Harry's Take

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Reader Mailbag: Questions and Harry's Answers on Rates, Immigration, and Housing

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 and answers on a few topics and send them to subscribers as part of our reader Mailbag series.

Q: What is the likely result, once the Fed's Powell lowers rates 2% to 3% going into the November elections?

A: Normally, falling rates are good for the economy, except when the Fed lowers them, as tends to happen when the central bankers finally admit we are falling into a recession. Stocks normally fall when the Fed starts loosening policy. The central bankers have to start seeing enough of a rate decline to suggest the economy turning around, and that won't happen with the timid, 0.25% rate cuts we'll get at first. That should take a while, and this economy has been held up 100% artificially for nearly 15 years now, which suggests the economy is in for the exact opposite of a soft landing. My view has been that the economy will go down hard and fast once the crash happens and the Fed will be behind the eight ball for a good while. However, this situation is totally unprecedented. We will have to wait and see. It's a great time to stay safe and watch, at least for a short period, until the situation becomes clearer. I still prefer the TLT ETF and 10-year and 30-year Treasury bonds now.

Q: I don't see how housing recovers from here with interest rates so high, but there is still much demand from people with jobs. It's just an affordability issue. There is talk of lower interest rates in 2024. Will that spur demand enough for one last hurrah? Will other tricks be pulled to try to improve affordability before it all falls apart?

A: I do not see how housing does not go down soon, given rising rates and sky-high prices. There are signs of weakness already. So, it's definitely NOT the time to buy a house. Only one thing is clear here: there has been a second major bubble in stocks and real estate, and neither have burst yet. So, wait for that and don't buy either until this bubble bursts… Period!

Bubbles want to draw everyone in before they burst. Don't be the last one to jump into the avalanche.

Q: Everyone feels the Fed may pivot again; won't that juice the markets again? In your letter, you make it clear they will not. Why wouldn't they? All they do is manipulate the stock market to protect it from washing out as it should. Please answer why they won't lower rates. History has a way of repeating itself.

A: Historically, the markets tend to go down when the Fed starts easing, as it confirms we're in a recession, and then the easing takes one to 1.5 years to hit fully on the downside. The fact that investors are assuming what you say shows how delusional they are. The Fed just finished a massive tightening because it over-goosed the economy for the short-term COVID crisis. It would look foolish to turn around and loosen so much too fast. So, the Fed will lower rates, but likely too late this time. Once a bubble starts bursting, the momentum can grow fast!

Q: Why you have not factored in the millions of illegals entering at the border? It has to have had some impact on our economy, maybe like COVID payments did to inflation. Biden is going to have to dish out cash to his progressive mayors to help deal with the immigrants, and that's on top of the destruction of once-great cities from defunding the police. Now, hundreds of thousands of uneducated illegals will have to turn to crime for survival. What are your thoughts on this crisis, if you see it as a crisis?

A: I adjust my Spending Wave for estimated immigrants, but it is likely underweighted a bit. People look only at the costs of new immigrants, especially the illegal ones, and not at the benefits. Immigrants now in the country will earn and spend money here, which benefits growth and GDP. They tend to work for less and help keep inflation down, likely more than their social costs push it up. From an economic point of view, having them clearly is more beneficial than if they didn't show up. It's the social integration and tensions that are the question mark! I can't blame someone for arguing that it creates a change in our culture. But the ones who argue that it hurts our economy overall are just dned wrong. We have been an immigrant economy from the beginning. We just have to end the illegal side and promote the legal one.**

Q: When interest rates come down, TLT will rise. Simultaneously, SQQQ, QID, SRS, and other inverse ETFs will decrease as the market gets hotter. Why do you recommend owning both at this time?

A: For most of a downturn or recession, stocks go down and risk-free bonds go up, due to falling inflation and risk-free rates. So, while stocks go down and the riskier bonds go down, risk-free bonds like U.S. Treasuries (TLT) and AAA corporates go up. T-bonds and TLT start reflecting the downturn before stocks. The best play is to be long TLT now and add short stocks (SQQQ, etc.) just ahead, as stocks look like they may peak by late January. Sell TLT when the downturn looks to be at its worst, likely in the second half of 2024, and sell stock shorts a little later, likely in late 2024 or early 2025. I will advise about this in my *HS Dent Forecast* newsletter when it happens.

Q: What will happen to the economy and U.S. finances when we lose the petrodollar?

A: Not that much. If the dollar goes down a bit, it improves the competitiveness of our exports.

Q: What are the chances of a lost decade for North America, similar to what occurred in Japan?

A: We should have had that lost decade from 2008 through 2022-2023. So, the question now is, do we have a very strong crash and deep downturn for a few years or do we have that plus an even-weaker final boom from 2025-2026 into 2037? The Millennial boom was never going to be as strong or last as long as the Baby Boom Spending Wave from 1983 to 2007. All that the $27T in combined fiscal and monetary stimulus did was to "fill in" that lost decade plus from 2008 through 2023. Now, we may have to pay the price, as the massive debt bubble will unwind just as it should be turning upward again from 2024 to 2037.

