INSIIDE TRACK

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"...Let us run with patience the race that is set before us." Hebrews 12:1

40-Year Cycle:

Stocks in 2018 - 2021 V

An INSIIDE Track Report

40-Year Cycle: Stocks in 2018 - 2021 V

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Equity Outlook 2018 - 2020: Late-2018 Troubles

June 2018: Stock Indices are reinforcing the outlook for an extended topping phase in **1Q - 3Q 2018**, followed by a sharp sell-off in **4Q 2018** (possibly stretching into **1Q 2019**). If that unfolds as planned, it would powerfully validate the outlook into **3Q 2019** and even into key cycles in **2020**.

While domestic indexes are still projecting a retest of their Jan. '18 highs (based on respective weekly trend patterns), Chinese & European indexes are powerfully confirming the outlook for **2018** to be a bearish year. Geopolitical cycles related to China focus on **4Q 2018** as the time when tensions should escalate and likely spillover into equity and currency markets. The intra-year outlook for Europe and the Euro concur...

The STOXX 50 & DAX are projecting year-long declines that could last into year-end. In the interim, they are fulfilling the potential for multi-month highs in **May '18** and are expected to set subsequent (lower) highs in **mid-to-late-Sept. '18** - the next phase of both 4-month & 8-month *Cycle Progressions*. The DJ Transports and DJ Composite Index also portend multi-month peaks in **Sept. '18** followed by a negative period in **4Q '18**. The most bearish period could wait until after a lower high is set in **late-Nov./early-Dec. 2018**. - in sync with 5-month & 10-month *Cycle Progressions* in the DJIA & S+P 500.

If all these equity markets come close to fulfilling this potential, it would add a great deal of credibility to the outlook for **2019 - 2020** and reinforce the *40-Year Cycle* correlation to 1978 - 1980. The following is a reprint of recent analysis, to bring newer readers up to speed...

Outlook 2018 - 2019

Currency Competition - Vying for Position

05-30-18 - The rhetoric continues to escalate with the U.S. & China appearing to be on a collision course. The Korean Peninsula is one of the (many) areas where this is unfolding with the U.S & China fighting for the lead in North/South Korean negotiations (with Russia now interjecting herself).

When the U.S. was achieving too much forward progress too fast, China suddenly had covert meetings with Kim Jong Un and everything changed.

Then it didn't. (Back to Plan A.)

Then it did. *(Oops… Back to Plan B.)*

North Korea/US negotiations on. *North Korea/US negotiations off*. And on. *And off*. And back on.

Meanwhile, US tariffs on specific imports are invoked. Then they're not. Then they are, except everyone is exempt… except China. *Wow, that was well disguised.*

US warships continue to make their presence known in the South China Sea, assuring safe maritime passage for all nations. China responds. More US naval vessels appear. China reacts.

China & the Currency War

While all of this is going on, and the US appears to be maintaining the upper hand in most of these conflicts, China is making major inroads where it could ultimately matter most.

BRIC by *BRIC*, China is erecting a venerable edifice as it continues to develop into a major, global economic player. Recent events corroborate this.

The structure to which I am referring is the *BRICS*' *New Development Bank* - which has become the primary player in Pakistan's financial rescue, striving to avert a foreign currency crisis. In the past year, the *NDB* - based in Shanghai - has played a crucial role in loaning Pakistan 1 Billion USD and preventing them from going to the *IMF*.

A lot of this goes back to the global meltdown of the late-2000's, after which the BRICS nations hatched these plans. About the same time, rumors began to circulate about a proposed basket of currencies to replace the US Dollar as the centerpiece of global foreign exchange. In addition to some of the BRICS nations, other countries like Saudi Arabia were alleged to be part of those talks.

At the same time, a new assault began on the US - this one in cyberspace. Keeping with the *8-Year Cycle of Attacks Against America*, an onslaught of hacking attacks were leveled against dozens of major US companies and government agencies - later traced back to the *People's Liberation Army* of China and the so-called *Elderwood Gang*.

