Harry's Take

November 9, 2021

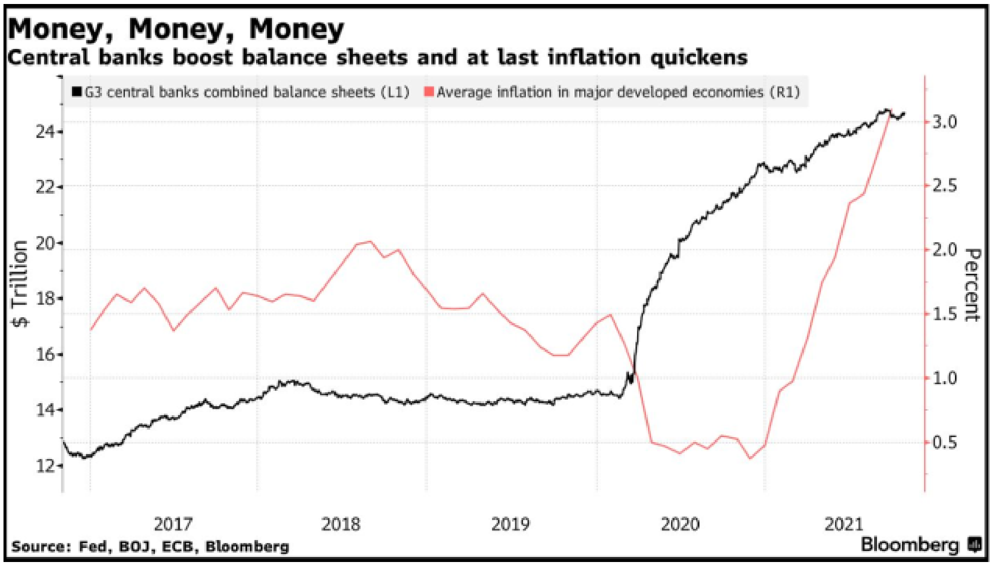
Inflation, the Biggest Concern of Consumers, Continues Strong Into Mid-2022

COVID obviously caused a sudden shock to an already long-overstimulated economy—and it hit GDP and unemployment hard and quick. But as usual, the Fed (and central banks around the world) came up with stimulus as the answer: this time, it's largest short-term stimulus ever, with $4.9T and rising of just money printing from the Fed alone since COVID, plus the current $1.2T fiscal stimulus bill and other measures in the works.

Unemployment has reversed rapidly, but it is still not back to pre-COVID levels, with as many as 3 million older Boomers just deciding to retire early as a result of the generous initial COVID benefits. A recent survey from the Associated Press noted that 65% of people think the economy is poor and only 35% think it is good. But now, the job market is no longer the biggest concern of consumers… it's inflation! The cost of everything, including housing in the biggest bubble by far ever, keeps going up.

And here's the problem with inflation: It tends to hit on about a 7- to 8-month lag to central bank money printing, as this chart shows. That means inflation is likely to stay high or continue to rise a bit into mid-2022 even as the Fed tapers and even if the economy continues to slow a bit… and we've already seen 6.7% second-quarter GDP fall to an estimated 2.0% in the third quarter, so consumers are right about the economy being poor.

Inflation Lags Central Bank Printing by 7–8 Months: Up Into Mid-2022



Source: https://www.bloomberg.com/news/articles/2021-10-28/hyperinflation-or-just-higher-inflation-here-s-what-it-means

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The Fed is saying it is about to taper the monetary stimulus from the current level, wherein they buy $120B a month in bonds, by about $15B a month. At that rate, it will take about 8 months to get to zero… which then would portend a raise in short-term interest rates if necessary. The Fed will never get to that, as I expect the economy will be in recession by the first quarter of next year. Why? The economy continues to slow after being so overstimulated for so long, against a backdrop of falling demographic spending growth from the aging of the larger Baby Boom generation and record levels of debt in all sectors.

I say that this is where the central banks get checkmated by the inevitable law of diminishing returns. And in this case, also from printing exponentially more money out of thin air, thinking that such a thing could revive an economy that's been slowing since the 2007 peak due to fundamental aging and the recent slowing of macro-technology trends, as the Internet boom matures but cryptos and other new sectors are still in their infancy.

Printing $4.9T in 1.5 years and already have GDP falling like a rock? That's the economy saying, like Dirty Harry, "Go ahead, make my day!"

I still say, especially if stocks keep diverging from the economy and continue to edge up into as far as late December, that in 2022 **we will see the greatest high-to-low CRASH in stocks of any year in history, including 1930, 1931, and 1932. I am talking a drop of 60% plus in one year** and then a more moderate decline to even lower lows, down 85%+, well into 2023. And most of that 60%+ is likely to come in the first 2–3 months of this crash.

Want to know how to make your day? Sell stocks into this likely final rally—and certainly by Christmas!

Harry

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