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## **Outlook for 2023: Sort Of**

Decades ago, when we were retained by major mining companies for our studies on metal prices there were varying views. Guys in the market-finance department wanted to know price trends for metals. Using supply/demand analysis they were experienced at extrapolating trends. Actual reversals in price typically lead key changes in the supply/demand equation, which makes such methods precarious. But they fully understood that metal markets were cyclical and soon realized that market history with technical research provided reliable advice.

Within the big firms, the accounting side only wanted to know the average price at year-end.

And this time of year, Wall Street is in the habit of foreseeing price levels for the S&P or Treasury yields, etc., for precisely this time next year.

There is much more to it than what can be projected to happen twelve months from now.

Other than seasonal opportunities such as in January 2022, market forces are much bigger than with what is likely to happen next December. Other than annual ritual, why would any research department project a level for the S&P on December 31, 2023? Or, shudder, for Fed Funds?

The problem is that this approach seems to satisfy some accounting compulsions when market dynamics could have the action in real time straight up or straight down or even straight sideways.

And then there are moves that last longer than 12 months. For example, our fabulous bubble completed a year ago and post-bubble bear markets typically last from 3 to 5 years. In noting the technical excesses reached last year at this time, we pointed out that the decline for the S&P could approach 56%.

In not joining the investment community in this season's financial rituals, it is appropriate to review the characteristics that track the transition from boom to bust.

Firstly, great bubbles have all had a similar setup. A huge global boom in commodities blows out and around a decade later a generational mania in financial assets also blows out. The first was in 1720 and number five completed in 1929. On our number six, the mania in commodities completed in 2011 with the financial bubble completing last January. The usual decade.

The transition from flying unicorns to eventually widespread deflation has been methodical, as tracked by key items:

As deflated by the CPI, copper's real price goes up. The high was set at 174 in June 2021 and it is now at 120.

As part of the mania, gold's real price goes down. The last high was set in 2020 and after a significant decline the action seems to be stabilizing. Rising would be typical of the post-bubble condition. However, gold relative to commodities has successfully completed a Five-Month Basing Pattern. And could be anticipating a lengthy bull market for the sector.

Another key feature has been that real long interest rates decline with the financial mania and then turn up. The rise in interest rates has been shattering. The irony has been that the Fed has been forced to follow the natural rise in market rates of interest.

Short-dated interest rates have always soared during a boom right back to Rome, 2000 years ago. For the record, Rome committed economic and political suicide through massive inflation, without a central bank.

And the fourth methodical feature has been the senior currency becoming firm--relative to most currencies and commodities for most of the time. As a starter, the DX rallied from 89 in 2020 to 114.75 in September where technical excesses called for a correction. A new low at 103.80 is being set this week, but the decline is reaching technical excesses, opposite to those in September. A little more time and the low could be set.



History is in another transition from an everything bubble, to deflation in most asset classes and it is worth reviewing another key item. With any boom and bull market the Yield Curve eventually inverts. And on our charts back to 1857, the rules have been: Inversion with short rates higher than longs has always been followed by a recession. Also, the more intense the inversion is, the more severe the contraction.

The following chart shows that the inversion is reaching technical excesses:

## US Yield Curve



The completion our great bubble in January a year ago was methodical. Further, the initial phase has been following the typical pattern and could prevail for a couple of years.