PRIVATE WEALTH ADVISORY

INVESTMENT RESEARCH THAT CONVERTS

# 2020 Market Forecast




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The big picture for 2020 is one of higher growth and higher inflation.

Every major asset class is signaling inflation is coming. It's now a matter of time before it takes hold.

First and foremost, the US dollar has broken its bull market trendline (blue line) as well as support (green line).


The breakdown is also clear in the longer-term chart.


This is a clear signal that we are entering a new era for the financial system. The Fed has officially abandoned its goal of monetary normalization and will instead flood the system with liquidity.

To me, this is a good thing. The $USD was far too high and it was inducing tremendous pain in the financial system.

Now, you might be asking, *"the $USD has been at much higher levels during the last five years, Graham, why was this last bull run such a big issue?"*

The big difference is that from 2018-mid-2019, the Fed was draining US dollars from the financial system via Quantitative Tightening (QT) while also raising interest rates four times per year.

Taken together, these two policies put TREMENDOUS pressure on the global financial system.

Remember, the U.S. dollar is involved in over 90% of all currency transactions globally. Over 60% of all central bank reserves are in U.S. dollars. And nearly 40% of all debt in the world is denominated in U.S. dollars.

Put simply, the U.S. dollar is THE monetary lubricant that makes the global financial system function. In this context, when the U.S. dollar begins to strengthen, it stresses in the system.

Similarly, when it when the U.S. dollar begins to weaken, it eases stress in the system.

And when the $USD begins to strengthen, while the Fed is removing over 400 billion dollars from the system via QT, it creates a SEVERE $USD shortage.

The Fed finally got the message in late 2018 when the credit markets froze up and the stock market nosedived 20% in the span of six weeks. Since that time, the Fed has begun easing aggressively.

And that will induce inflation.

The first sign of this is the $USD breaking down which I already noted.

The second is the breakout in commodities.

Commodities are the building blocks of all things economic. As such they are closely linked to growth and inflation.

With that in mind, take note that the commodity index has broken its downtrend.


The significance of this breakout is massive. That top trendline actually runs all the way back to 2007!


We should see a back-test of this breakout in early in 2020, but if that breakout holds, **commodity prices will roar higher and we are indeed entering a period of higher inflation**.

Some other charts hinting at this:

Steel has broken the downtrend that began when the Fed started its aggressive QT/rate hike program.


Ditto for Copper:


Aluminum has broken its downtrend and is challenging overhead resistance:


Again, all of this (a weak $USD and breakouts in commodities, specifically industrial metals) point to higher growth and inflation.

However, the BIGGEST story as far as growth/inflation is concern is the yield on the 10-Year US Treasury completing a back test of its former breakout.

Initially, yields on the 10-Year US Treasury broke their downtrend in 2018. The Fed quickly moved to end this via rate hikes and QT. But now that the Fed has abandoned both policies and is in fact *easing*, yields are beginning to turn back up again.

And they're doing so while staying ABOVE their old trendline.


This is a gamechanger and it tells us the bond market is finally beginning to discount higher inflation (bond yields track inflation). The significance of this *cannot* be overstated.

Take a look at the longer-term chart to see what I mean.

Yes, the 20+ year downtrend on bond yields looks to be ending. We've had a breakout that back-tested and HELD. **<u>This tells us higher yields are on the way.</u>**

Again, this signals higher growth and higher inflation are coming.

And then there's gold.

Gold reacts to two things: political instability and inflation.

There's plenty of political instability in the world. But inflation is what ignited gold's move higher in in mid-2019. As the below chart shows, gold broke out against the $USD, Japanese Yen, British Pound, and Swiss Franc.

That is a sign of a MAJOR turn. And to me, it signals that gold began discounting endless monetary easing from the Fed/ higher inflation.

Indeed, the precious metal has broken above the downtrend from its 2011 top. It has also broken resistance (green line) and held there.


During major bull markets in gold, gold miners outperform gold. Take a look at the ratio between miners and gold over the last 10 years and you'll see we've recently had several key breakouts, all of them bullish.

