Harry’s Take

March 16, 2021

Rising Inflation Is the Trend: But Is It Not as Strong as It Appears?

Stocks continue to get goosed by the greatest monetary and fiscal stimulus ever… up to about 42% of GDP in the last year. You think that’s enough to get our endlessly slumping economy back to snuff? The fact that it is taking that much money to barely grow already gives you the answer.

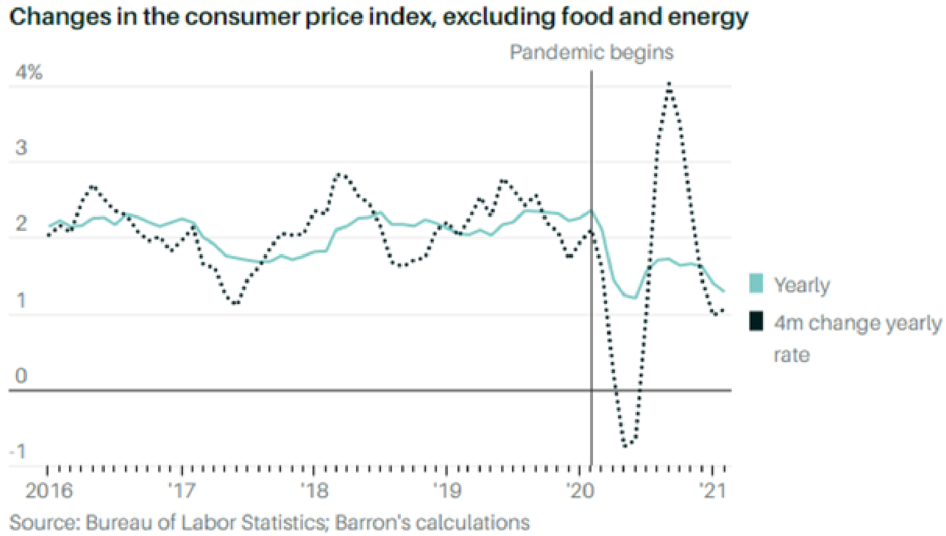
The one fly in the ointment recently is that inflation rates are finally rising a bit after 12 years of average 1.3% inflation, despite the greatest 12-year money printing scheme in history—and globally. That is also an astounding fact that screams “deflation” bubbling up from below.

On a monthly basis, the CPI hit a low of 0.1% in May 2020 and a recent high of 1.7% in February 2021. That’s a pretty big jump for being in such a low-inflation environment. But the average inflation rate was 1.4% in 2020, so the current 1.7% is hardly a big move up.

Ten-year Treasury bonds have moved from a low of 0.51% in early August 2020 to 1.64% recently, whereas the 30-year bond moved from 1.17% to 2.40%. This shift is starting to put some pressure on stocks, when otherwise-endless stimulus (and more promised ahead for infrastructure), would seem to create an open road to the upside. Looking at chart patterns, I think we could be moving into a top as soon as this week.

This chart on core inflation tells the real story.

Consumer Price Inflation Peaked Before COVID: Trending Down Since



Source: https://www.barrons.com/articles/inflation-isnt-happening-and-it-likely-wont-here-are-7-charts-showing-this-51615468745

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When the volatile food and energy sectors are taken out, current inflation averages only 1.3% per year—similar to what it has been for the entire recovery from 2009—after peaking around 2.3% pre-COVID. It has averaged only 1.1% since October 2020. There was a spike into mid-2020 at first, driven a lot by things like major appliances and used cars, but even health care has backed off since then, and rents have fallen from 4% to 2% since COVID hit.

One story after the next in the financial press talks about inflation just getting going. But this chart suggests that it is not a major trend. And the overall environment of deflation from excessive debt and falling demographic growth also suggest that this inflation surge will be short-lived if it is not already over….

I showed in the March issue of *The HS Dent Forecast* that Treasury bonds are the most oversold they have been in many years. The highest forecast I see is that 10-year rates will peak around 2%, and that is possible. But I would not want to hold out for that and watch T-bond rates fall again when the economy weakens next, likely sooner than anyone thinks, despite so much stimulus at present.

The reason for this minor consumer inflation is that while the fiscal stimulus does go into the economy and cause some inflation, the monetary stimulus that has dominated until recently goes purely into financial asset inflation—and that is now the big threat to the economy. My indicators suggest that the next stock crash is coming soon and will be 47% plus in a few months. I think that will be the final nail in the stimulus coffin, as consumers finally lose faith in "the greatest something for nothing scheme in history."

I continue to recommend buying the longest-dated 30-year T-bonds into this temporary rate rise, as they are headed down toward zero or lower for the 10-year and 0.5% or lower on the 30-year. That will give you a very healthy capital gain in the next few years, while all other financial assets, including higher-risk bonds, finally come back down to reality, as the central banks simply can't print enough money to keep this slowing train going at this point.

Don't think like the dumb money here, which is piling into stocks and Bitcoin in this late stage.

Harry

Note: Subscribers should be on the lookout for an important update coming in the next couple of days.

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