Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Murray Gunn
Elliot Wave International

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Dennis Tubbergen:

Welcome back to RLA radio. I am your host, Dennis Tubbergen. Chatting with me on today's program, once again, is returning guest, Mr. Murray Gunn. Murray is a market analyst at Elliot Wave International and Murray, welcome back to the program.

Murray Gunn:

Thank you, Dennis. Great to be here.

Dennis Tubbergen:

So, Murray, for our listeners, maybe that are not familiar with Elliot Wave, could you give them just a basic crash course, please?

Murray Gunn:

Sure. Well, the Elliot Wave principle is what we call a frontal-based model of the economy discovered by a man called Ralph Elliot in the 1930s. And what he discovered was that human herding behavior causes markets like the stock market, which is a leading indicator of the economy, to exhibit certain identifiable and repeatable patterns, on the account that these patterns repeated every time scale. And so, it enables cycles of herding behavior to be anticipated from the short term to the very long term. And what Elliot did was... he didn't really have a theory about this... he was an accountant by profession for most of his career, so he wanted to have a detailed analysis and he examined the price data of the stock market. And so, this empirical study brought out this pattern recognition. And what actually he did, was introduce a forecasting element to what was then the popular market forecasting market analysis at the time of the Dow theory. And that wasn't really appreciated until Elliot discovered the Wave Principle.

Dennis Tubbergen:

So, Murray, for our listeners benefit, explain a bit about your background and how you got to be working with Elliot Wave and what it is that you do day to day.

Murray Gunn:

Well, I've been working in the financial markets now for well over three decades, mostly on the fund management side with companies around the world from Standard Life in Scotland to Abu Dhabi Investment Authority over there in the Middle East. The last decade I've been involved mainly on the analytical publishing side, worked as the head of technical analysis for HSBC and the last few years with Elliot Wave International. And so, my day-to-day role is to analyze the global financial markets, concentrating mainly on the European markets, as well as the bond and credit markets and the foreign exchange.

Dennis Tubbergen:

So, Murray, we have had a very eventful couple months in stocks. Our listeners are worldwide, but predominantly here in the US. So, when looking at the S&P500 and the Dow, seems they're in, or at least approaching very closely, an official bear market, what’s your assessment of stocks, both in the US here to the extent that you can talk about it, and then worldwide, and what's your forecast?

Murray Gunn:

Sure. Well, I think when we last spoke in January, I reiterated our view then, that the bounce in the global stock market index from the 2020 pandemic lockdown lows, was the final rally in multi decade bull market. And that 2021, in particular, could have marked an historic juncture in what we call the Supercycle Topping process. And yeah, that seems to be playing out now with the stock market's down over the last few months... obviously bond yields up. We've had a very grizzly bear market in the bonds, and now corporate credit is coming under pressure as well, which is relatively new over the last few weeks. So, there'll be bouncing along the way, but if our model is correct, then this is just the start of a trend, which could last for many months, if not years.

Dennis Tubbergen:

Well for our listeners that would like to go back and check out the interview that Murray did here about five months ago, you can go to retirementlifestyleadvocates.com and look at our archived podcasts. And that's indeed exactly what Murray forecast. So, Murray, how low do you think stocks can go from here? When you say this is a multi-decade Top, that sounds ominous.

Murray Gunn:

Well, certainly it's a trend. And if you look at the history of bear markets... a lot of people look at the history of the US stock market in particular, which is fair enough. And bear markets... there hasn't really been an elongated bear market for the last 100 years or so. I mean, certainly the depression of the 1930s, the bear market in stocks was over within a couple of years before bouncing off the 1932 low. But if you look at other markets like Japan, Japan topped out in 1989 and are still not above the 1989 high. So, there are precedents, if we're arguing to what we think is this is sort of end game of our Supercycle Top, which started with Japan and went through Europe, went through China, all these markets have topped out or gone sideways over the last couple of decades. And the US was really sort of the last man standing.

Murray Gunn:

Probably the main thing, which is sort of splitting investors at the moment, is the absence of the so-called Fed Put this time... meaning that the Fed has historically acted as a Put option for investors, because it eventually comes to the rescue of the markets. And in actual fact, this has just been a recent phenomenon over the last couple of decades or so. It never used to be like that. I mean, Paul Volker didn't give two hoops about the stock market back in the late 1970s. And we think that the conventional causality in this regard is wrong, in our opinion. It's not the Fed that saves the market, so to speak, it's the positive trend in social mood, which allows the Fed to act.

Murray Gunn:

So now that we think... and the evidence suggests that social mood is turning negative, we don't think the public will be so acquiescing for the Fed to intervene. And a lot of it has to do with the speed of the mood as well. There's probably no doubt that if there were to be a kind of vast crash-like situation and the Fed and other central banks would try to intervene, but a steady down trend in the stock market, which is what we're seeing at the moment, is not going to float the Fed's lifeboat, so to speak, this time, given the fact that it wants to tighten monetary policy in order to combat consumer price inflation.