Finally, and this is key… during periods of higher inflation, silver outperforms gold.

Well the ratio between silver and gold has just broken a four-year downtrend. Moreover, there's been a successful back test of this breakout that held.

This tells us we are entering a period in which silver will dramatically outperform gold.

That means higher inflation.


Add up all of the above, and we've got:

1) The $USD breaking down.
2) The commodity markets breaking up.
3) Industrial metals breaking up.
4) Bond yields breaking up.
5) Precious metals and their subsectors breaking up.

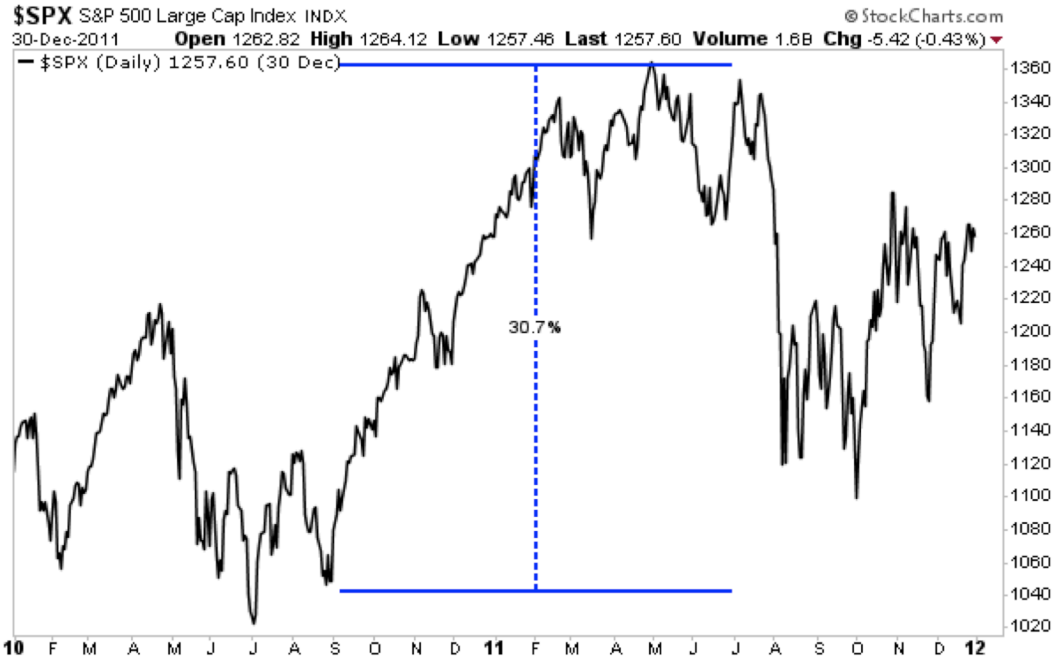
**<u>All of these indicate higher growth/ inflation are coming.</u>**

I want to be clear here: I'm not talking about some kind of 10-year inflationary period similar to the 1970s (although that could happen). I'm STRICTLY talking what is coming down the pike in 2020/

But what about stocks?

