Predictions 2017 – Be Ready!

(Updated 05/02/2017)

It's all going to go rather quickly from here. We list our predictions for 2017 and beyond as crisis presents both opportunity and danger.

Political confidence and will eroding in the USA and other liberal democratic countries. In the US, economic confidence will start to fail as the new Trump administration starts rolling out its agenda. That could happen as early as March 2017 but most likely will not be felt until later in 2017. When political confidence fails, economic confidence falls soon after.

2017-18 is all about the coming shocks. Building on Brexit and the US presidential elections in 2016, markets are setting up for surprises. So called 'black swan events' always have tell-tale warning signs before they actually happen. A combination of factors are coming together to create the so called 'perfect storm'. At the heart is the implosion of global markets that has started and cannot be stopped. While this may be slow at first, it will pick up speed over the next few years.

We see inflationary forces gathering in the US and the potential for this to get out of hand quickly is real. We believe inflation in the US will jump quickly above 4% and has the potential to run up as high as 10%. So in 2017 we have the bursting of this massive interest rate bubble that is the result of a decade of unfettered easy monetary policy. The immediate effects of this should quickly be felt in stock markets, commodities and real estate and in the longer term, the broader economy itself. In effect, with its own particular flavours, our current situation is identical to the 'Roaring 20's'. The set up for a last gasp spike in stocks exists before the plunge. If however, the weight of uncertainty continues to build, then that spike could be nipped in the bud leading to the next big downturn.

The US Federal Reserve is always playing catch up to the market. It will not be able to respond quickly enough to the sudden jump in official inflation rates. This will have a disastrous effect on US and global interest rate markets. The Fed will be unable to reign in money supply quickly enough to correct the torrent of money that has flooded the system over the last decade.

The effect is like holding a big ball underwater then letting go. The decade of artificially low interest rates will 'normalise'; i.e., move toward market value and this has the potential to cause major eruptions in every other asset class.

And then there are the political shocks. The wave of reaction that was Brexit and Trump will continue into 2017 with French and German elections. Rising nationalism and disgust with the political elites will see Merkel gone and the right brought to government in France. The EU will continue to blunder from crisis to crisis and we can expect with certainty other nations to begin their exit process.

In the US, Trump is busy getting his agenda off the ground. Some of his ideas have merit such as deregulation (always a good thing), downsizing US federal government and lowering corporate taxes. Many of his ideas however threaten future economic viability. In particular, the threat of trade sanctions against China, Mexico and Germany risks a global collapse in trade. Bastiat, the 18th century French economist summed it up nicely by saying when 'goods stop crossing borders, boots start marching'.

Trump and Russia is another political flash point. We anticipate that Trump will use that relationship to build trade, especially around oil while strengthening domestic oil production and weakening reliance on middle eastern oil.

Fortunately we don't have to worry too much about major wars in the immediate future. War risk will only emerge after a prolonged economic downturn (at least 13-50 years away). The risk over the next 10-15 years in the US is civil disruption and violence. Trump's presidency will have finished long before but the consequences will still be being played out a generation or two later.

One fact worth observing is that most liberal democratic governments are broke. Politicians have squandered the seed capital of their nations. We will see two things occurring. Firstly, the grab for cash by governments will continue to escalate. And the erasure of cash as a payment medium will accelerate. Secondly, governments will move to sell off any available assets to maintain the status quo. If the economy holds on for another year or two, watch the asset sales.

For now, the status quo will remain unchanged even though a new era of uncertainty and political chaos lies before us. Real, lasting meaningful change will not happen until after 2028 or 2032. Around then an important political 50 year cycle low will occur and then the US will emerge with a new destiny and a renewed sense of self.

In 2017 however, liberal democratic nations will see increasing segmentation of the left – right spectrum into smaller segments and more diverse viewpoints. The polarization occurring in liberal democratic countries will continue to deepen in 2017 before any easing occurs. In the US, Trump serves as the perfect focal point for this polarization and civil unrest and disturbances may very well break out this year. In the US we see the accumulation of decades of bad policy and a deteriorating social mood is threatening the very fabric of the US. For 2017 we do not see individual states seceding but civil disturbances that turn violent and later we will see risk civil war.

Since the 1930's we have witnessed the growth of US Presidential Executive Orders. Since Ronald Regan Executive Orders have been used more extensively. Anticipate Trump to exceed that of Obama (275 orders) by heavily relying on Executive Orders over the life of his presidency. This is important as it further breaks down the separation of powers of government and moves government towards an imperial style of governance by Trump who is already isolated, like an emperor.