America's response, at least that to which the masses are privy, was anemic with '*stern warnings'* and or inquiries launched. Soon after, China really began to align their 'ducks in a row' - with the debut of the BRICS *New Development Bank* & *Asian Infrastructure Investment Bank* (future rivals to the IMF & World Bank). China, often in league with Russia, wanted to ramp up the pressure on the West while also providing an alternative when the next (inevitable) financial meltdown occurred.

As Vladimir Putin stated back in 2014: *"The international monetary system itself depends a lot on the US Dollar… on the monetary and financial policy of the US authorities. The BRICS countries want to change that…" Hmmmm.* Luckily, he hasn't done anything (???) to influence the direction of American politics and our leadership.

While China was launching the *Asian Infrastructure Investment Bank*, the US obviously saw the *writing on the walls* (as did many of our allies) and tried desperately to prevent Australia, S. Korea and other nations from joining. Again, a very tepid reaction resulted in nothing except the *AIIB*'s membership quickly expanding to 57 members, including UK & many European nations.

With China playing a commanding role in both of these entities, it is easy to see who has the largest influence. And, oh yeah, they also hold a large chunk of US debt (that can always be used in an extortionary manner, if necessary), currency and corresponding debt and currency of other nations. In other words, if economic (or even military or political) pressure escalates to uncomfortable levels, China has multiple alternatives for 'influencing' other nations to see things their way.

China didn't stop there as they launched *YASRef* in 2014 - a joint refining venture in Yanbu, between Saudi Aramco & Chinese Sinopec - and struck a 30-year gas deal with Russia, for two major pipelines between the two countries.

In 2016, China launched the Yuan-based Gold fix on the *Shanghai Gold Exchange* (on April 19; a date of dramatic gold actions in the past) and then had the Yuan included into the basket of currencies that form the IMF's *SDR/XDR* or *Strategic Drawing Rights* (at the cost of reduced Euro & Pound inclusion) - one of the original global digital 'currencies'.

Once all these ducks were in a row, it was time to nurture them - which has been unfolding at a rapid pace. Pakistan has been one of the original recipients of funding & currency swaps, sparing them (at least for the time being) of a financial meltdown. The BRICS have opened 'branches' of the *New Development Bank* in South Africa & Brazil

So, when the US announces another round of tariffs against China, the closer the globe approaches a day or reckoning. One problem is that this President has become emboldened by the initial responses to his rhetoric and actions. Whether or not they are justified (I will leave that debate to more skilled economists and financial thinkers) matters little.

What does matter is which action becomes the proverbial *'straw that breaks the camel's back'*. By swinging a big enough stick, one can back a formidable dog or other animal (or adversary; no link between an animal metaphor and the people of China is intended) away for some time.

BUT, once it gets cornered - and there is no chance for escape - then the adversary is forced to vehemently react with everything it has at its disposal. All it takes is one missed swing of that stick and suddenly the tables are turned dramatically.

As China & the US near the *40-Year Cycle* anniversary (**Dec. 2018 - Feb. 2019**) of a seismic shift in China's global economic & political standing - and the start of their economic rise to power - the precursor rumblings (foreshocks) of a new quake are repeatedly occurring.

Late-2018 - **2021** also includes 40, 80, 120 & 160 year moves from Major China-involved wars… as well as 200, 240 & 360 years from underlying triggers and the original Sino-Russia conflicts starting in 1650's. As is often the case, a nation's currency and financial markets reflect these shifts before them. That is why I an closely watching the Yuan (see page 4). *More to follow.* ***IT***

STOCK INDICES

05/31/18 - Stock indexes continue their sideways trading since fulfilling the latest phase of the 5-month *Cycle Progression* that projected an advance into mid-to-late-Jan. 2018 and subsequent high in **mid-to-late-June 2018**. If that is fulfilled, it would project a subsequent high (more likely to be a lower high) for **Nov./Dec. '18**.

The weekly trend patterns have been projecting a retest of the Jan. highs - during the **June '18** cycle - in one or more indices. The Russell 2000 recently fulfilled that and the Nasdaq 100 appears on track to do the same.

