THE HS DENT FORECAST

March 2022

A Recession Is Brewing and That Will Trigger the Great Financial Asset Bubble Burst

By Harry Dent

Here is a brief summary of what has occurred, uniquely, over the past four decades. The greatest boom in history set in after the 1980–1982 double recession. That marked the end of the long, inflationary downturn that followed the Bob Hope generational Spending Wave from 1942 through 1968 (on a 44-year lag to births for peak spending back then). Hence, it was the beginning of the even-greater Baby Boom Spending Wave, on a 46-year lag from 1983 through 2007. Why? That was the largest generation ever to hit the economy in the U.S.

That boom exploded from 1983 onward, with a brief recession in late 1990 to early 1991 followed by an even shallower one in 2001 into 2002. Then, the stock market peaked, on cue, in late 2007, and the economy went into a deep recession starting in early 2008. That recession was the worst since the Great Depression, 1930–1933. Stocks bottomed in early March 2009 and the economy bottomed in July 2009. But here's the rub. That downturn naturally should have lasted nearly 3 years, and the fall should have been 80%+, much like the crash of 1929–1932, except that the central banks stepped in and printed massive amounts of money, unlike at any other time in history.

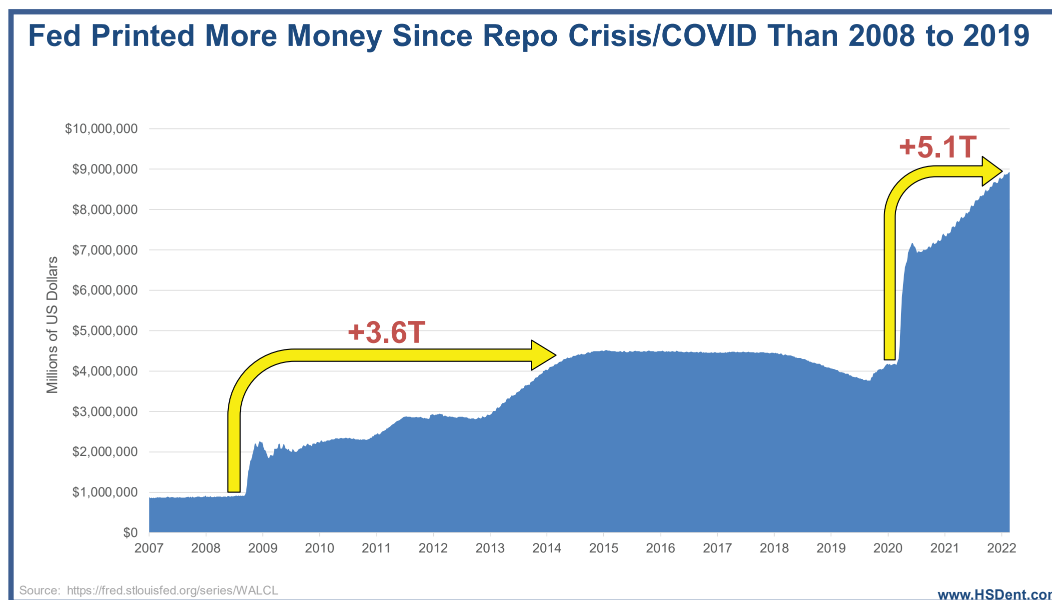
So, the story suddenly changed, due to the greatest money-printing spree in history, all to stimulate the economy. Why? Otherwise, 2008 would have been the beginning of the next Great Depression, as I forecast decades before. But this time around, Ben Bernanke was the Fed chairman. His PhD thesis was on the Great Depression of the 1930s, and he was not going to let that happen again on his watch!

The Fed started printing in early 2009 as the recession got uglier and ended up printing about $1 trillion in 2009. The natural assumption was that the deep recession of 2008 was just a temporary financial crisis from too much debt. One trillion dollars should have been enough to help clear out the debt and detox the economy so that we could move on. But that was not to be the case. As my

research showed, this was the beginning of the next Great Depression; it was similar to the 13-year downturn from late 1929 to late 1932 in stocks, wherein the economy bottomed first in early 1933 and again, finally, in mid-1942 after a major generational peak in spending.

That depression was caused by the peak in spending of the Henry Ford generation in 1929. The coming Bob Hope generation would not start its Spending Wave until the second half of 1942. Once that Spending Wave began, it started a boom that lasted into 1968, when stocks peaked (adjusted for inflation). The first serious recession hit in 1970. After the markets made a brief recovery into late 1972, the real impacts of the generational down cycle kicked in and a big crash hit, continuing for two years, from the beginning of 1973 into the end of 1974. The economy bottomed in mid-1975. It was not until the bottom of that down cycle in late 1982 for stocks that the next boom set in, from early 1983 forward.

