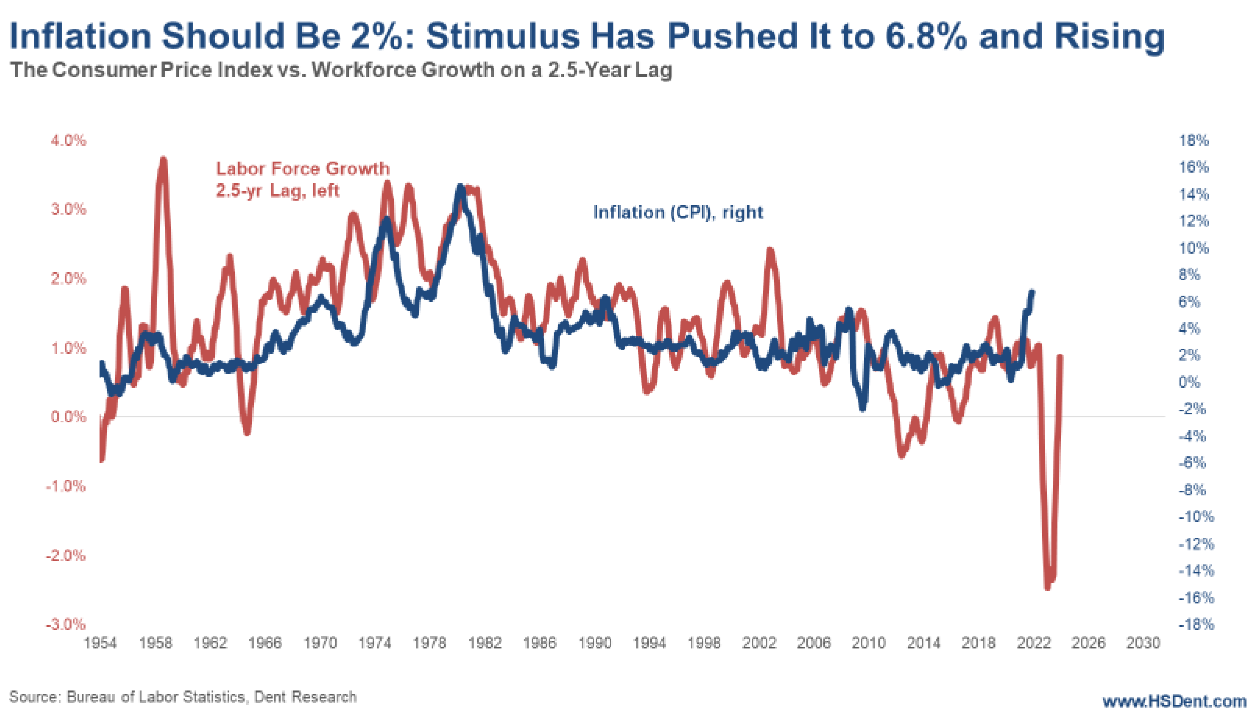
Harry's Take

December 21, 2021

Late-Stage Inflation Kills Stock Rallies—And This Time, Pops the Greatest Financial Bubble in History

No one should be surprised that we have late-stage inflation, given the $5 trillion in monetary stimulus we've gotten since COVID, now with growing fiscal stimulus on top. My Inflation Indicator has tracked the highs and lows of inflation through every financial season since I created it in 1988, including in the period of the greatest sustained inflation, into 1980, and in the inevitable fall after that, which I have been predicting since the late 1980s.

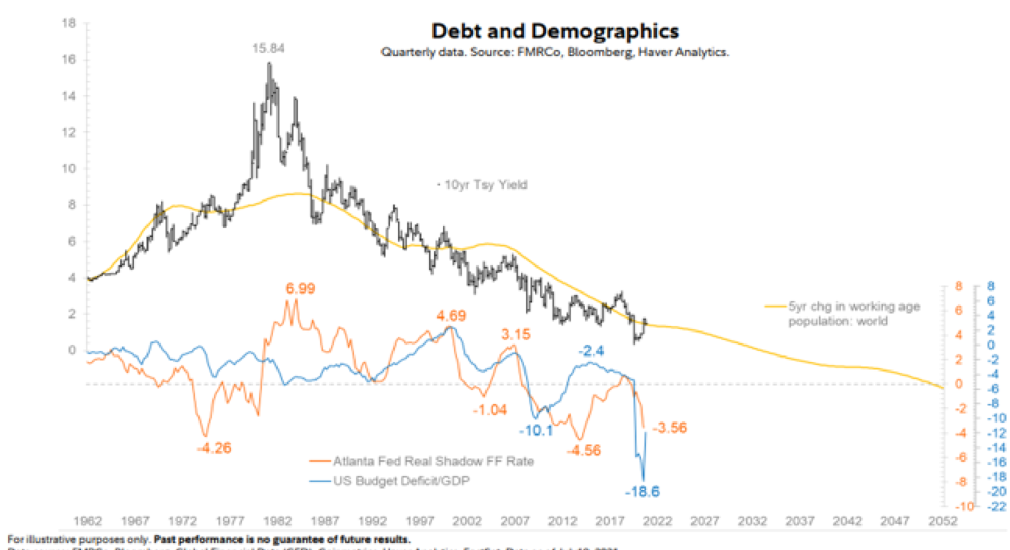


Central banks weren't printing money substantially back into the peak in 1980. That was natural inflation, helped a bit by rising government deficits back then. The real cause at that time was that the massive Baby Boom generation was entering the workforce, and it took a lot of money and investment for companies to incorporate them. The rising productivity of the Boomers as they aged has caused inflation to fall ever since, with slowing workforce growth.

Inflation should be around 2%, but the massive monetary stimulus in reaction to COVID has caused it to rise far above its natural level. Today, inflation is 6.8%, and it's likely to be higher on December's CPI report scheduled for January 12.

I just saw for the first time in the mainstream press a chart (below) that correlated inflation with workforce growth… over three decades after I discovered this correlation. The indicator in the chart is not nearly as accurate as my Inflation Indicator, but it does capture the long-term trends of inflation peaking in 1980 and then falling all the way back to around zero, projected out to 2050.

Finally, Someone Else Realizes That Workforce Growth Drives Inflation



Source: https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/learning-center/072721_Market-Sense.pdf

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In the past, rising inflation has tended to stop stock rallies. The odd twist this time is that the 10-year Treasury bond is holding around 1.4% yield while inflation is at 6.8% and rising. This can't last, and I say that it's stocks and the economy that will tank and bring reality back. This rise in inflation will finally limit central banks from exponentially printing more money to keep this never-ending stock bubble going.

Don't dally! That ominous first crash of 50%+ may already be in the making or coming very soon.

Harry

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