On a larger-degree basis, cycles converge in **4Q 2018**… the latest of a ~3.25 year (12 - 13 quarters) low-low cycle that has timed important lows in 3Q 2002, 4Q 2005, 1Q 2009, 2Q 2012 & 3Q 2015...it is possible that equities could see a sharp sell-off into **Oct. 2018** (or even **early-Nov. '18**) and then rebound to a lower high in **Nov./Dec. 2018** - also fulfilling the 5-month & 10-month low-high-high *Cycle Progressions* illustrated separately.

That pattern would have similarities to 2014 - 2015, when equities set successive highs at ~5-month intervals (July & Dec. '14, then May & Oct. '15) with sharp drops into Aug. 2015 & Jan. 2016. Those two lows were also ~5 months apart and perpetuated a sequence that previously included the Oct. '14 & Mar. '15 lows.

The sharp drop into Aug. '15 *followed* a divergent retest of the highs in May 2015 (similar to what is setting up for **June 2018**) and *preceded* a lower high in Oct. '15 - similar to what is postulated for **Nov./Dec. 2018**. All that to say that a sequence like

Early-2018 Analysis, Projecting Year-Long Declines in Key Global Indices (Stoxx 50, DAX, Shanghai Comp)

1-31-18 *INSIIDE Track* - The Euro ***Stoxx 50 Index*** retested its May 2017 secondary peak while fulfilling its weekly trend pattern. Until a weekly close above **3280/MPY**, this index remains in a ~12 month trading range - expected to see another multi-month decline in **2018**. If that May '17/Jan. '18 peak continues to hold, it would project an ensuing decline to **2,300** over the next 1 - 2 years. *Cycles converge in **Nov./Dec. 2018** and provide the first potential time frame for a major bottom.*"

2-03-18 *Weekly Re-Lay* - "… It is important to reiterate that several key global indices also signaled initial reversals lower, beginning on Jan. 23 & 24. These include the Shanghai Composite, Nikkei, Euro STOXX 50, CAC-40 and the DAX. On a larger-degree basis, the European Indexes remain the most vulnerable as they barely spiked above their Nov. peaks. The STOXX could not retest its May 2017 peak, which was below its Nov. 2015 high, which was below its July & April 2015 peaks. *The outlook remains that this index could see a year-long drop into **late-2018**…*"

2-24-18 *Weekly Re-Lay* - "While I try not to place too much emphasis on it, since it IS a different entity, the STOXX 50 Cash Index continues to grab my attention after dropping back to 12 - 18 month support and erasing a year's worth of (anemic) gains in a mere 2 weeks. It has initially bounced from that support, as is often the case, but has not mustered up much of a rebound. Coinciding with the outlook for the Euro (even though the currency & equity markets do not move in lockstep with each other), *the STOXX is also hinting at more trouble on the horizon*. That could again be the tail wagging the dog…"

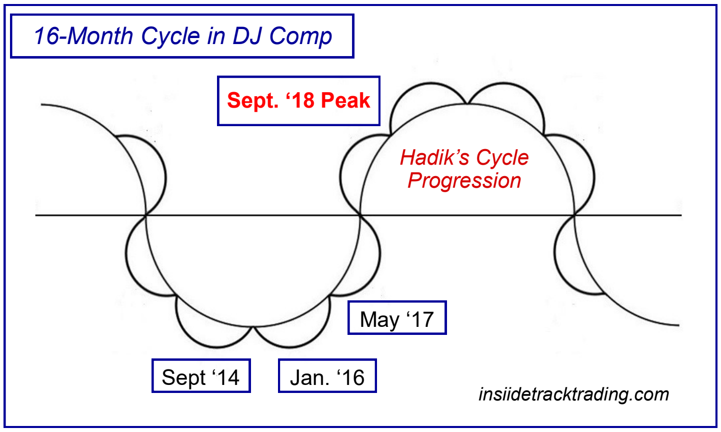
2-28-18 *INSIIDE Track* - "China's ***Shanghai Composite*** peaked in late-Jan. 2018 - the latest phase of a ~2-year low (Jan. '14) - low (Jan. '16) - high (**Jan. '18**) *Cycle Progression* and an intervening ~1-year/360-degree low (Jan. '14) - low (Jan. '15) - low (Jan. '16) - low (Jan. '17) - high (**Jan. '18**) *Cycle Progression* - as illustrated in the accompanying diagram.

