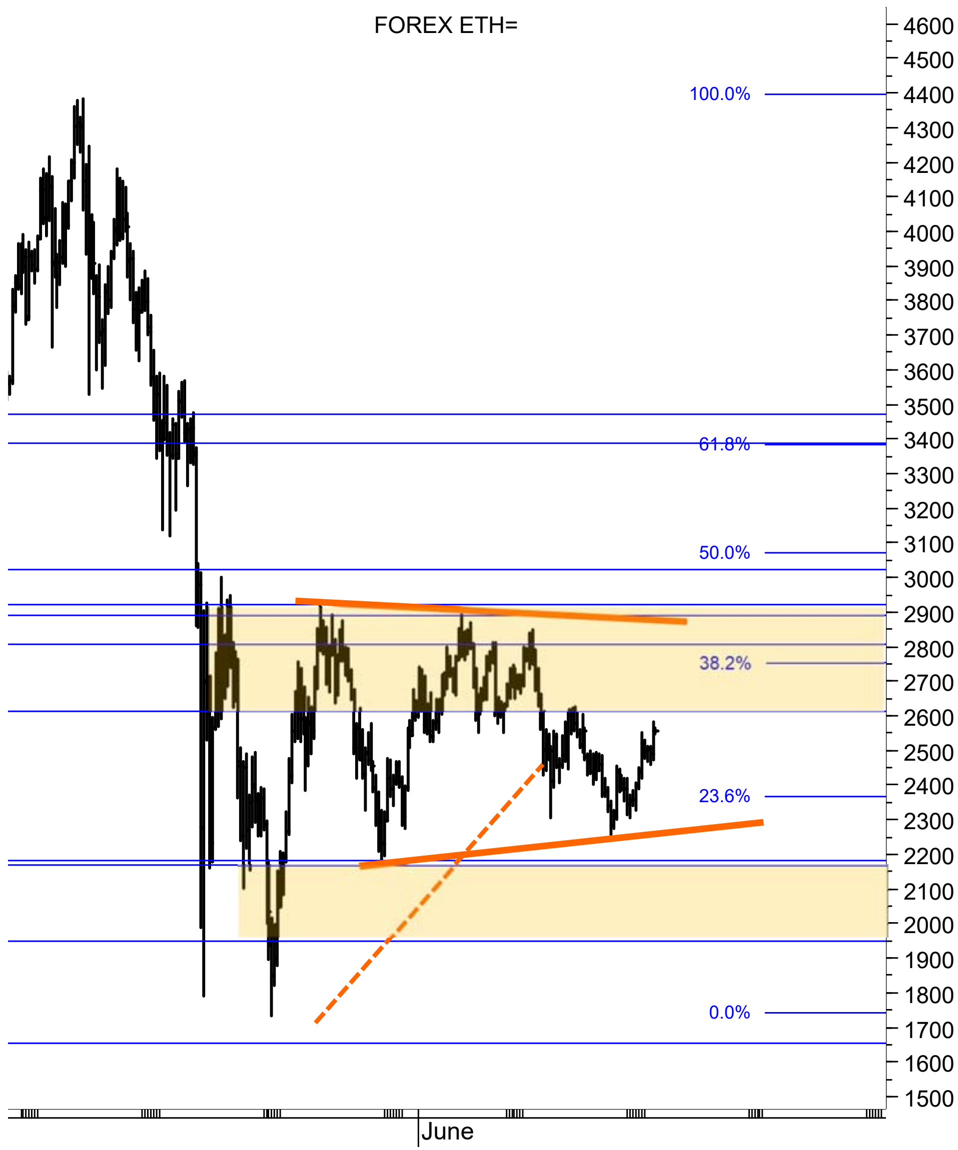
For the Wave count at left to gain preferred status, the Bitcoin must rise above the resistances at 44k, 47, and 49.5k.
The bearish wave count, which treats the high at 65k as the high of the entire five wave uptrend from2011, would become preferred if the support at 29k is broken. For now, the Bitcoin is likely to stay within this trading rnge.





US dollar per ETHEREUM

The Ethereum remains in a trading range. It could trigger new BUY signals if 2650 and 2950 is broken.
SELL signals would be triggered if 2150 and 1900 is broken.
For the bullish wave count at left to gain preferred status, the Ethereum must rise above 3100 and 3400 to 3500.
A bearish wave count would have to be adopted if the mega support at 1700 to 1600 is broken.



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Explanations
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