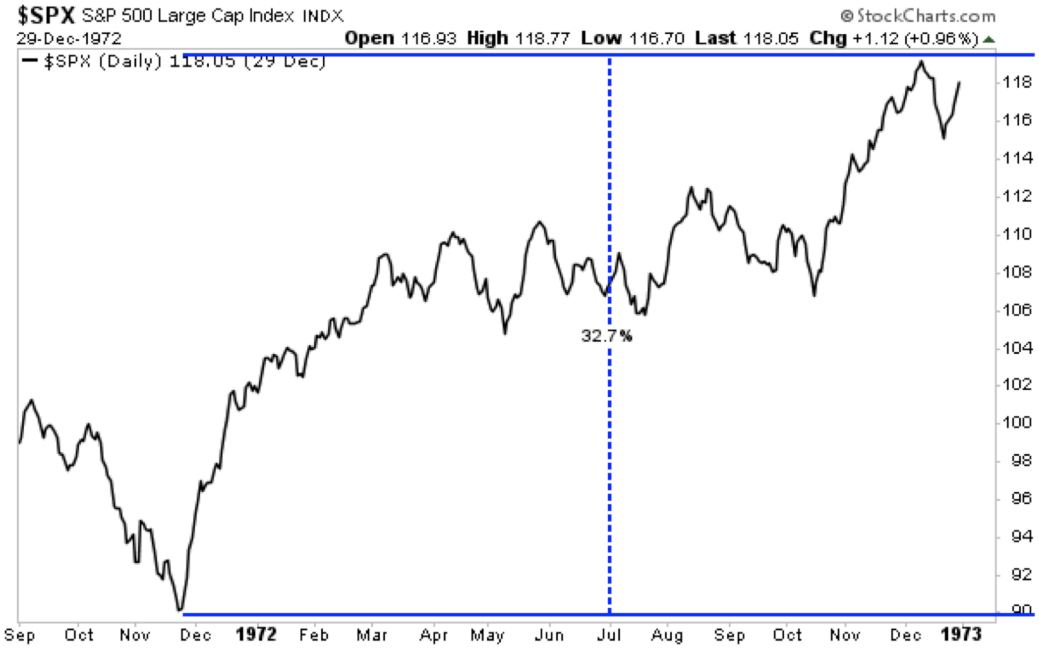
The last period in which the Fed managed to induce higher inflation by easing monetary conditions during a growing economy was from mid-2010 to mid-2011 when the Fed was announced QE 2.

At that time, stocks rose roughly 30% before nose-diving when the EU debt crisis took over the markets.




Before that, the last time the Fed was easing while the economy was growing was when it cut rates three times in 1998. Stocks rose 30% from the date of the last 1998 rate cut to the close of the next year that time too.


And finally, before that, we had the Fed cutting rates in 1971 despite the economy growing. That time too stocks soared roughly 30% higher in the next 12 months following the last rate cut.



In this context, barring a debt crisis, stocks should experience an EXCELLENT year in 2020. By historical precedent, we could see a 30% move higher much like the one from 2019.

By the way, a 30% rally from current levels would bring the S&P 500 to 4,225.

I've been forecasting that the S&P 500 would go to 4,000 sometime in 2020 for months now. And we have THREE separate historical instances suggesting this could indeed happen.

The long-term chart is well within a bull channel that opens the door to this.


For this reason, we're closing out our final two Shorts.

**Action to Take: Cover your Italy ETF (EWI) SHORT.**

**Action to Take: Cover your Shopify (SHOP) SHORT.**

## HOW TO INVEST IN 2020

In terms of broader portfolio actions, going forward I would:

1) Use dips and corrections to buy stocks.
2) Increase exposure to precious metals and precious metals miners.
3) Focus on out of favor economically sensitive / inflation sectors (steel, copper, etc.).

I'll be providing detailed strategies for all of these in real-time as the year progresses. But in broad strokes, those are the big themes for 2020.

In terms of actual investments today, I like Tata Motors (TTM).

The Indian-based company owns the Jaguar and Land Rover brands. Because of issues related to BREXIT and a drop in demand in its domestic market (India) the company's share price has collapsed.

Today TTM trades at 0.2 times sales, three times cash flow, and an enterprise value to EBITDA of less than five.

Put simply, the company is trading as though the world is ending. If things improve even *slightly* TTM shares will explode higher.

Indeed, the chart looks as though it's bottoming, having broken its downtrend (blue lines). A break above resistance (red line) would open the door to a run to $26 or $28,


**Action to Take: Buy Tata Motors (TTM).**

Another play I like is the Mexico Fund (MXF).

The MXF is a closed-end fund that invests across a variety of sectors in the Mexican economy, including telecom, banking, soft drinks, cement, chemicals and more. MXF invests in both private and public companies.

The chart is EXTREMELY bullish with MXF shares having broken a seven-year downtrend (blue line). They're now challenging resistance (red line). A breakout here would lead to a rally to $20.


