Harry's Take

December 8, 2020

Warning Signs: Alternating Double Bubbles Now Converging Into a Finale… Including Gold!

Whenever I have debated gold bugs in the past, they typically start out talking like I do about all the financial asset bubbles being caused by the endless money printing by governments and central banks: stocks, real estate, bonds, and so on.

Then I say, "What about gold? That was not a bubble? If gold did bubble up like everything else, why would you expect it not to crash as well?"

The fact is, gold did bubble up 7.6 times in just over 10 years between 2001 and 2011, going from $255 to $1,934, which is looking a lot like the most extreme stock bubble in the Nasdaq 100 since 2009. Now, gold is at new highs again, after a big crash into late 2015.

The latest Nasdaq 100 bubble lasted a bit longer, 11.75 years and counting, and has gone up 12.1 times from its bottom of $1,040 in March 2009, to $12,610 on Monday. That's surprisingly similar to what's happened with gold, especially given that stocks almost always bubble up the most among all financial assets.

The truth is that we have seen alternating bubbles since 1995, and most have come in two waves. The commodity bubble peaked in mid-2008, in line with its historical 29- to 30-year cycle, before QE set in. The agricultural and energy sectors peaked first, and then the metals, led by gold, got a final thrust from massive QE into 2011. Bonds have been on a nonstop train with disinflation since 1981 and have been augmented by QE since late 2008.

The three primary bubbles have been stocks, real estate, and gold. They all have alternated in their first peaks and have come in two waves. The key stock bubbles peaked first in early 2000 and look to be peaking again now, in late 2020. Real estate roared when stocks first crashed from 2000 to 2006 and has been in a second wave since 2012 that is likely to extend to sometime in the first quarter of 2021. Gold first topped in late 2011, with massive QE after inflation failed to follow. Gold hit new highs again recently in August 2020 at $2,089 and may yet hit $2,200 by early 2021.

The most important point is that these three primary bubbles, all augmented a second time by endless QE, are now converging into their second and final tops between late 2020 and early 2021—at least that is my clear forecast. Stocks are likely to peak first and soon, before real estate, which has strong supply limitations. Also, households feel better about real estate than stocks at this point. Gold may have peaked, but it would normally rise in the early stages of a stock crash, as it did in 2008 as investors were expecting more stimulus and money printing. But deleveraging creates deflation, which is the death knell for all financial asset bubbles except the highest-quality bonds. That includes gold.

A likely peak in stocks by the end of December or so will start the progression of the great crash. Real estate is likely to follow within a few months, as the economy weakens in the first quarter. Gold may make one more final run, if Bitcoin does not keep eclipsing it as the “inflation scare” safe haven. If so, then that run may be more in Bitcoin instead….

One way or the other, it’s time to start getting serious about getting out of all financial assets except Treasury bonds, and the 30-year T-bonds are the best by far for a deflationary play. The safe haven, bonds, will simply be the last bubble to peak near the time when other bubbles like stocks, gold, and commodities are bottoming, around late 2022. Most of the damage will be done in real estate by then, but as in the 2009 stock bottom, real estate will take much longer to fully bottom and recover.

Don’t look a gift horse in the mouth…. Sell into these final rallies. It’s better to get out a bit early than late at this late point, as my most important cycles are pointing downward the most in 2021, just when most economists think we will see “the great year of recovery.”

Note: Subscribers should look for an update later this week, as this correction looks to be shallow thus far. Hence, it is more likely to be followed by one more wave upward into late December.

Harry

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