

The Decade Cycle

Below is an excerpt from a commentary originally posted at www.speculative-investor.com on 22nd July, 2010.

In our 5th August 2009 commentary we discussed the strong tendency for one of the most dominant investment themes of a decade to make a 'blow-off top' during the final few months of the '9' year or the first half of the '0' year. At that time we thought that the best candidates for a 2009-2010 speculative bubble peak were gold, the currencies (a blow-off move to the downside in the US\$ and corresponding blow-off moves to the upside in the euro, SF, A\$ and C\$), government debt, and China. Of these, we thought that gold and the currencies were the LEAST likely prospects, our reasoning being that the US\$ had most likely bottomed back in April of 2008 and that gold's long-term bull market probably still had at least a few years left to run (major upside blow-offs usually don't occur until the very ends of long-term trends). In other words, we viewed the 'China story' and government debt as the two most likely candidates for "bubble of the decade".

Then, in our 16th December 2009 update on the "Decade Cycle", we wrote:

"The probabilities haven't changed much since August. For example, while it is not yet possible to completely rule out gold and the currencies, with the US\$ showing signs of having just bottomed above its 2008 low and with gold pulling back in a healthy way there is a low probability of trend-ending blow-off moves in these markets. The 'China story' (China's asset markets and the general idea that China is set to dominate the global economy for many years to come) remains a reasonable candidate for a major speculative peak, but we think the front-runner is the government debt market."

Thanks to a drop to a new all-time low by the yield on the US 2-year Treasury Note (as illustrated below), the government debt market has since stretched its lead and is now by far the most likely candidate for "bubble of the past decade". If equity and commodity prices trend lower to an October-November low as currently anticipated then interest rates could remain at ultra-depressed levels for a few more months, but we expect that by this time next year a major upward trend in interest rates (a major downward trend in the prices of US government debt securities) will be underway.

If evidence of a major upward trend in interest rates has not emerged by this time next year it will probably mean that the Fed has decided not to use monetary inflation as a weapon against economic weakness. This would be a surprising turn of events given the dearly held views of the current Fed Chairman.



As far as the new decade's major trends are concerned, our views haven't changed. Specifically, we continue to believe that the most important rising trends will be those of gold and "alternative energy", and that the most important downward trend will be in government debt. Also, this is a good time to reiterate the following: the historical record suggests that the first markets to make new 52-week highs after October of 2010 will be the most likely candidates for 5-10 year bullish trends, whereas the first markets to make new 52-week lows after October of 2010 will be good candidates for 5-10 year bearish trends. Therefore, regardless of what we THINK is going to happen over the course of this decade, we should take heed of which markets are first to make new 52-week extremes after October of this year.

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