Harry's Take

May 11, 2021

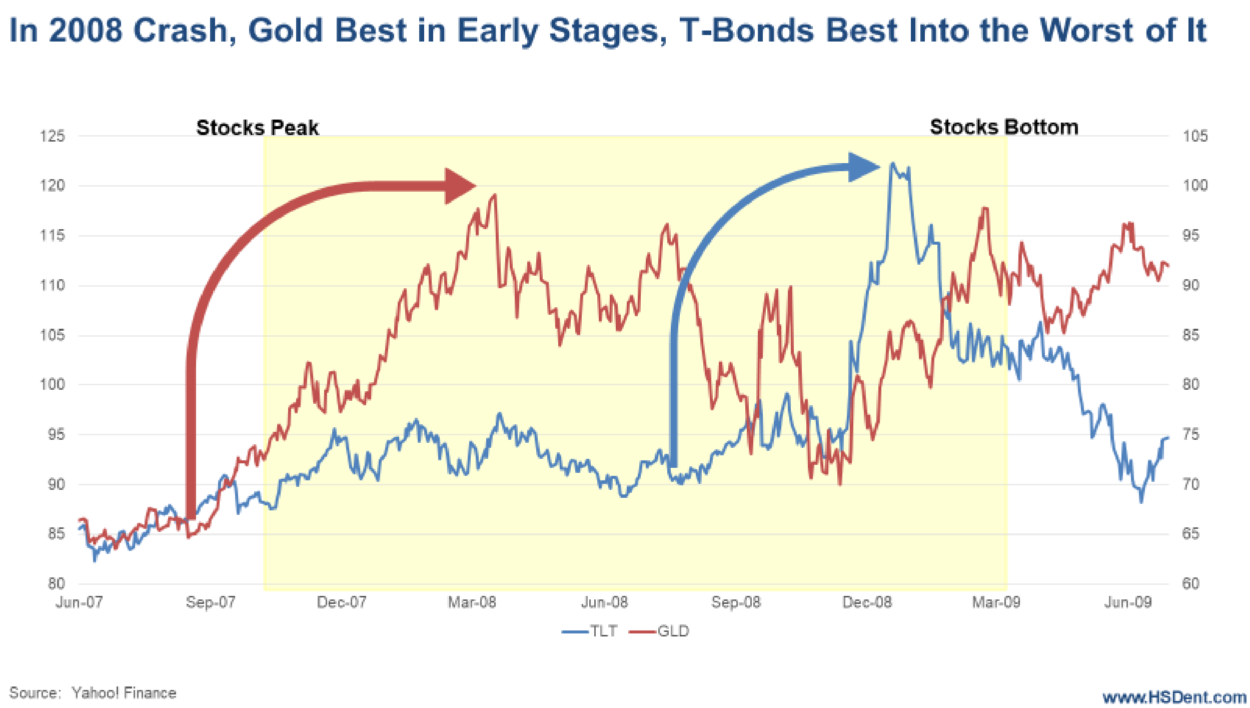
Your Safe Haven in the Next Stock Crash: 2008 vs. 2020

The biggest difference between leading economists who think a major financial crisis and stock crash is likely ahead and me is that I think we'll also get a deflationary environment. Noted forecasters like Peter Schiff and Jim Rickards project an inflationary environment is coming, at least ultimately.

The last long-term economic period of challenge was from late 1968 into late 1982, the long recession. That was the highest extended period of inflation in U.S. history, and it happened during what I call the summer inflationary season on my seasonal economic cycle. But I see 2008 through 2023 as being the winter season on the cycle, more like what we had from 1930 to 1942. I see the end of the present crash and crisis as being more like the first crash in the last cycle, from late 1929 to late 1932. Why? This time, the central banks pulled out the money-shooting howitzers, printing their way out of the first crisis but leaving a bigger crisis to come at the end.

I see the 2008 crash and financial crisis as the predecessor to this larger, coming crisis. The 2008 crisis did not end in higher inflation but did have a brief period of deflation before the monetary guns came out. In other words, the money printing was meant not to create inflation, but to counter deflation, much like what was done starting in 1930 and moving forward. Ben Bernanke was the original architect of this more-recent strategy, as he had studied the 1930s extensively. He understood the ravages of deflation on the economy, unemployment, and financial assets.

