Harry’s Take

December 7, 2021

Reader Mailbag: Questions and Harry’s Answers About Commodities, Inflation, and the State of the Markets

We receive many questions on various topics, including 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 subscribers as part of our Reader Mailbag series. Reader questions may be edited for clarity.

Q: I have been watching the business channels on cable, and recently all the investment firms and bank reps are saying everybody needs to get into the market, as it will keep going up. However, this reminds me of the rhetoric before the 1987 crash, the 2008 crash, and even the early 2020 crash, which was COVID related, but many crashes just need that one bad thing as a trigger. To me, this makes me think they all know the market is about to tank and want to sell, but they need buyers—and it is the small investor that still has money on the sidelines. What do you think?

A: The central banks have become more important than the key cycles of demographic spending (40-/80-year Generational and 45-/90-year Innovation cycles) but I think this massively overstimulated economy is finally seeing rapid diminishing returns, with GDP growth dropping rapidly after peaking in the second quarter. The end of 2022 is the most powerful convergence point for these big cycles. If we are going to get a big crash and reset—which is sorely needed if investors are ever going to get good, sustainable returns longer term—it should begin soon, and we will see the worst of it into the end of 2022, with a continued hangover into 2023. You

can't keep an economy running merely on artificial stimulus forever. The year 2022 is the last weak year fundamentally for this crash to happen. If the crash doesn't happen by late 2022, then it's going to be very hard to determine when it will happen. It won't take long to know it is happening, as the first crash in bubbles of this magnitude is by 40% to 50% in the first 2–3 months—and I calculate that this crash is likely to be by more like 54%–59%! I think the peak is likely to occur by Christmas.

Q: Any info on gold and its price targets during this final rally?

A: Gold is the hardest to predict here, as last time it went up in the first few months of the stock crash until it underwent a deep downturn with deflationary potential. There is still a chance gold could reach one more new high to around $2,250 into early 2022 while stocks start to crash, but since investors are now aware that gold did crash 50% into the worst of the crisis in 2008, it may not be able to make such new highs. I would rather be short stocks by year-end than long gold. But if you are in gold, you could wait and see if it does go up when stocks start to crash, and then sell into that. This crash will come much faster than the 2008 crash, so I wouldn't give gold too long before selling, as I do think it will end up near $1,000. If it does hit $2,200–$2,250, I would sell at that point, regardless, and then reevaluate.

Q: Your arguments about inflation seem to mirror many others. But how do you explain the lack of inflation for 20-plus years with near-zero interest rates and debt of 234% of GDP in Japan?

A: The biggest driver of inflation is not debt but the investment required to expand the size of the workforce and incorporate new workers, who are unproductive at first. This was one of my breakthroughs in the late 1980s… who would have thought? The entry of the massive Baby Boom generation into the workforce caused the highest sustained inflation into 1980. It's been falling everywhere since. Japan's Baby Boom came earlier; its inflation fell earlier and has been even weaker.

Inflation is projected to be more like 0% for the next 15 years, and then the markets will turn deflationary into 2055 or so. The current inflation is short lived and due to the massive money printing. The real question should be, "Why do we not have more inflation, since $4.9 trillion has been printed just since 2009?" The deflationary crash ahead will take this short-term inflation out and create deflation for a few years, as money created by excess debt disappears when many debts are written off… Then we will get back to the new normal: the no inflation era.

Q: With the impending crash, I'm curious what your opinion is on what to do with employer-provided 401(k)s?

A: With 401(k)s, you simply have to pick the most conservative long-term bond funds, preferably focusing on U.S. long-term Treasury bonds or AAA to AA corporate bonds. If you only have broader corporate bonds or stock funds, then it's better to be in cash or short-term money markets until the crash nears a bottom sometime in 2023.

Q: Do you think you may need to consider reevaluating your deflationary outlook, considering what is currently occurring? If not, how long do you think this current inflationary trend will continue?

A: Inflation and deflation always follow each other in a cycle. This one has just been distorted toward inflation for a long time. All cycles are like rubber bands. The more they stretch one way, the more they stretch back. All things grow in cycles but strive for balance over time. Balance always wins in the end, not the extremes. No extreme can last forever... How long can you be awake without sleeping? Some people can go many days, but no one can go for weeks. This is now the longest expansion without a recession ever! Recessions are like sleep: not preventable and necessary for continued health and balance.

Q: Now that the Fed has given approval for more and more speculation with no responsibility from investors by refusing to even give a time limit for raising interest rates, will the market insist on doing it for them?

A: Yes. Ultimately, even as and if policies continue to support the bubble in financial asset prices and keep a dead economy limping along, financial asset prices will get to levels that just aren't sustainable, like when it takes 10–12 times income to buy a simple house instead of 2–3 times, as happens in a normal economy. Just like now, home sales start to decline, prices follow, and then the fall in asset prices causes a contraction in wealth and spending; the economy tanks, and you get a negative spiral until the bubbles get wrung out of the economy and we go back to normal—and like when an addict detoxes, that process is painful.

Q: I read Harry's November *HS Dent Forecast*, and you tweaked my interest in the inflation scenario and gold not going down as much as stocks, but what about ETFs linked to agriculture, like DBA, CORN, JJA, etc.? Food production has been hit hard on the global scale, and China is telling their people to stock up for winter. Will these ETFs hold up in a severe downturn like you are talking about even if inflation turns to deflation?

A: Commodity prices have been the first among many prices to fall, dropping in a downward cycle overall since their 30-year peak between 2008 and 2011 (past peaks were in 1980, 1949–1951, and 1920). As a general rule, commodity prices go down when the economy weakens, but food prices typically do not fall as much as metals and industrial inputs, which get hit the hardest. I do not agree with analysts who say that farmland is a safe haven in real estate. Farmland is less price-intensive than high-end and commercial real estate, but all real estate will tend to go down in this Great Reset. And again, farm prices also will decline in a deep recession, reducing the value of that land nearer term.

Harry

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