Way back in the late 1980s, in my first book, I began predicting that this "greatest boom in history" would peak around late 2007 and that the next Great Depression would set in, off-and-on, until around late 2022 for stocks and from early to mid-2023 for the economy. Because of the longer-term and deep demographic weakness resulting from the peak in spending of the Boomers, that $1 trillion in Fed money was not going to be enough. So, the Fed ended up printed $3.6 trillion into early 2014 before allowing its stimulus to plateau around $4.6T.



The Fed thought that the economic weakness was over by 2017 and started to taper by selling off some of their $4.6T bond stash, but that caused economic weakness, as my demographic indicators foretold. So, the Fed started printing again. Then, COVID hit, shutting down the economy, which caused a short, depression-like environment to set in. That led to the greatest monetary stimulus in history. The Fed balance sheet recently exploded to just shy of $9T. And, although COVID appears finally to be receding and, naturally, a rebound would be expected, the economic environment will remain very weak until early to mid-2023. With so much stimulus preventing a natural and necessary debt detox (as happened in the 1930s), the economy now likely will take longer to shake out. I estimate that it could take until at least the end of 2023 or early 2024.

The question now is, "When does the stock market realize that this Great Depression is not over and the debt detox is about to begin?" When it does, likely starting about NOW, we will see the crash of our lifetimes, which should closely rival the 1929–1932 crash… and it will happen in the current time frame to match up with predictions of my most-important 90-year Super Crash Cycle for stocks and

the economy. This cycle showed the pattern of the last two great stock-bubble crashes and economic depressions, in 1835–1843 and 1929–1933. Stocks always bottom ahead of the economy, as in late 1842 and late 1932.

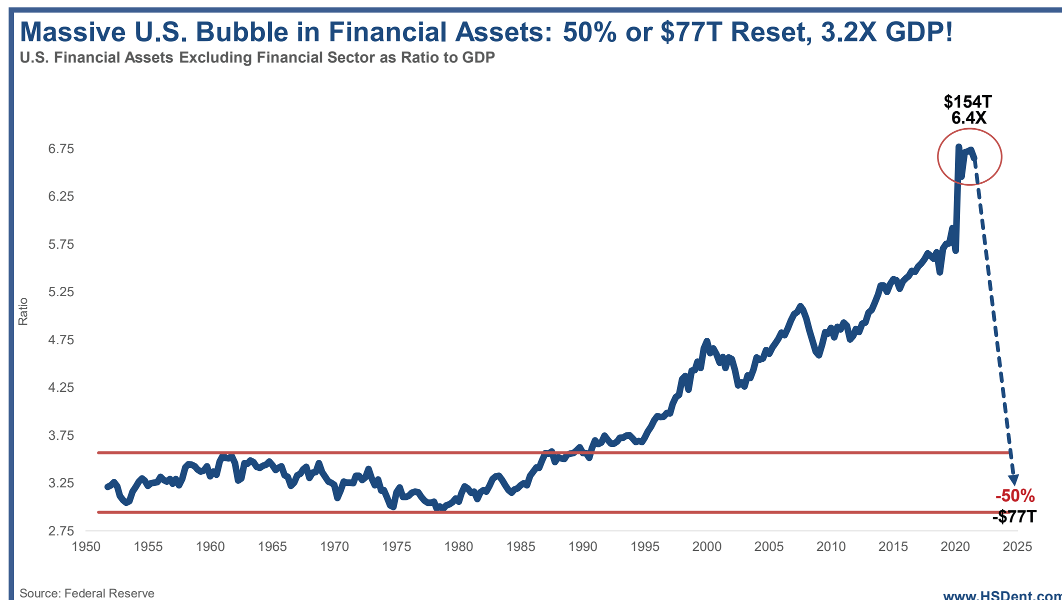
This depression—or whatever it turns out to be after this massive monetary manipulation—should last into at least late 2023 for stocks and into early to mid-2024 for the economy. Since it is starting late, due to massive stimulus, the depression is likely to hit harder and deeper… but we still don't know how much and how fast the Fed and central banks around the world will be able to react this time, as the economy weakens faster just ahead. This scenario of staving off a depression (for 13 years now) is unprecedented and therefore hard to predict… But my strong bet is that the central banks will lose control soon and the economy will take over, leading to a virulent detox. Companies and bad debts will drop like flies.

