# *Harry's Take*

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## Reader Mailbag: Questions and Harry's Answers on Stocks, Commodities, Bonds, and the Collapse

*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:** What do you see happening when the stocks rebound 30%–50% of the losses from their highs?

**A: The market retraces 40%–50% of the losses in the rebound, then it crashes again at least as much in the first down cycle, which just bottomed. It might not bounce as much as that, and that would be a further sign of weakness.**

**Q:** If you are so bearish on oil, should we be short? If so, what is the best way to play a drop in oil prices?

**A: You can short just about anything, but Treasury bonds will likely do well with the least volatility as this crash of a lifetime plays out. Oil can be more political, so I prefer to be short stocks and long T-bonds for the crash into at least late 2023. If you want to short a commodity, copper would be less political.**

**Q:** I contacted my SEP manager, who said he doesn't purchase bonds. What are your thoughts on purchasing long-term bonds directly from the Treasury?

**A: It's fine to purchase the bonds directly from the Treasury. Buy the 30-years, which are better than getting a 25-year average in ZROZ. But ZROZ is easier to sell or trade in and out. TLT is more liquid, but ZROZ will do about 50% better if interest rates fall in a major downturn ahead.**

**Q:** Catching this "crash of a lifetime," will TLT and ZROZ peak about the same time the S&P 500 will reach its crash low? So, can we sell high on Treasuries, and then transfer that money and buy LOW jumping right into the bottom of the market, or will there be a lag?

**A: In the last big downturn, TLT peaked in December 2008 and stocks bottomed in early March 2009, but only slightly lower than in December. So, TLT spiked the most into the worst of the crisis, as a safe haven should. Stocks bottomed a few months later. Hence, this time around, I would tend to get out of TLT or ZROZ a little earlier than selling my stocks short and going long stocks again. I'll have to update you on that when the time comes.**

**Q:** You mention TLT is a good play in the recession, but what about now? Should we wait to buy in?

**A: Like stocks going down, TLT rises coming into the recession and spikes the most at its worst. People should already be in TLT, and my target is 196. It was still not too late to buy around 112 recently, and I like ZROZ better for more kick in returns.**

**Q:** Can you please discuss the role Fed market activity (liquidity) plays versus rate increases?

**A: The Fed has stimulated the economy for so long and so aggressively since COVID that this bubble burst is going to overwhelm them. They are not acting as aggressively as they should, as they know the economy is**

**weak… How? They have had to keep stimulating progressively for over 13 years now. A healthy economy would not need that. I know why the economy is so weak: high debt and slowing demographics! They don't. So, they just assume that if they stimulate long enough, the economy will get its mojo back. It won't until at least 2024, now that the economy has slowed and the financial asset bubble has seen its first major crash. It will be hard to stop further crashes. I think the next crash of the same magnitude as the recent one will set in between August and January of next year, and that will take stocks down more like 60% and ignite a deeper recession...Then, a final wave will take us down more toward my targets of -86% on the S&P 500 and toward a much-higher-unemployment depression into 2024+.**

**Once the Fed starts tightening, they will escalate the downturn, and it will be hard to reverse it enough before the crash gets its own momentum. They would look doubly foolish if they tightened just for a month or two and then suddenly switched back to high stimulus. What would that say to consumers about how weak the economy really is? And my research shows that it is the weakest economy we have seen since 1980–1982 and is even weaker this time!**

**Q:** With the yield curve so inverted, doesn't the 10-year offer more upside compared to the 30-year?

**A: I have done this analysis in the past. In the last strong surge (falling inflation rates) from early 2019 into the COVID shock into March 2020, ZROZ went up 89.1% vs. TLT up 52.5%, for a gain 68% higher or 1.68 times more volatile. So, in a crisis like the one in the making, ZROZ will outperform TLT substantially. You will also lose more if inflation surges instead of having a slowdown with deflationary tendencies. But the inflation scare has already seemed to lose momentum, as inflation just slowed from 9.1% in June to 8.5% into July. A deep recession will accentuate this much more, and I expect this to be more evident by the end of this year.**

**I would buy ZROZ. It is a bit less liquid but not a big deal for small trades like the ones people like you and I make.**

**Q:** I see you suggest long-term bonds to take advantage of the crisis hitting global economies. But many experts suggest inflation will stay with us for a long time. Bonds could fall extremely. Any thoughts?

