Harry's Take

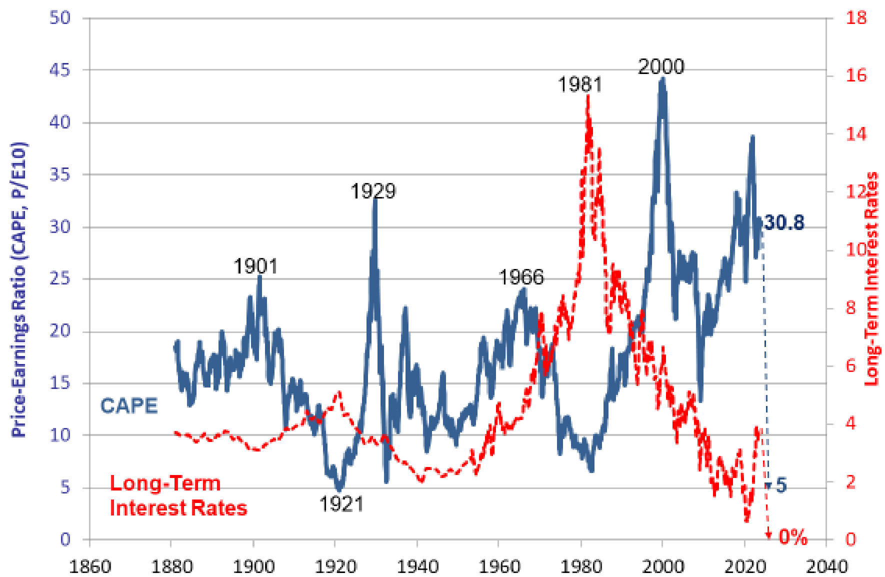
August 8, 2023

Bounce May Have Peaked: If so, Ten-Year Treasury Bonds Could Fall to 0% and Stock Price-to-Earnings Ratio Back to 5

Below is a good long-term chart showing the Shiller cyclically adjusted price-to-earnings (P/E) ratio (CAPE) for stocks and long-term Treasury bond yields. Both are going a lot lower, which is great for T-bonds and horrible for stocks. The Fed has been fighting the inevitable correction of stocks back to reality but finally blew it by overreacting with stimulus in response to the COVID pandemic, a temporary crisis by nature. But since March 2022, the Fed has initiated its largest tightening yet, raising rates from a range of 0% to 5.25% and likely raising them from 5.25% to 5.5% just ahead. This overreaction to an overreaction should be what finally kills the greatest and longest stimulus program in history.

The inevitable stock and real estate crash from the second round of bubbles (totally artificial, caused by 14 years of desperate stimulus), this time in stocks and real estate simultaneously, has yet to get deep enough to set the stage for the next longer-term bull market, which should arise as the Millennials mature and move into their generational Spending Wave from 2024 into 2037. After that, demographic trends in the U.S. are projected to go more sideways for a long time.

How the 'Great Experiment' Ends: T-Bonds Near Zero, Stock P/E Near 5!



Source: http://www.econ.yale.edu/~shiller/data.htm www.hsdent.com

The only thing standing in the way of this next boom is that since 2009 we have never allowed a deep recession to clear the massive debt incurred during the greatest boom in history, led by the maturing of the Baby Boom generation. The chart above shows my projections in the dotted lines. Stock P/E ratios, which peaked in 2000 at 44.5, are likely to go from their recent level of 30.8 back down to near their lowest level, 5, which hit in 1921 and 1932. The 10-year Treasury bond is almost certain to go lower than the 0.32% lowest yield in early 2020; it could fall to zero or even a bit negative. That's when I will feel good about calling for the last great boom in the U.S. into 2037.

There's a growing chance that the longer-than-expected stock bounce finally peaked in mid-July, beginning a powerful third wave that could continue going downward well into 2024 or even early 2025 before bottoming and heading toward a P/E of 5 or near there.

That would be the healthiest path for our economy long term. If the Fed and central banks are able to prevent this larger crash, then we are more likely to have a very mediocre, sideways stock market into 2037 instead. The next few months will be critical for the markets.

Harry

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