The Fed has committed to tapering modestly and yet has been hesitant to do even that, as they seem to know just how weak the economy still is, because it has had to be resuscitated time and time again since 2009. The Fed assumption now is that the economy is strong enough to accommodate moderate tapering. My assumption is that it will be just like 2018: the economy will fall even faster after being stretched this much longer against the natural slowing and debt detoxing trends…

The economy is likely to implode here faster than the Fed and global central banks can crank back up quantitative easing to the now even more stratospheric level necessary to fight the massive debt detox that is already overdue.

This monetary experiment fits what I call the "addiction model." Our markets are addicted to an artificial stimulus, the monetary "drugs" we have been receiving since early 2009. And how do addictions always unfold? They are progressive. It takes more and more of the drug to keep the high going and to stave off the detox (deleveraging of debt, in the case of the markets) that will be necessary to end the addiction cycle and get healthy and balanced again. Why don't we want to do it? Because detox is always painful and unpleasant. Most addicts do not choose detox, they are forced into it by worsening health and adverse life impacts. It's the same for our economy. This stimulus only has made the economy sicker and sicker, much like drug habits in people. The debt bubble and economic imbalances have grown faster, instead of naturally dissipating. And it's not just debt. Debt bubbles always create larger and much more ominous financial asset bubbles.

Here's an updated version of a chart I've shown many times in the past.

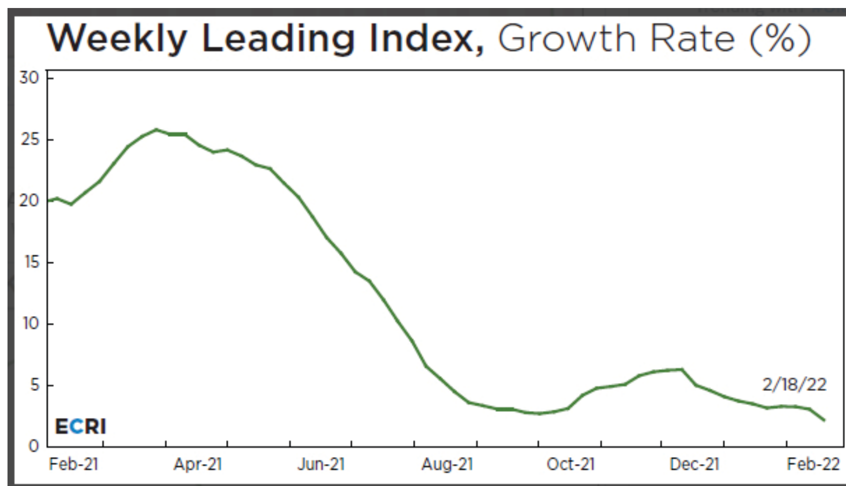


We are unquestionably in the greatest debt and financial asset bubble in history. This bubble is global and has been extended 14 years past its natural peak in late 2007 by over $8T in U.S. money printing and much more globally. The uncomfortable point here that just to get back to normal debt-to-GDP ratios, as we had from 1950 to 1990 (pre-bubble), about 50% of U.S. and global financial assets would have to disappear. That’s $70T+ for the U.S. and approaching $300T globally, with an estimated $600T in financial assets. That’s how and why we (and likely our kids) probably will get the greatest financial asset crash of our lifetimes.

ECRI Weekly Leading Index Recession Warning, on 2- to 12-Month Lag

Source: https://www.advisorperspectives.com/dshort/updates/2022/02/25/ecri-weekly-leading-index-update www.HSDent.com

Weekly Leading Index, Down Since March 2021, 10-Month Average Lag



Source: https://twitter.com/businesscycle/status/1497232334537605122/photo/1 www.HSDent.com