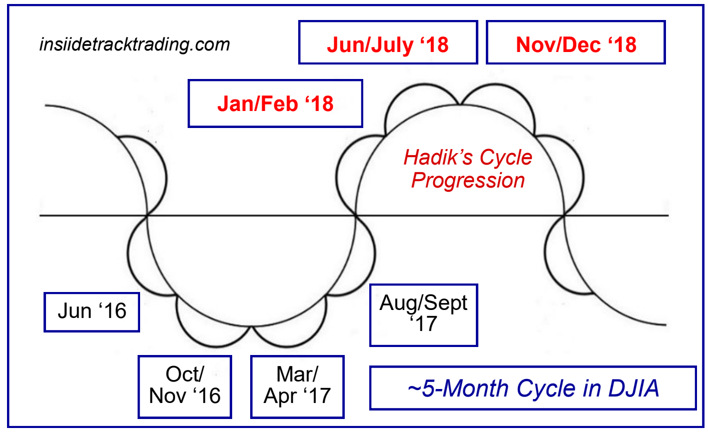
Since its early-2016 low, the *Shanghai Comp*. was only able to recoup about 1/3 of what was lost in mid-2015 - early-2016. And then, in a mere two weeks' time, it plummeted back to its Jan. 2017 low. Put another way, the *Shanghai Composite* took an entire year (52 weeks) to gain ~600 points and only 2 weeks to lose all those gains. To place that in a larger context, the *Shanghai Comp* completed a 2-year advance of ~1,000 points - broken down into a precise, 360-degree low (Jan. '16) - low (Jan. '17) - high (**Jan. '18**) *Cycle Progression* that also includes preceding lows in Jan. '15 & Jan. '14 - and corrected ~60% of that 2-year, 105-week advance… *in ONLY 2 weeks!*

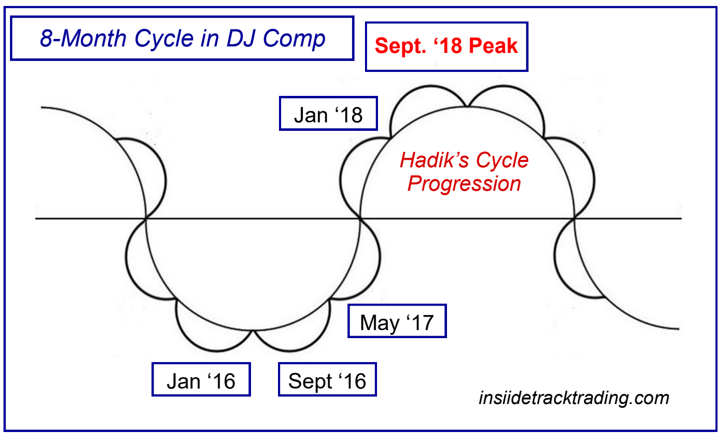
This action - and the corresponding action in the European *STOXX 50 Cash Index* - reinforces that there is serious, underlying weakness in significant global equity markets. As in mid-2015 through early-2016, that could again create a *'tail wagging the dog'* scenario (international equities weighing on domestic equities) as multi-year lows are eventually broken. The level to watch in the *Shanghai* is around **3200**. That is where its first rebound (from the early-2016 bottom) peaked and it is where three sell-offs (since Nov. 2016) have bottomed. If/when that support is broken, it should trigger acceleration…

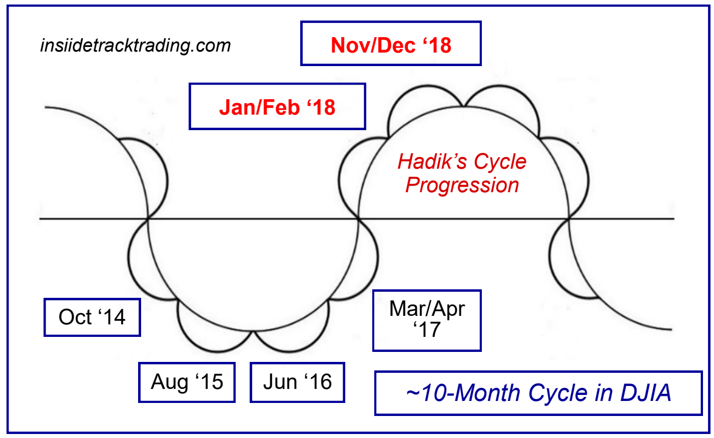
The Euro ***STOXX 50 Index*** remains weak, peaking the level of its May 2017 high, which was below its Nov. 2015 high, which was below its July & April 2015 peaks - a series of descending highs. *The outlook remains that this index could see a year-long drop into **late-2018**.*

