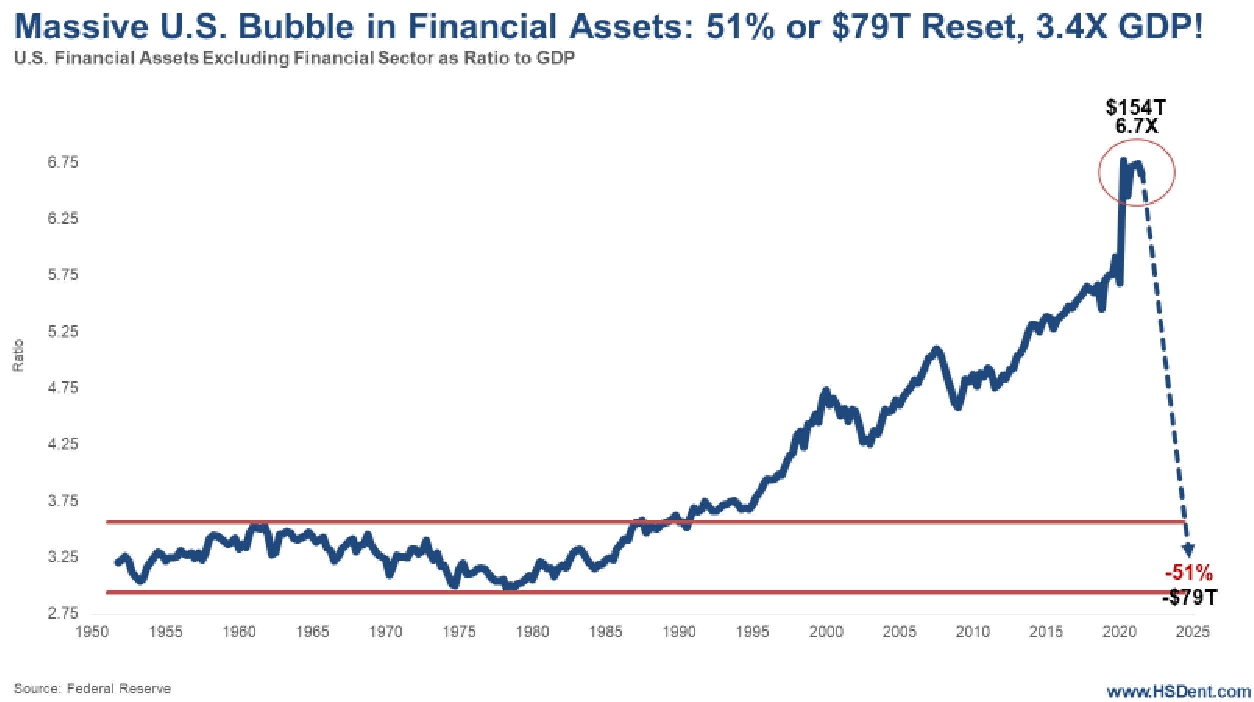
Harry's Take

March 8, 2022

The Elephant in the Room Is Not Putin's War, It's the Financial Asset Bubble!

Putin's attack on Ukraine is receiving very little support, even from other dictators. So, how far can he get here? Is it hurting the stock market? Of course, but not that much yet. I see the attack as merely a trigger for the first bubble burst that finally tells investors that the party is over and breaks their belief that you can't lose money in this bull market. Then, the market will crash big time for its own reasons, well beyond this short-term geopolitical crisis.

Below, I have updated a chart that looks at the stupendous and unprecedented bubble in financial assets in the country with the most of them, the U.S. Last year, financial assets totaled $123T. Now, they are $154T. That is 6.7 times the 2021 GDP of $23T. I have shown in the past that the global financial asset bubble is more like $540T, so we are looking at the global and everything bubble, to boot.



This chart goes back to 1950, and you can see what normal times, from 1950 to 1990, look like: the ratio of total financial assets to GDP ranges from 2.9 to 3.6 times, with fair value in the middle around 3.25 times. That's normal when the economy isn't in a rare bubble that also happens to be the greatest in modern history… and the first bubble in everything at once. How do you get such a bubble? Thirteen years of escalating money printing around the globe with fiscal stimulus on top.

For U.S. financial assets to fall back to merely fair value, 3.25 times GDP, would cause $79T of the total $154T, or 51%, to disappear. That $79T would be 3.4 times our GDP! That is a shock that this economy and the markets cannot withstand and that will take years to get over.

People don't stop spending because their assets go down, but it does make them much more cautious, especially when the shock is closer to the size of the one that hit in the 1929–1932 stock crash.

History will not show that Putin's invasion of Ukraine caused the Great Depression of 2022–2024. The cause will be the greatest bubble burst since 1929–1932. That burst is long overdue, and real estate, commodities, and even gold will crash as well.

We can confirm that this great burst is happening only once we get a first crash in the vicinity of 40%+ over 2 to 3 months. That is most likely to occur in the present stock downturn if it continues into March… or, if we get a strong bounce when there is some resolution to the Russian invasion. Then, it's likely to happen from, say, April into June. The point is that this major stock crash and reset of financial assets around the globe is going to happen with or without Putin's aggression.

Putin's geopolitical infraction is likely to be the trigger that sets off this first crash of 40% or so now… It just won't be the primary cause for the greater crash and deep downturn that lasts into 2023 or later. You don't get that from a minor war in Ukraine.

We are not in a global position for World War III, and the economic downturn ahead quickly will force countries to deal with their own economic weaknesses from the great bubble burst.

And, yes, Putin will try to use this as an excuse to keep pushing into Ukraine if he can.

Harry

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