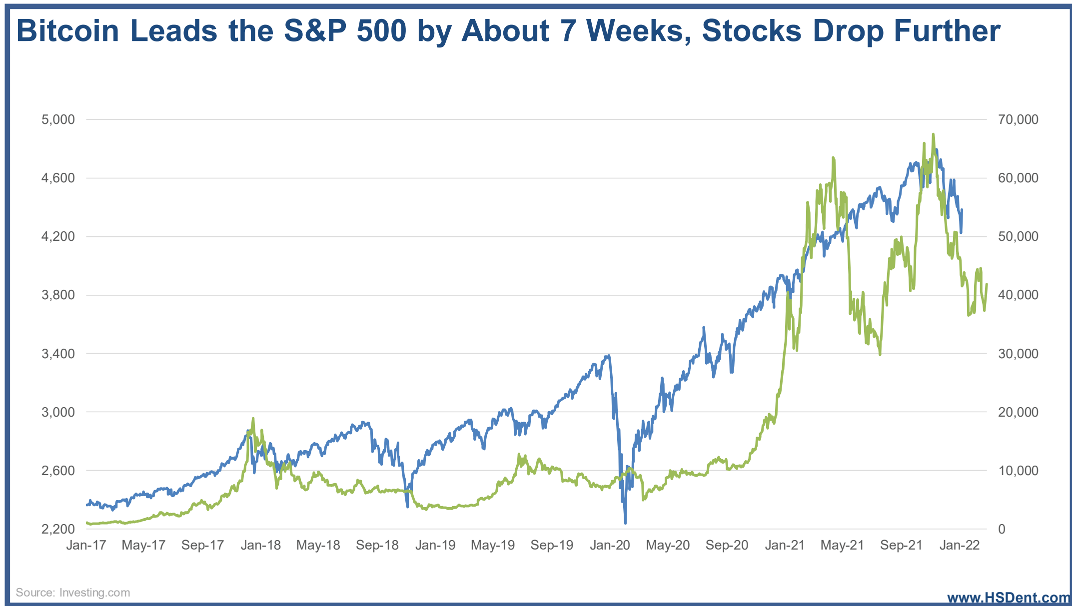
And what will trigger this? The best leading indicators, like ECRI, are pointing toward a recession setting in again right about NOW! Since it was created in 1967, this index has peaked ahead of every recession, starting with the 1970–1971 recession. The average lag is 10 months and ranges from 2 to 12 months. The last recession hit faster, at 2 months, due to COVID. The present recession is looking more like a normal, 10-month cycle, although it could go to 12 months.

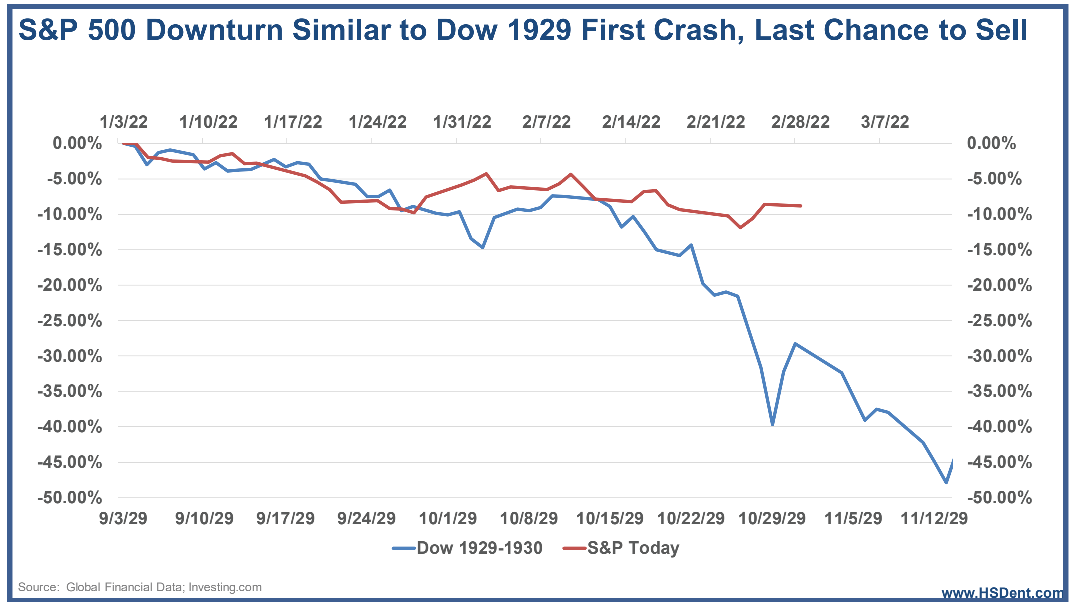
The Weekly Leading Index peaked in late March last year at 25 and went down modestly into April before crashing more sharply from May to a near-zero reading of 3 in July 2021, with a modest bounce and then another decline to 4 into now. On a 10-month lag, that indicates that we will fall into a recession starting from late January to early February into July, on a 12-month lag from late March into September. From there on, the recession and debt deleveraging will build upon itself, and we should see a deeper recession than from 2008 into 2009… and this time we will get a big debt detox.

Will the Fed and global central banks be able to stave off this recession? Maybe, to some degree… but I am betting that this is when they lose control and the economy starts to detox faster than they can fight it. We could end up in a depression from mid-2022 into at least early 2024, anyway.

