Harry's Take

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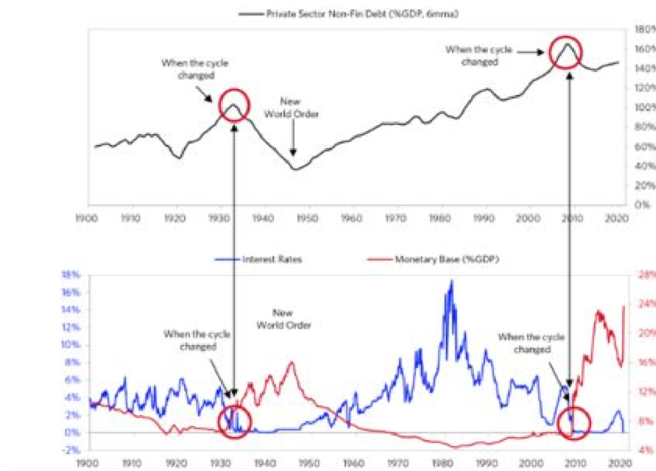
The Secret Benefits to Depressions: Debt Deleveraging and Relief… But Not This Time, Yet

Ray Dalio manages one of the largest and most successful hedge funds of this time. He speaks by livestream every February at Tony Robbins's Platinum Partners events on investing, just as I do.

In case you are not aware, Ray has been doing deep research into debt global power cycles and is publishing a free digital book online, titled *The Changing World Order,* one chapter at a time. I urge you to sign up for his free chapters as he releases them. Simply go to his website, www.principles.com, and hit the red button that says "Read Now." The most recent and best chapter is Chapter 4, Part 2, but you should download the previous ones as well.

This chart, adapted from Chapter 4, combines 3 charts I have shown many times in the past into one great summary image.

1930s Great Deleveraging vs. 2000s NOT! Great Chart from Ray Dalio



Source: https://www.principles.com/the-changing-world-order/#chapter4

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The blue line that peaks in the middle of the bottom chart is the long-term Treasury bond. By my interpretation, it is tracking the massive inflation and interest rate rise and fall caused by the Boomers entering the workforce at great expense and then becoming productive workers in mass.

The important line is the black line in the top chart, measuring total private nonfinancial debt as a percentage of GDP in the U.S. It is the private debt cycle that most drives and causes bubbles in the economy and markets—and it is that which deleverages when those bubbles burst. Government debt only goes up in a major downturn, while revenues fall and social costs surge.

Note that private debt rose to about 108% of GDP into 1930 before deleveraging back down to a more normal 40%. That’s a big haircut—63%! But a big reason the rebound from that crash was so strong was that there were less debt burdens on consumers and businesses. Now, look at what has happened since we entered the winter season in

2008. Private debt peaked around 168%, fell very little, and is now still at 147% 12 years later—a mere 12.5% deleveraging.

The difference between the last 90-Year Super Bubble Cycle and this one is that this time, there's little deleveraging of private debt and massive rises in public debt, which has created higher debt ratios than ever.

This is where the red line comes in. It shows quantitative easing (QE), which was added at a significant level for the first time in the early 1930s. But that surge occurred only at the end of the 3-year downturn in late 1932, and, hence, allowed the deleveraging to occur more fully. The first phase in the Great Depression only took it to about 5% of GDP. The second phase to suppress rates for heavy borrowing in World War II took it to 8% of GDP.

This time it has skyrocketed to 24% and is likely to rise much further ahead—it's almost 5 times that late 1932–to–late 1935 surge already. That's how you stop a debt deleveraging. This round of QE started in early 2009 and was rudely interrupted halfway into the normal 3-year-plus debt deleveraging phase similar to the one that occurred from early 1930 into mid-1933.

Here's the summary insight: Because we did not deleverage much higher debt ratios this time, we will have our biggest winter crisis at the end of the 2008–2023 winter season, as opposed to the beginning, as happened in the 1930–1942 winter season.

If we end up deleveraging roughly the same 63% of private debt as we did last time, that would take it down to about 62% of GDP—that's a big haircut

ahead of 108% or so of GDP with a lot of pain and bankruptcies, especially for banks and financial institutions….

The good news from my very bearish stance is this: This winter season will be over by around late 2022 for stocks and sometime in 2023 for the economy. When this great final crash does occur on the notorious 90-year Super Bubble/Great Reset Cycle, the mainstream pundits, like Dr. Nouriel Roubini, will forecast a decade-long depression ahead.

NO, we entered the winter season in 2008 and just didn't let it finish its work. From now until 2023 should be just fine to accomplish that, if this bubble does burst massively despite efforts to keep stimulating—and that is my forecast of what will happen.

Harry

Got a question or comment? You can reach us at info@hsdent.com.