Along with the demise of cash as one of the last privacy barriers to fall, liberal democratic principles continue to crumble. Another aspect of liberal democratic government being eroded slowly and surely is the separation of powers of government. Politicians' need to be seen to be doing something, namely creating legislation. The separation of powers between the executive, legislature and judiciary has become increasingly imbalanced against the judiciary. Soon that imbalance will extend to the legislature as the role of executive order escalates.

Depth of prevailing social mood is already at cross purposes. A soaring stock market in 2017 along with a surging economy and disenfranchised people on both sides of the political spectrum is a perfect set up for the down phase of what we call the 'Industrial Revolution Cycle'. This is part of the topping process of a cycle of human endeavour that began in 1783. That downward phase we expect to last some 38 to 62 years. At this stage our view is leaning more towards the 38 year time span. It will be steep and deep. This is based on technical considerations before the next cycle of growth gets underway. The key point is the setup has already been underway for a long time now and we are merely on the receiving end of this progression. Despite the hubris of politicians and bureaucrats who believe they control nations and economies, the cycles of endeavour continue to unfold bringing eternal change.

Ultimately there will need to be some sort of release of pressure before any normalization of political environments. Expect upsets is the modus operandi. If the violent moves predicted, starting in 2017-2018 occur in markets this would align well with our forecasts. Typical events that might bring about

such political and economic shifts include Presidential declarations involving other countries (trade wars, trade treaties, embargoes), political assassinations, new alliances EU breakdown.

All of this takes place in an environment of failing political and then economic confidence. Behind that, the social mood of the people of great nations will turn dark and inwards. An end of an era is taking place. This will translate into stock market tops as they finish their last upward phases.

Here are some of the market predictions we make for 2017:

US Stock Markets

As early as March 2017 we will see the final tops in US stock markets. This completes a long term trend and cycle top that started in 1783. The roll over process has been underway fro some time now and could still however take months to years to complete. This is typical of major tops and is often accompanied by a lot of confusing cross current activity. We discuss this long term trend in our lead article The End of the Long Game 2009 – 2018

They are rallying on expectation that Trump will lead the economy to new levels of prosperity. Supporting this idea we see forecasts of Dow Jones at 25,000, 33,000 and even 55,000 reflecting the emerging bullish mood for US economic prospects. These kind of calls only ever occur when sentiment is skewed and it never ends well.

Small cycles driving the 8 year stock market are due to make a top in March 2017 and has had an excellent history going back over the last 50 years. Cycles have their own rhythm however and they do go out of sync from time to time. Another scenario calls for several months of consolidation (Feb – May) in US stocks before moving up in a surge not dissimilar to the 1929 stock market peak. Obviously this would extend the stock market top and evidence of inflation and Trump's policies having a positive effect would enable this path. We rate this path with a higher probability at this time. A smart strategy might be if you saw DJIA 21000, 22000, 23000 it might be prudent to take the money off the table.

We anticipate the next 8 years starting in 2017 to be a down phase for all asset classes including shares.

US Dollar

Accompanying stock we will also see a top in the US dollar. At time of writing we estimate a 25% probability of the US$ having already peaked. There is often a 'right fit' to a market and one more major spike on the US$ would complete that 'right fit'. If we get this spike then we could see EurUSD to 1.00 – 1.03, GbpUSD to 1.10 – 1.00, AudUSD to 0.50 – 0.60 and Yen move to 125 – 140. If however, then anticipate the EurUSD moving to1.60, Yen to 80, GBP to 1.60 and AUD to above 1.10 as the next major long term trend gets underway.

Gold

Gold is still completing a major consolidation phase. We see gold hovering between US$1180 – $1300 for several months before moving up to around the US$1500 – $1535. Following that comes a solid move down to below US$800. Typical targets include US$770 and $450 before the next long term uptrend begins.

Australian Stock Market

The ASX SP200 will begin its long slide to below 3000 this year. Note this could come as a divergent action to US stock markets as Australian economic risk to weighted more to Asia.

Longer Term

We will not see oil prices rise above US$140 per bbl before 2065. A new era is dawning where cheap, abundant, low polluting energy is available.

Over the next 25 years we will see people die of starvation because of crop failure caused by a cooling climate. In that same time frame we will see climate change as an issue in the minds of the public disappear.

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