The Crash Ahead, in Charts

So, how is this crash likely to play out? The leading indicators tend to be Bitcoin and the Russell 2000 small caps. Bitcoin and the Russell 2000 Small Cap Index both peaked on November 8. The Nasdaq followed and peaked on November 22. I have been using mostly Bitcoin as the leading indicator for stocks. This chart shows Bitcoin on a 7-week lag, which is close to the difference between its November 8 peak and the peak on the S&P 500 on January 4.





But the correlation with this Bitcoin chart is likely to end at the peak on January 4. My in-depth analysis of first major bubble crashes shows that the average crash is by 41% in 2.6 months. In that case, the S&P 500 would go to about 2,600 by about March 21-22 or so. In comparison, the very similar 1929–1932 crash was by -49% in 2.3 months. If the present crash were like that earlier crash, the S&P 500 would go to around 2,460 by March 11–14 or so…

But my Megaphone Pattern is projecting a potential next major low around 2,000. That's a whopping 58% crash. If that is the first crash, it would be the largest one in stock market history, which would be appropriate, given the unprecedented and ridiculous levels of artificial stimulus used to pump the stock market up to massive all-time highs, right when stocks and the economy naturally would be at their lowest points, between 2020 and 2023.

However, I have to take that Megaphone Pattern with a grain of salt now, as it has so overshot the top trend line that it might be invalid. The trend line through the 2000 and 2009 lows still projects a major bottom around 2,000, which might take longer than the first crash to achieve. But even in that case, it would not be the final low in a crash of this magnitude on the 90-year Super Bubble Cycle.

Thus, the best projection for a first-crash scenario is the 1929 first crash of 49% in 2.3 months, which equates to 2,460 or so on the S&P 500 by mid- to late March this time, or at the latest, such a first crash between April and July. That is not something to sit through…

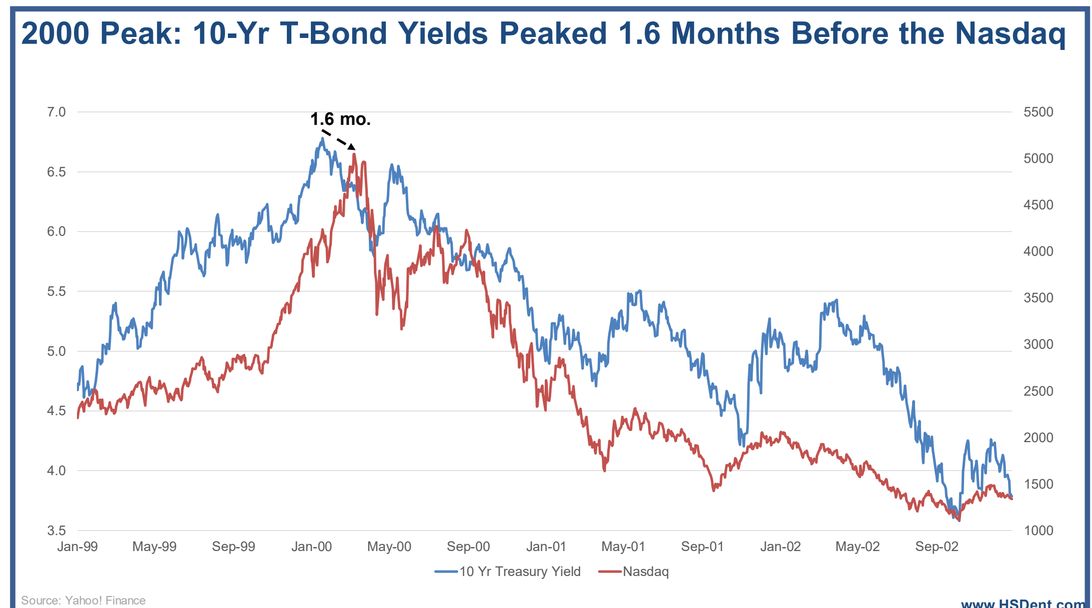
Not only could the size of the crash mean it would take a near-100% rally just to retest the high, but, more importantly, this will be only the beginning of this crash of a lifetime. Such a crash could take the S&P 500 down to as low as 670, an 86% crash, to test the bottom of my 100-year channel by late 2023 or so, as I showed in last month's HS Dent Forecast.

Two different scenarios could play out here. I favor the first one at this point, due to clear peaks in the Russell 2000 and for Bitcoin back in early November:

Scenario 1: The S&P 500 was the most major and final U.S. stock index to peak, which it did on January 4, and its first crash low should bottom around mid- to late March between 2,460 and 2,600 or possibly lower, as described above.