Dennis Tubbergen:

Murray, isn't really the Fed in a very difficult place here. I mean, if they don't intervene as you described, you're going to see likely a market correction. And you have forecast, as well as Bob Prechter many years ago, that we're going to have to see a deflationary environment. And if they try to intervene, they feed this inflation monster. So, can the Fed win here?

Murray Gunn:

Well, that's right. They are... central banks are in a very difficult position. And it's a position they've put themselves into by the incredible unprecedented monetary inflation that they've gone about since 2008. And I think you really have to look at the bond market for this regard and Elliot Wave International has realized for decades that it's not the central banks that lead the market, it's the markets that lead the central banks. And so this Fed and another central bank tightening has come... now is coming through this year because the markets have been dictating to the central bank. So, you have to actually hike rates, you have to tighten monetary policy because the bond yield have been up over the last couple of years, something which we've been telling our subscribers about over the last 18 months, certainly, to be aware of this bond bear market that was coming.

Murray Gunn:

And I think again... the last time I was on I think it was, I mentioned that it was the Clinton advisor, Jim Carville, said that when he died, he wanted to be reincarnated as the bond market. The bond market intimidates everybody. Well, it certainly intimidated a lot of people this year. So yes, absolutely, the Fed and other central banks... damned if they do, damned if they don't.

Dennis Tubbergen:

So, this talk of a soft landing, do you see that as being a possibility or... last time you were on, and for our listeners that might like to reference it, and if you're just joining me, I'm chatting today with Murray Gunn of Elliot Wave International, the website is elliotwave.com. There's also a free book available there. And if you go to our site, RetirementLifestyleAdvocates.com, we'll post the podcast version of this program there. We'll have a link, so you can get that free book explaining Elliot Wave as well. So, what's your take, Murray, is a soft landing a possibility, or are we headed for kind of a redo of the 1930s in your view?

Murray Gunn:

Well, after such an unprecedented bubble, which has been going on not, just the last couple of years, but really since Nixon closed the Gold Window back in the 1970s, and since big currencies started, there's just been this incredible bubble in debt. And this is the sort of the 800-pound gorilla in the room that people don't really want to focus on. And the fact that the debt, not just public debt, which all can know about is through the stratosphere, but private debt. And especially if you look at non-financial US corporate debt, that's that the historical extremes. And what that means is that as interest rates rise, the debt burden becomes intolerable. And so therefore you have this situation of debt deflation, where companies and individuals are forced to reduce their debt, pay down their debt or default on their debt. So, it's very difficult to see if our model is correct, and we do have this down trend in the stock market driven by negative social mood, it's very difficult to see a soft landing.

Dennis Tubbergen:

Well, my guest today is Mr. Murray Gunn. The website is elliotwave.com. Murray is graciously offering the listeners a free book as well. You can go to elliotwave.com or visit RetirementLifestyleAdvocates.com, and we'll post the link there as well. I'll continue my conversation with Murray Gunn when RLA radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen. You are listening to RLA radio. My guest today is Mr. Murray Gunn. He is an analyst with Elliot Wave International. The website is elliotwave.com. You can go there and request a free book about Elliot Wave. You can also visit RetirementLifestyleAdvocates.com. We'll have that link posted on our podcast. So, Murray, you said something that I think maybe peaked the interest of some of our listeners in the last segment. You mentioned that there's a link between social mood and stock performance... at least that's what I thought I heard you say. Could you explain?

Murray Gunn:

Sure. Well, Robert Prechter's socionomic theory is a field of study conducted really under the hypothesis that waves of social mood motivate the character of social actions, not the other way around as most people believe. So, the waves of social mood, which drive the stock market... human beings drive the stock market at all times. So, the mood of the people, the mood of the herd, drives the stock market. And so, the stock market is actually our gauge of social mood, or we call our sociometer. And so, our historical research has found that positive social actions, such as things like peace, inclusion and consensus, they tend to proliferate with a positive social mood and a rising stock market. On the other hand, negative social actions, such as war, exclusion, and disharmony, really tend to procreate with our negative social mood and our declining stock market.

Murray Gunn:

And an amazing example of this, this year with Russian actions in Ukraine, the Russian stock market, if you look at the RTS dollar index, the Russian stock market topped out in 2007. And so, it's been in a declining trend since then, and way before then Elliot Wave had published about Russia and identifying the fact that it could, if it went into a beer market, have some serious repercussions. And over the years, since then, we've mentioned it a few times. And coming into this year, we noticed that the pattern was certainly coming into what we call, getting a little bit technical here, but we call it a triangle pattern. And what we said to our subscribers in January of this year was that the pattern of the stock market, because it's driven by social mood and because negative social mood results in negative social actions, we said in January, there was probably highly... highly probable that Russia would go into Ukraine.

Murray Gunn:

And so, the... not to get too doom and gloom about it at the moment, but there's a very similar pattern happening at the moment in China. If you look at the Chinese stock market, it topped out in 2007 as well. So, there's been a real... there's been a 15 year negative social mood trend in China, which has driven the stock market sideways to lower. And given the historical research that we've done after periods like this, that we're coming into this sort of peak, negative social mood period in China, we should be on the lookout for negative social actions. And, of course, we could say that we're already seen that with the likes of what's happening with the Uyghurs and the lockdowns and the strict lockdowns in China.