**A: I am only suggesting the highest-quality, longest-duration bonds, like 30-year Treasuries and 20-year AAA corporates. They are not as volatile in general, and they do best when everything else fails and they become a safe haven, as the 10- and 30-year Treasury did in 2008, especially in the second half of that year. High inflation is the very trend (created by the Fed's overreaction to the COVID crisis) that is forcing the Fed to tighten monetary policy and slow the economy. These bonds will do well if the economy slows and inflation slows, and nothing slows inflation more than a recession, which I think has already started, as do 60% of consumers polled. These safe-haven bonds are recommended only for the downturn, which is most likely to happen between now and the end of 2023 or early 2024. They did best in 2008 when everything else went down. That's what I am looking for ahead. If we don't see a slowdown set in by year-end, then I would have to reconsider.**

**If I am right, then everything else (stocks, real estate, normal corporate bonds, high-yield corporate bonds, and commodities, including gold) will do badly. If you don't like these bonds, then the only low-risk thing to do is be in cash and wait to see if this downturn gets more severe. The fact that the Nasdaq already crashed 34% is the first clear sign that this is not another correction but the beginning of a major crash that is greater than in 2008–2009, which has been held off by escalating stimulus.**

**If you asked the economy what it wants, it would be crystal clear: It wants to take a break and flush out a lot of bad debt and zombie companies. Until that happens, we cannot and will not see a sustainable boom without never-ending stimulus. People think I'm crazy for wanting this shakeout. But it's that or become Japan and never grow in real terms again!**

**Q:** Do you think that some sectors of stocks will fare much better than the broader indices during the crash? In particular, how about inflation plays such as energy (e.g., oil, gas, LNG), agriculture and materials (e.g., fertilizer, lithium, etc.), or shipping stocks?

**A: Oil/energy is one of the most volatile industries. If we go into a recession (as I think is already happening) oil prices will drop like a rock, faster than most stocks! Agricultural products are highly competitive and price-sensitive and will also fall in price, and hence, in profit. If there is a broad sector that would hold up better (while still falling) it would be health care, as the aging of the Boomers continues to favor it and it is more recession-proof... but those sectors will just go down less. I'm into the only sector proven to do well in a crisis like we had in 2008 (and this one will be worse by about 50% in severity), and that is long-term Treasury bonds, especially 30-years. Or, for ETFs, choose ZROZ (25-year average) and TLT (20-year). I prefer ZROZ for the longer duration, just as I greatly prefer 30-year T-bonds over 10-year.**

**Q:** It seems as if the Treasuries market is moving up and down in the same direction as the stock market. I would expect it to be in the opposite direction. Would you be able to comment on this at some point?

**A: These markets normally do track like this. Stocks go up when the economy is stronger, but growth implies higher inflation and that tends to push down bonds. But there are times that the economy is growing strong with low inflation, and that happens a lot. Right now, the markets are more confused, with some thinking that we are moving into a recession. That is bad for stocks and should be good for bonds. But inflation is proving to be more persistent, and that is bad for bonds. When it is clear, likely soon, that the Fed has tightened enough for the economy to move more clearly into a recession, then stocks will go down and Treasury bonds will go up, as inflation will fall with the economy and that brings down interest rates and favors bonds.**

**Q:** What causes 30-year Treasury bonds to go up or down? I understand that the change in the Fed Funds rate affects the front end of the yield curve and not the long end of the curve. From what I can piece together, 30-year Treasury Bonds go up or down based on inflation and GDP expectations. How does that work? What should we be looking for to indicate the 30-year Treasury rates should rise?

**A: The 30-year will go up and down as expectations of inflation rates rise or fall longer term. When the economy is strong or inflation is rising, the rate will tend to go up, and that causes present bonds to fall in value, as a new buyer can get a higher rate of return. When the economy is weakening, longer-term inflation expectations go down, and then rates go down and bond prices go up. Falling long-term rates are good for long-term bonds. In a recession, higher-risk bonds can still go down, despite lower inflation being positive, due to rising default risk. The reason I am recommending 30-year Treasuries is that they have virtually no default risk and the longest duration, so a slowing economy with falling yields makes their higher yields more valuable—and the longer the duration, 30-year vs. 10-year, the more value added.**

**Q:** Another analyst believes bonds will be worthless because this will be an inflation depression rather than a deflationary one. What do you say?

**A: This will NOT be a hyperinflationary scenario and will be nothing like Weimar Germany in the early 1920s! This temporary inflationary bout from the overreaction by the Fed to COVID will quickly turn to recession and deflation in prices, and as in 2008, that will favor the long-term Treasury bonds the most. Inflation was the trend in the 1970s, with high workforce entry. Disinflation has been the trend since 1980, and deflation will be the trend in the major downturn already in motion.**

**Q:** Could it influence the timing of the collapse you describe as likely to conclude in late 2023 to early 2024 if the Fed just quits QT? They appear so weak and so easily influenced by the markets. What is the ramification of

turning off QT? Is there a downside to just carrying that $9 trillion balance sheet?

**A: There's no doubt the Fed will want to reverse and go back to QE when the economy softens. I say Powell misperceives now when he says that the economy is fundamentally strong—after needing 13 years of escalating stimulus. I think that the economy will react badly to tightening and stocks will turn down fast, like is happening today. By the time they stop tightening and then reverse to stimulating again, then it will be too late. This next stock wave down looks to be in motion, and stocks should crash back to COVID lows, down 55%+. Let's see how far this next wave down goes and then reassess. Continue to short stocks and/or long T-bonds or TLT for now.**

Harry

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