Harry's Take

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Reader Mailbag: Questions and Harry's Answers About Inflation, Housing, and Gold

We receive many questions on various topics, including the direction of the markets, demographics, and interest rates. From time to time, we gather a series of questions on a topic or two and send them to all subscribers as part of our Reader Mailbag series. Reader questions may be edited for clarity.

Q: If the Fed actually tapers their bond purchases, how will this affect 30-year Treasury bond returns when the crash occurs?

A: This can go both ways. When the Fed buys less bonds, then bonds tend to go down in value, which means slightly higher interest yields. But ultimately, less of such stimulus means a slower economy, and that means lower rates and higher bond prices. I think rates will go up a bit at first and then down over time. The point is, this will not be an easy thing to play. Shorting stocks is more straightforward and more profitable when it occurs. I think it's very likely stocks will peak by the end of this year.

Q: I have been following you for a long time and have listened to your comments about real estate and how you see a possible 50% correction for housing—especially in the bigger cities. I am looking for some raw ground at the present time to build a house on in the future. Not a big chunk—just 2–5 acres. What are your thoughts in general regarding undeveloped ground? Do you see it making the same sort of correction as mature housing?

A: Good question! People see land as cheaper than houses and assume it's the houses that are bubbling and not the land. The truth is that both go up and it is actually the property underneath that is appreciating, as the cost and intrinsic value of the house do not change much. So, just like waiting for houses to go down before you buy here, you should wait for home lots to go down as well and then build. It is likely to be around late 2023 forward before we will be in that phase.

Q: When the bubble bursts and housing prices fall, do you expect rental prices to fall the same amount? Or do you expect rental prices to hold up?

A: As a general rule, rents should hold up better than housing prices, as more people will choose to rent vs. own in a downturn like this.

Q: I have been thinking about whether the financial excesses of the past are going to lead to an inflationary depression or a deflationary depression. You probably know that the PPI is now exceeding 8%. This will translate into more inflationary pain for consumers at the retail level. Wages are not keeping up. This means that workers will have to spend less on non-essential items in order to afford essential items. I think the moment of truth is approaching, and there likely will be a titanic struggle between the forces of inflation and deflation. Do you think each can win, but in different areas of the economy? Are we likely to see all kinds of prices go up and down, like an elevator with a lunatic at the controls? How do you think this will play out?

A: Inflation has been high only since the late stages of this boom, as is more typical. It has been falling since 1980 and during most of this totally stimulus-driven recovery and rally. Inflation thus will reverse rapidly when the downturn sets in. The deflation, as in the 1930s, comes mostly from money and wealth disappearing rapidly when the debt and financial asset bubble collapses: 3 times GDP goes away

and largely doesn't come back for a long time, unlike previous recessions that saw rapid new highs in assets. The hallmark of Great Depressions, which are rare and deflationary, is this major reset in debt and financial assets. The last time that happened was 1929–1932. Stocks did not get back to 1929 levels until 1953, 24 years later. Money is destroyed. Less money chasing assets and spending is deflationary.

Q: I read with interest your latest October report, titled "Biggest First Crash Ever if Clear Break of 2,100 on the Russell 2000." I think it was well researched and written. However, with all of the doom and gloom you are predicting, there is certainly opportunity. You seemed to leave the opportunity part out of this report. Can you please share the best strategies to position ourselves in this coming market crash?

A: On the safer side, just buy 30-year Treasury bonds, TLT (20-year T-bond ETF), or AAA corporate bonds. They are the safe havens in a deflationary crash, not gold or crypto, which both will fall. Crypto will fall much further before it becomes the next big thing in the next boom from around 2024 to 2037. You can also short stocks, which will fall even more and be more volatile, through inverse ETFs like SH single short S&P 500 or three times short SPXS, PSQ single short Nasdaq 100 or SQQQ three times short, or for the small caps, RWM single short Russell 2000 and TZA three times short.

Q: What happens to our debt since we won't be able to pay the interest? Or will we?

A: We print money to pay for all types of things we can't afford, so they will always pay interest on the debt first, as the U.S. government can't afford to have their credit and bonds devalued. The only upside is that we are paying the lowest interest rates in history on our burgeoning debt. I do think there will be a reckoning in a major downturn just ahead, when deficits will skyrocket due to falling revenues and rising social costs. Voters will start to put on pressure to curb spending and borrowing, but only after the Federal debt

skyrockets to around $40 trillion, 2 times GDP, by 2024. Debt will skyrocket in the downturn and GDP will fall a bit.

Q: I am wondering if this new, backed-up supply-chain global crisis will accelerate and/or exacerbate the predicted crash looming in front of us. Given it is global and embraces virtually every good and commodity, I have to believe it will play a significant role. Your thoughts?

A: I see it weakening the power of the Fed to just keep exponentially printing more money. They've printed $4.7 trillion (and rising) just since COVID vs. $3.5 trillion from late 2008 into early 2020. This inflation is not coming from workforce growth as a result of high entry of young people, as in the 1970s. It is coming from massive money printing, and now it is becoming the limit to how much more they can print, now that inflation is over 5% instead of under 2%. I think the central banks have finally checkmated themselves... But inflation will disappear fast when the economy goes into the deepest downturn of our lifetimes. The trend of deflation will emerge for the next few years, and inflation will be slow to come back next time.

Q: Under this scenario (-55% or so) on the S&P, what is your target for gold and GDX over the next three months?

A: That's a tough one. If it's like the 2008 recession, gold will edge up in the early stages and then crash along with everything else when the recession gets serious, as happened by early to mid-2002. It is still possible that gold could put in one more new high around $2,200–$2,250 in that early stage and then crash to $900–$1,000. That fall will still be less than for stocks and most commodities. If gold does not make a new high, $2,000 could be the resistance.

Q: To what scenario will the CPI report now take us?

A: The simplest and most likely view is that inflation is going to continue to be buoyant or edge up a bit more, as long as the economy keeps growing from the stimulus. The only thing that will stop it is a slowing economy, and that will be caused by diminishing returns from endless stimulus and/or the tapering and tightening moves the Fed is projecting ahead. My view is that there is no soft landing for this bubble after it's been stretched this far for this long, and it is taking exponentially more stimulus—as occurred in spades after COVID—to keep it going. Rising inflation is a direct hindrance to such stimulus. The diminishing returns will set in more and the economy will slow into next year, even with even their modest tapering plan. Stocks can't keep going up like this in a stagflation economy with slowing growth and still relatively high inflation. Hence, I say the central banks' goose is cooked!

Don't miss the upcoming November issue of *The HS Dent Forecast*.

Harry

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