To reiterate from recent months, the *STOXX* action projects a decline to **2,300** over the next 1 - 2 years. *Cycles converge in **Nov./Dec. 2018** and provide the first potential time frame for that bottom.*"









that would not be unprecedented...

As commodity inflation extends its surge - with the GSCI nearly doubling since its Jan. '16 low, interest rate pressures escalate, trade war drums beat louder & louder, a new Euro debacle nears an explosive conflict and corporations confront growing uncertainties from different angles… the charts are reflecting (sometimes leading) this angst and specifying the timing for a serious reckoning.

The Leader?

The Transports are monitored closely for any clarifying or leading signals, since they have repeatedly led significant turning points - particularly tops - since 1999. With a spike high this week, the DJTA just fulfilled a 4 -week and an 8-week low-low-(high) *Cycle Progression* while entering the time frame when it could set a ~5-month peak.

Ultimately, the key to the Transports trend will be the early-May low around **10,080/DJTA**. That low perpetuated a 12-week low-low-low-low *Cycle Progression* and would need to be broken in order to signal a larger-degree decline. Until then, it represents 1 - 3 month support...

Global Indices

05/31/18 - The Euro ***STOXX 50 Index*** remains on track for an overall decline into **late-2018**. It rebounded right to 1 - 2 month resistance after testing 1 - 2 year support and fulfilling cycle analysis for a sharp drop into **March 2018.**

With 1 - 2 month resistance coming into play at **3156** - its year-opening range low - the ***STOXX 50*** rallied and set its highest weekly close at **3157**… then reversed lower...

The German ***DAX Index*** rebounded to year-opening levels after initially holding pivotal wave support at **11,850**. It would now take a weekly close below **12,540** to re-instate its weekly down-trend and project a drop to new lows...

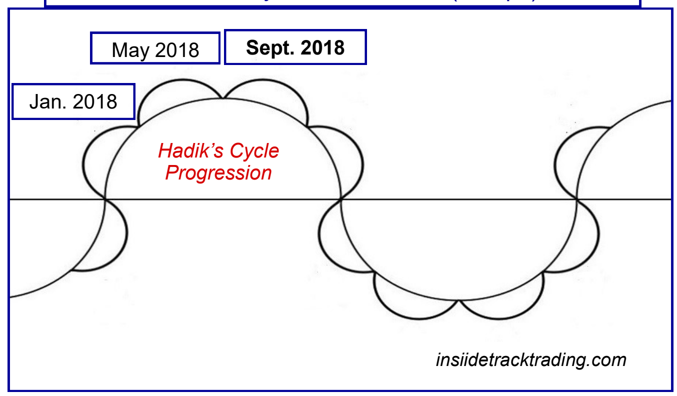
The ***CAC*** remains the most positive after pulling back into late-March while holding its Aug. '17 *'4th wave of lesser degree'* support and failing to turn its weekly trend down.

That projected a rally back to the highs, which was just fulfilled. By fulfilling its yearly *LHR* (in late-2017) and multiple yearly *LLR* levels, the ***CAC*** is setting up for a major peak."

June 2018 - Stock indexes remain focused on **4Q 2018**, when the greatest synergy of cycles - both in and outside the equity markets - project a period of trouble and negative action.

Chinese & European stocks leading the way, having turned down in **early-2018** and projecting a year-long decline. US stocks have been projecting a retest of their **late-Jan. '18** highs before a more significant downturn. Refer to latest publications for most updated analysis. ***IT***

~4-Month Cycle in STOXX 50 (Europe)



~8-Month Cycle in STOXX 50 (Europe)