Dennis Tubbergen:

So, Murray, I want to go back and examine something that you mentioned, that we've got this big bubble in debt. And I think a lot of our listeners maybe don't completely understand, or would like to maybe understand to a greater extent, the link between debt and bubble creation.

Murray Gunn:

Well, sure. I mean, it is at the end of the day Dennis, it’s all driven by social mood. And so as social mood is trending positively, then people feel happier, they feel more optimistic. Because they feel more optimistic, they want to take on more debt, or they feel happier taking on more debt because they don't see anything bad happening in the future. And so, the debt comes on, whether that's in the form of debt to buy a bigger house or debt to invest in the stock market or even, I've seen recently, debt to invest in the crypto bubble, which is quite alarming, but this is what it's all about, is that the positive social mood means that people won't take on debt leverage and that fuels the stock market bubble.

Dennis Tubbergen:

So, Murray, when you were on, in fact in January, it was January 23, so a little over four months ago, you forecast that the bond market was ready to start declining. So, let's talk a bit about that if we could. When you look at government debt worldwide, and again, most of our listeners are here in the US, we have debt levels and unfunded liabilities that can never be paid. So, given that we've just had a literally 40 year bull market in bonds, what are you forecasting as far as this bond bear market is concerned?

Murray Gunn:

Well, it might come in a couple of phases. And we're certainly seeing the first phase at the moment. Obviously with bond yields overall, not just government bonds, but in the corporate segment and being so artificially low for the last decade or so helped a lot, a huge amount, by the quantitative easing and the money printing that was going on by the central banks. But those bond yield being so low, it encouraged our very high duration in the bond markets... a very high, what we call duration sentiment, duration allocation, in the bond market. And that meant when the bond market did finally snap and yields started to go higher, it meant that the price decline was even greater. And so up until the last few weeks, we've seen the main part of the bond market, the bond bear market, this year, has been concentrated around the fact that rates have gone up and yields have gone up, which has caused obviously the price to go down.

Murray Gunn:

What's interesting now is that we're really seeing the second phase of the bond bear market in that up until recently what we call corporate credit spreads or corporate bond spreads, so the yield spread between say junk bonds or higher quality bonds relative to US treasuries, they'd remained relatively stable, but over the last few weeks, they've started to accelerate higher. And so, what that means is that people now see the differences from maybe February, March time, where people didn't really see the effect that the rise yield was having on growth that now people are thinking, well, the economy probably is going to go into recession and therefore the risk of corporate default and what we call yield spread widening, is going up. And if you look at what happened in previous cycles and certainly in the great depression, corporate credit, or corporate bond yield spreads, were much higher than they are currently. So, there's a lot of scope for a bear market in the corporate bond market now, as opposed to the government bond market. But we still think yields across all sectors will continue to go higher.

Dennis Tubbergen:

So, Murray, big picture economic question, if I could, please... there are those that are in the camp that the Fed will reverse course, and we're going to see a hyper inflationary outcome, a hyper inflationary depression if you will. There are those in the other camp that say, no, we're going to see a huge period of deflation. Do you have an opinion on that?

Murray Gunn:

Well, we've seen the inflation already. I mean, the Fed has been hyper inflating since 2008, and that's the reason why, or one of the big reasons why, the asset markets became inflated and now obviously less, feeding through into consumer prices. In a very broad macro sense, it's interesting what's happening at the moment, which points towards the deflation side. If you look at... actually very relevant for this week, the World Economic Forum is back on in Davos this week and de-globalization is a term which is appearing to be on everyone's lips at that event this year. Of course, the supply chain issues of the global economy have been given great prominence, not at least with obviously the war in Ukraine, heightening concerns about food shortages, especially in poor nations, but a potential reversal of the decades-long trend in globalization seems all of a sudden to be the big issue.

Murray Gunn:

Now, if you look at the data, actually de-globalization started back in 2008. If you look at the value of global exported goods, as a percentage of the world economy, that actually tops out in 2008, the year of the great financial crisis, and has been declining since then for over a decade, after a multi decade advance that it had from 1945. But this decline in globalization should really worry us all, again, not to be too doom and gloom about it, but the previous decline in globalization on this measurement of global export inclusions, a percentage of GDP, world GDP, that happened from about 1912 until 1945. And of course, that de-globalization period corresponded with two world wars and a major depression across advanced economies. And so, you add to that, what I just mentioned earlier on, about Chinese social mood trending negatively for 15 years now, it points to the potentially very precarious future in the years ahead.

Dennis Tubbergen:

Well, unfortunately, the clock says we're going to have to leave it there. My guest today has been Mr. Murray Gunn of Elliot Wave. The website is elliotwave.com. If you go to elliotwave.com and click on the resources link, you can get a free Elliot Wave Principle book... explains the key to market behavior. And again, that is absolutely free. We'll also have a link on our website at RetirementLifestyleAdvocates.com. Murray, always a pleasure to have you on. Always appreciate your perspective very much and would love to have you back, down the road. Thank you for joining us today.

Murray Gunn:

Thank you, Dennis.

Dennis Tubbergen:

We'll return, after these words.