I already have been seeing the 2037 high in U.S. stocks as not going back to anywhere near the recent highs, which are occurring in a bubble era. That should be washed out ahead, not to return for another 90 years. But I do see it delaying the downturn that should have hit big (back to 2009 lows) into late 2022 for stocks. The economy not only should undergo a deep crash and downturn in 2024-2025, the boom to follow is likely to be compromised further. The 2022 Nasdaq low of 10,088 should be the ceiling for the 2037 top... so we won't get anywhere near the 2023 Nasdaq highs of 15,150, and it's even less likely we will see the 2021 highs of 16,212. I think U.S. stocks have reached their highs for decades to come, way past my lifetime, and real estate will recover much more slowly, due to the wave of Boomers dying, creating endless sellers. I think the U.S. ultimately will undergo two lost decades, from 2023 into 2042 or so, with a good bump in between from 2026 into 2037. We'll have to look at aging and immigration changes after this big crash to project more accurately.

Q: What do you expect to happen to the USD vs. other currencies during the crash and after the crash?

A: I've made it crystal clear that the USD should be a safe haven in a crash, as in 2008… but it will fall after that longer term as Asia rises into world dominance. The euro will fall as the USD rises during the crash. The Swiss franc should fare better but likely still will be down a bit against the USD.

Q: What are your thoughts on the belief of Phil Anderson, Akhil Patel (who recently authored the book "The Secret Wealth Advantage"), and Andrew Pancholi in the significance of the 18.6-year real estate cycle? Their cycle shows us to be in the middle of a seven-year expansion that will crash in 2026-2027. I know that there are clear macro cycles and theirs is more of a micro cycle. I would love to get your take.

A: Yes, I am aware of the 18.6-year cycle, and it does seem to apply mostly to real estate. But you are right. There are bigger cycles, and the second and largest bubble of our lifetime is peaking. That trumps the 18.6-year cycle, which hasn't been as accurate as in the past. It was killer back in the 1800s, before the generational Spending Waves became much more important with the rise of the middle class after Henry Ford's assembly line.

Q: My friend is an avid crypto trader and is severely bullish on crypto, given the upcoming ETF announcement and halving event due this year. He describes it as a supply and demand scenario that will drastically increase all crypto. He is advising me to sell BBOZ, take the tax loss, and increase it with crypto. Do you also see crypto falling alongside stocks with the upcoming crypto halving this year?

A: These are the bubbliest, most-manipulated, and hardest-to-read markets in history. All I can tell you is how I see it: the Fed and central banks blew us out of the biggest bubble burst since 1929-1932 from early 2009 forward. The economy didn't fall enough to detox and take out the unprecedented second bubble in a row, with stocks and real estate bubbling together this time… which also is unprecedented.

The first crash of this second bubble hit in 2022, with the Nasdaq down 38%. The off-the-charts stimulus of $10T+ after COVID created a final

bubble into late 2021 for stocks and now for real estate. That created 9.1% inflation, which forced the Fed to tighten the most in over 40 years, by 525 bps! That will finally burst this bubble more fully on a 1.5-year-plus lag into late 2024 to 2025.

Like the dot-com stocks led by Amazon in the first tech bubble into early 2000, the crypto sector is leading this second bubble, and they aren't even in the Nasdaq, past a few stocks like Coinbase.

Many are saying that Bitcoin and crypto are the new safe haven… I say they are leading this bubble. Hence, they will crash the most in the end, as they have already since late 2021, with my best target of $3,250 for Bitcoin. But after the economy crashes from the Baby Bubble and goes into the longer Daddy Bubble into 2037+, it could rally to as high as $780,000.

Bitcoin is the last place I want to be now, as this final wave down in everything has much further to go. It could go as low as $3,250, just back to the late 2019 low. It's the first thing I would buy in late 2024 to 2025 when this final crash bottoms and The Last Great Boom in America hits into 2037 with the Millennial Spending Wave.

Bitcoin and crypto are ultimately about the digitization of all financial assets and money, and Bitcoin will become the new gold standard of the digital world in the coming decades.

Hold your stock shorts and definitely wait to buy Bitcoin or crypto. People like your friend who see Bitcoin as the safe haven will be burnt the most. But he is right in that it will lead the next boom—and I see it being among the best bargains after this crash. Crypto IS the next big thing! But so were dot-coms like Amazon, which crashed from $136 in 2000 to $6 in late 2001 before screaming to levels no one, not even Jeff Bezos, would have thought possible after that.

Q: The markets are up to record highs. Earnings are great. Why would stocks crash if companies are making money?

A: Stocks crash for two reasons: either because the economy turns down or because they get overvalued. Not too long ago, a recession was forecast for 2024. Now it's not as much, but my indicators say we will still get one, and it will be larger than from 2008 to 2009.

This crash would happen because stocks became overwhelmingly overvalued. The stock bubble since early 2009 has been longer and greater than the 1929 or 2000 bubble… and no economic surge lasts forever. This one, going on 15 years, is 50% longer than the next longest.

Don't you think the economy looked good in 1929 or even 1999? It looked like we had died and gone to heaven. That's when you sell.

Harry

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