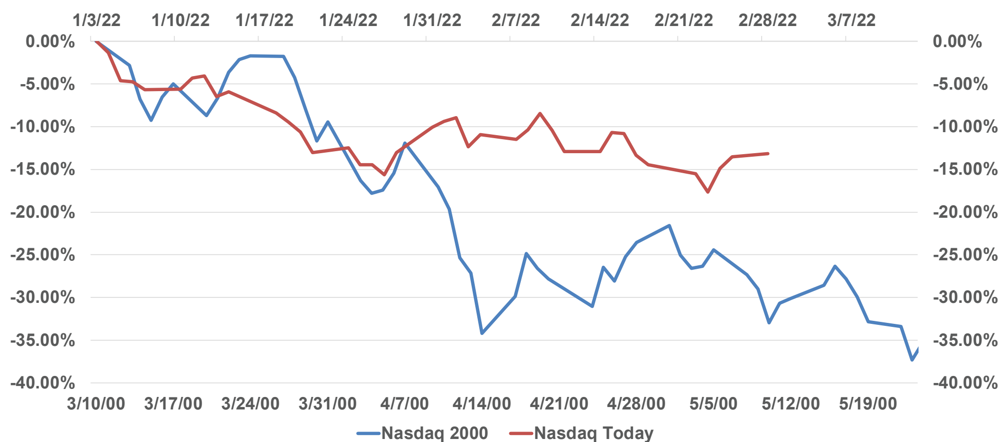
Scenario 2: We saw a correction low of 4,155 on January 26 and will see one more run to a slight new high between 4,850 and 5,000 or so around late March to mid-April, followed by a 49%+ crash to similar targets around 2,450 to 2,550 or so between April and early July.

If scenario 2 plays out, such a 1.6-month lag most likely occurred from that February 16 peak on T-bond yields (chart across), and that would project a top roughly around early April.



The next chart (next page) shows my projection for stocks, using the 7-week lag on Bitcoin.

I have always projected that Bitcoin would peak by the end of 2022 on its infamous four-year cycle. Hence, that peak on November 8, 2021, of $68,697 is a major one and is not likely to be exceeded until the next likely run, between late 2024 and the end of 2025, to $100,000+? Most importantly, that first Bitcoin crash was very similar to the first Internet crash in time and magnitude (chart next page). Thus, Bitcoin likely is



closer to a bottom at this point and will move more sideways, whereas the S&P 500 and other indices will continue to crash into mid- to late March or so in this first-wave crash. Since stocks are actually lagging Bitcoin about 7 weeks, as shown in the Bitcoin chart, they should not bottom until sometime in the second half of March, as the previous chart showing the 1.6-year lag between T-bonds and the Nasdaq indicates.

The Nasdaq crash also aligns with the bursting of the first tech bubble, which started in March 2000. The Nasdaq had been lagging that first crash pattern until Thursday, February 22, when it started to catch up quickly. This chart shows a projected bottom around mid-March, down 37% or so. That timeline is likely to be right, but the low should be about 40% lower, or even near 50%, as this second crash should be larger and should be the beginning of a final crash that should bottom by late 2023 or so. This first crash is likely to take the Nasdaq to around 8,000 by mid-March.

I've discussed real estate in recent past issues and largely will save further discussion of that for issues to come, with the following caveat. The coming real estate crash will start a bit later than the one for stocks; it is also likely to last longer, as did the last real estate crash into 2012, before the next surge started. The last real estate crash was by 34%. I expect this one to be down 45%–50% and, again, it's likely to be the final crash. But it's very unlikely real estate ever will get back to the extreme bubble valuations we've just seen over most of our lifetimes, given the shorter and smaller baby boom created as the Millennials have kids, which was meant to power the next economic boom—and it's likely we've seen the end of this rare bubble era.

I am saying here that real estate, adjusted for inflation, is the highest we will ever see in our lifetimes again and maybe even the highest our kids will see.

Once there is a healthy rebound after the crash, say into 2024 or 2025, real estate should go back to growing more with inflation, which is projected to be more in the 0% to 1% range in the next boom. So, don't expect to get rich from sitting in your humble home in the future. Stocks will be a better way to make money in the next boom, and much more so in Southeast Asia and India vs. in East Asia and Europe (both of which will be weaker and have little or no Millennial boost) or in North America, which will have a more modest Millennial-driven boom.

Yes, T-Bonds Still Are the Best Way To Play a Deflationary Crash

Treasury bonds are the safest and are even one step above AAA corporates; hence, they are the best way to profit from an across-the-board deflationary burst to a major bubble like this. Again, such a monstrous bubble comes only every 90 years. I recommend T-bonds over AAA corporates, the second-best choice that you can keep and feel good about it. Anything rated lower will go down to the degree of its risk in this crash ahead.