However, there are more than just capital gains to make MXF attractive. The fund currently yields over 7%.

So we earn 7% per year sitting on this position waiting for it to breakout.

**Action to Take: Buy the Mexico Fund (MXF).**

This concludes this week's update for ***Private Wealth Advisory***. I'm watching the markets closely and will issue updates as needed. Barring any new developments you'll next hear from me next Thursday after the market's close in our usual weekly market update.

On a final note, the doors are closing to our special LIFETIME subscription bundle to all of our products... as well as any future products we launch... **for $2,500.**

To provide some context here, currently a subscription to all of our existing products costs **$1,500 per year.**

This means that based on this offer**,** you can get EVERYTHING we publish as well as any future products we launch, **for less than the cost of TWO YEAR's worth of subscription fees.**

For ***Private Wealth Advisory*** subscribers or ***The Crisis Trader*** subscribers (or people who subscribe to both products) this new offer will CANCEL out your previous subscriptions.

What I mean by this is that if you take advantage of this lifetime bundle offer, we'll REFUND you your current subscription fees.

Again, this offer CANCELS out your existing subscriptions. **And after you lock in this deal, you won't be charged again, EVER.**

You'll receive a subscription to Private Wealth Advisory, The Crisis Trader, and any new product we launch... for the rest of your life.

To take advantage of this special LIFETIME bundle offer… use the link below:

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Until next Thursday…

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

# OPEN POSITIONS

| Position | Symbol | Buy Date | Buy Price | Current Price | Total Return* |
|---|---|---|---|---|---|
| Uranium ETF | URA | 1/17/18 | $14.93 | $11.05 | -26% |
| Emerging Markets ETF | EEM | 5/1/19 | $44.00 | $45.71 | 4% |
| European Financials ETF | EUFN | 5/1/19 | $19.62 | $19.73 | 1% |
| Workday | WDAY | 8/8/19 | $191.08 | $167.42 | -12% |
| Gold | GLD | 8/23/19 | $144.12 | $143.76 | 0% |
| Silver | SLV | 8/23/19 | $16.35 | $16.82 | 3% |
| Silver Miners | SIL | 8/23/19 | $29.72 | $32.83 | 10% |
| Silver Mining Juniors | SILJ | 8/23/19 | $10.54 | $12.25 | 16% |
| Ultralong S&P 500 | SSO | 10/4/19 | $124.97 | $152.56 | 22% |
| Square | SQ | 10/4/19 | $62.17 | $63.64 | 2% |
| Etsy | ETSY | 10/4/19 | $56.46 | $45.17 | -20% |
| Alcoa | AA | 10/17/19 | $20.30 | $21.40 | 5% |
| Caterpillar | CAT | 10/24/19 | $133.85 | $149.05 | 11% |
| US Steel | X | 10/24/19 | $11.27 | $10.86 | -4% |
| Ultralong Russell 2000 | UWM | 10/24/19 | $66.67 | $76.37 | 15% |
| Brazil ETF | EWZ | 10/31/19 | $44.60 | $48.35 | 8% |
| Russia ETF | RSX | 10/31/19 | $24.08 | $25.61 | 6% |
| Pfizer | PFE | 11/21/19 | $37.74 | $38.94 | 3% |
| Goldman Sachs | GS | 12/5/19 | $217.27 | $234.38 | 8% |
| Arcelor Mittal | MT | 12/5/19 | $17.44 | $17.70 | 1% |
| Freeport McMoran | FCX | 12/5/19 | $11.35 | $13.19 | 16% |
| Gold Miners ETF | GDX | 12/12/19 | $27.66 | $29.19 | 6% |
| Gold Mining Juniors ETF | GDXJ | 12/12/19 | $39.31 | $42.18 | 7% |
| Tata Motors | TTM | 1/2/20 | $13.48 | NEW | BUY! |
| Mexico Fund | MXF | 1/2/20 | $13.96 | NEW | BUY! |

**Prices as of 1/2/120 at 2:50PM.**
***Gains include dividends**