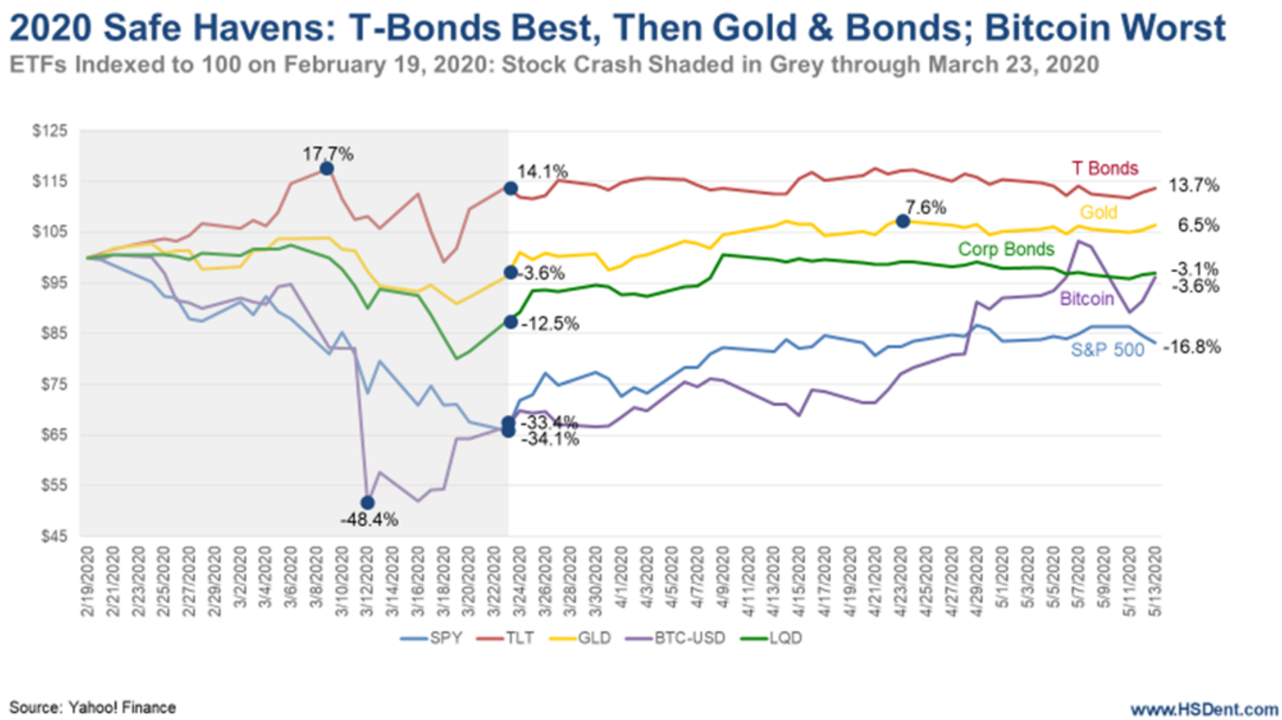
When I looked for the best safe haven in the 2008 crisis, the results were a bit mixed, as this chart shows.



Both gold and Treasury bonds (TLT 20-year average) went up into March 2008 after stocks peaked in early October 2007. Note that the shaded areas in both this chart and the next one cover the period when stocks were crashing from top to bottom. Gold went up much more, but crashed when Lehman Brothers and the financial system started melting down, which suggested deflation was coming.

At that point, T-bonds took over and appreciated the most in the worst of the crisis, into the end of 2008. Overall, T-bonds were the better safe haven, until they flamed out in early 2009 as stocks wobbled into a slight new low.

If we look at the briefer stock crash from February 19 into March 26, 2020, it is clearer that we were staring at a short-term depression, not just a recession—much like we are today—in which T-bonds clearly were favored as a safe haven.



Those T-bonds clearly appreciated the most early on, 17.5%, and ended up at the stock bottom, still up 12.6%. Gold went up only marginally (by 4%) in the early stages, went down 15% from there as the crisis worsened (as in 2008), and ended up down -3.6% overall.

Here, T-bonds were clearly the best safe haven, as lessons were learned from the 2008 crash when gold did not hold up in the end. That crisis clearly looked deflationary from the beginning. And corporate bonds performed a good bit worse than gold. Bitcoin was worst by far.

I still think gold will go up a bit in the early stages, but not as much as in 2008. Gold still has a shot at $2,200—but I would not be willing to bet on that. Investors who are not clear about the deflationary vs. inflationary scenario should consider holding both gold and T-bonds in the early stages: see which one starts to diverge downward, sell that one, and keep the other.

My best estimate is that gold will end up down about 50%, in the $950–$1,050 range, and that 30-year Treasury bonds (the best deflationary play) will end up appreciating by 40% or more.

Harry

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