The 30-year T-bonds are better than the 10-year T-bonds because they are of much longer duration, as you will be locking in yields before they fall toward zero temporarily in the next year or two max. Here, I repeat a table I showed back in 2021 of a deflationary scenario, wherein the 10-year fell from 0.96% to zero and the 30-year fell from 1.75% down to 0.40%. Note the marked difference in returns.

Big Difference in Appreciation From Deflation Scenario on 30-Year vs. 10-Year Treasuries

Returns in Deflation Scenario, Wherein 10-Year T-Bond Rates Fall From 0.96% to 0% and 30-Year From 1.75% to 0.4%*

	Gains
10-Year T-Bond	9.5%
30-year T-Bond	38.1%
Zero Coupon 30-Year**	49.6%
TLT ETF (Avg. 20-Year)	22.0%

*This is roughly proportional to the sudden fall in yields during the February to March Covid-19 stock crash, except this scenario would be a bit deeper.

** Zero Coupon means you buy the bond stripped of the interest payments at a discount for that, and that creates more leverage. You can also buy "strips" to do this, which are more common.

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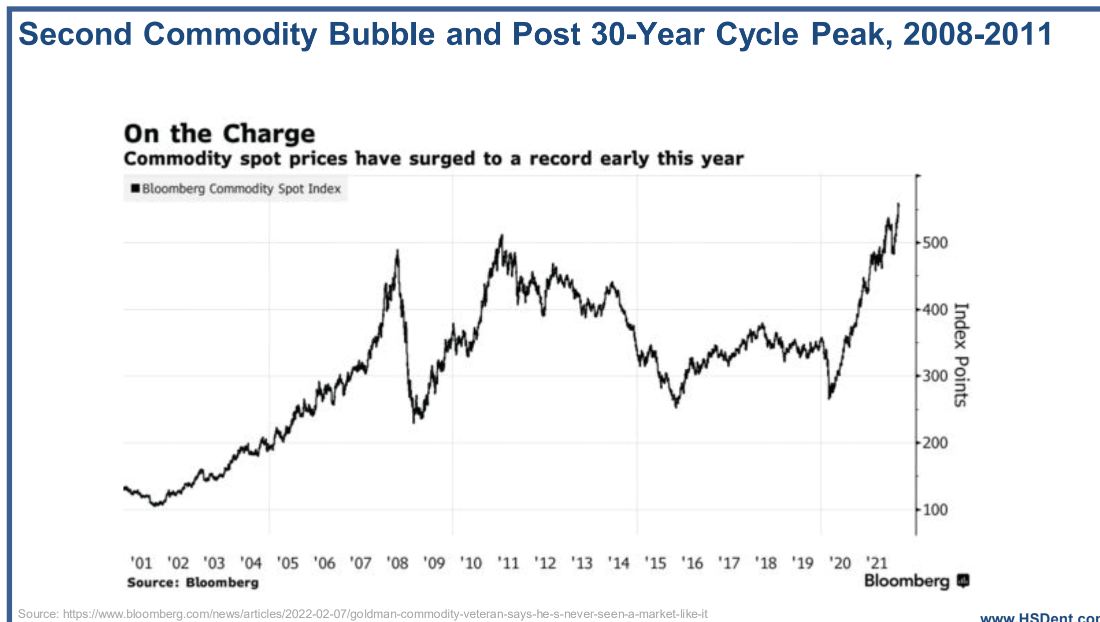
20-Yr TLT and 25-Yr ZROZ Correlate: ZROZ Has Two Thirds More Gain

The 30-year T-bond would have appreciated an estimated 38.1%, vs. only 9.5% for the 10-year T-bond. That's

a huge difference. Appreciation on the zero-coupon bond (no interest, just principle paid back) was naturally higher, at 49.6%. The TLT ETF for average 20-year Treasuries was a good bit less, at 22%. Consider another ETF option, ZROZ, with a 25-year average duration. The chart on the next page shows that in the strongest rally of the last decade, from late 2019 into the 2020 COVID crisis (in which Treasuries again proved to be the best safe haven), ZROZ went up 89.1%, vs. TLT at 52.9% (chart on previous page). That's the difference you could see just by going out just 5 more years. And ZROZ, like TLT, is much easier to buy and sell than actual Treasury bonds. It's my favorite safe haven choice now, although 30-year Treasuries are excellent and TLT is still good.

The massive money printing scheme by government and the central banks not only has created extended bubbles in stocks and bonds beyond what would have been the normal peaks, back in 2007, it has created a whole new commodity bubble that has transcended for the first time its natural 30-year cycle. Historically, commodity bubbles peaked in 1920, 1949–1951, and 1980. The twin peaks in 2008 and 2011 were the next great fit to that cycle, which normally would be expected to bottom around 2022–2023, or now. Instead, we have a final rally to higher highs around 560 that looks like it is just peaking or is very close to peaking.



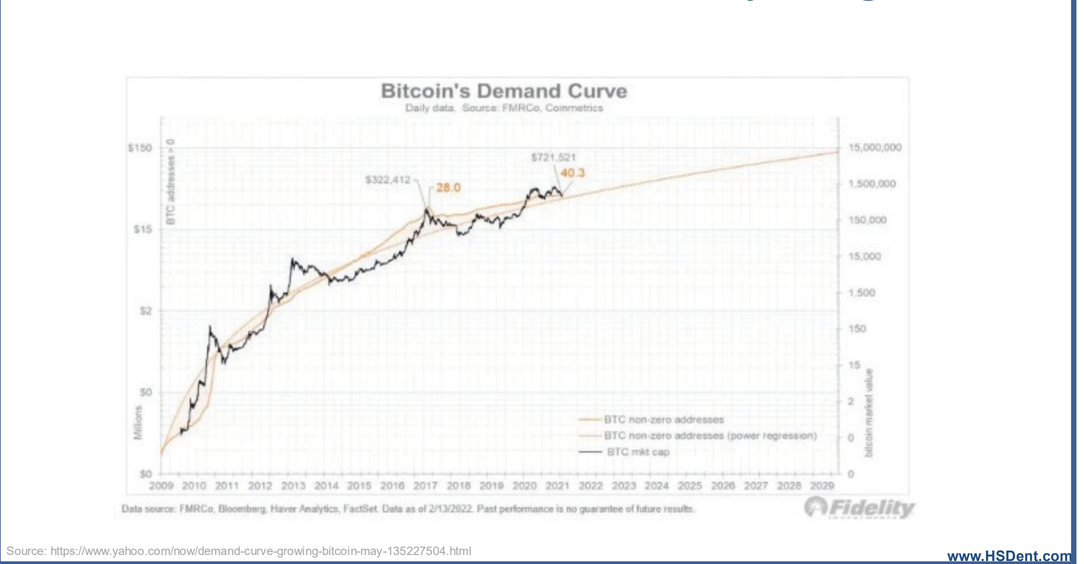
Central banks have spawned the first "everything bubble" in history, in stocks, real estate, and commodities, including gold.

Neither real estate nor commodities peaked with stocks in the 2000 bubble. Real estate peaked in early 2006. Commodities peaked in 2008. Commodities did not peak with stocks in the 1929 bubble, they peaked in early 1920? and real estate peaked in 1925. This time, all of these sectors appear to be peaking about NOW, although real estate is likely to lag by just a few months or so. Also, recall that I forecast that gold would fall to around $1,050 or a bit lower. That fall still would be less than for most commodities and stocks, but I still do not recommend gold in my scenario and strategy.

And, finally, let's take an updated look at Bitcoin and the crypto world, by comparing the Bitcoin and cryptos now with Amazon and the Internet in the past. The early days of the Internet and dot-coms led to the first tech bubble in this 45-year cycle. Cryptos have led the second bubble; they are still a

"baby bubble," although they already have started to crash, big time, with more to come. Cryptos could fall by as much as 95%–96%, ultimately.

Although such a crash is likely ahead (as happened with Amazon in 2000–2021), Bitcoin is projected to go to as high as $780,000 by 2040. However, Bitcoin might not go that high, for two reasons. The next U.S. boom is likely to peak around 2037, and Bitcoin could peak with it then, sooner than 2040, at a bit of a lower price. Second, the next crypto bubble will not occur during this bubble era, which is about to end with the crash of a lifetime just ahead. So, maybe Bitcoin won't get to $780,000.... $400,000–$500,000?



Next is another interesting chart that shows how Bitcoin could reach as high as $750,000 by 2030 (earlier), given its present trajectory on a growth curve. Bitcoin is projected to reach $15T in total market value by 2030, with about 20 billion coins issued, near its limit of 21 billion.

Bitcoin would need to reach stratospheric levels of $500,000–$750,000 to have as much or more value than all of the gold in the world, at $11T+... and if it is to reach its ultimate goal, to act as backing for a new global monetary system that cannot easily be manipulated by sovereign countries. I'm definitely rooting for that!

Needless to say, look for updates in these fast-changing times, during what is likely to be the crash of a lifetime.

Got a question or comment? Reach us at info@hsdent.com.

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