# *Harry's Take*

June 4, 2024

## Reader Mailbag: Questions and Harry's Answers on Debt, Safe Havens, and Global Real Estate

***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:** I have been buying ZROZ, which you don't mention anymore. What should be my next action? My buying is now at average 84. Also, please advise why there is a big price difference between TLT and ZROZ.

**A: I would hold, as the largest moves are clearly ahead, once the real recession and financial crisis hit hard. The difference is ZROZ moves about 1.6 times as much as TLT both up and down. They are different securities; hence, their prices will not correlate except in that magnitude of change of about 1.6X.**

**Q:** Several commentators have stated that now that the U.S. debt-borrowing curve has gone vertical, we have entered into a debt trap, with permanently high interest rates. What are your thoughts?

**A: There's only one way this ends. Home prices will get so high that sales fall, the economy weakens, and we get a serious recession that brings down inflation and risk-free rates. Rates will rise on riskier bonds, due to defaults. There's no way we'll end up with permanently high home prices and interest rates in a predictable, long-term trend of aging and slow-to-flat**

**workforce growth. That is the real driver of inflation. The cure for a bubble is a crash that brings down prices and interest rates again. High prices cure high prices. That's the beauty of free market capitalism, which governments and central banks have declared war on since 2008! A crash is the only cure! That's why we simply have to get out of the way and let it happen. Paradoxically, that's also how we'll profit: sell high, buy back low. Governments have to fail in their misguided attempt to prevent recessions as if these recessions are the enemy. Recessions ARE the solution! You can't have continued growth and healthy booms without having a healthy bust once a decade or so, just like you can't remain productively awake without sleeping about 30% of the time; it's the same approximate ratio of waking to sleeping.**

**Q:** You mention TLT a lot, but I don't see any mention of dividends. It's paying 3.9% as I write. If and when it does go up as the safe-haven play, what will happen to the dividends? Does the percentage stay roughly the same as it makes its move up, or not? I suppose we won't care, since we're making money on the upswing, but I'd just like to complete my understanding of how it works and what we can expect.

**A: Interest rates on these long-term, risk-free bonds will tend to go down toward zero, as they did in 2020. That is the best thing, as our bonds appreciate from locking in higher rates. We are not buying these bonds for short-term or long-term interest payments, although they are automatically paid to you if you hold while the interest payments are made. We are buying for the safe-haven appreciation play in the next 1.5-2.5 years in a crash. If this doesn't start to happen by year end, then I'll have to reconsider.**

**Q:** For many years, when I went to Mexico the dollar was very strong, but recently (in the last couple of years) Mexico is expensive compared with how it used to be. Do you see the dollar gaining ground on the peso once the crash is in full swing? Real estate in Cabo is also comparable in price to many resort areas in the U.S., and I was wondering if you think we will see a correction in Mexican real estate prices soon.

**A: It's not in my tool kit to predict exchange rates with Mexico. I can tell you that in a global economic crisis like I expect in the next few years, the**

**U.S. dollar will tend to rise against most others, including Mexico. We're the ultimate safe haven, along with Switzerland.**

**I definitely would not want to own high end or vacation real estate in a place like Cabo. It is very likely to depreciate a lot. Mexico will be hurt by our (and global) falling tourism, and their currency will fall relative to the U.S. dollar, which will hit you more. It's best to sell real estate there now, bring the money back into U.S. dollars, and put it into long-term Treasury bonds here for the next few years.**

**The truth is there's not many places to hide: U.S. long-term Treasury bonds are the best safe haven, along with affordable multifamily rental properties in real estate. T-bonds are best, as they actually will appreciate substantially when everything else goes down… And most importantly, most real estate will not get back to these highs for decades or longer. Cabo would be a good place to buy after the crash, say from 2027 forward.**

**Q:** I would like a comment in your replies on the TLT/Treasury bonds and their solvency: will this government be able to make its payments if the plug is pulled by the various players in the global community, once they say NO MORE to the "addict"?

**A: In the biggest downturn besides 1980-1982 (and in a bigger financial crisis), U.S. Treasury bonds rallied strongly into the worst in late 2008, while even gold finally cratered along with everything else. We are merely the best house in a bad neighborhood, and our bonds become the instant safe haven.**

**If you can print money to stimulate your economy endlessly with little impact on rates, you can do it temporarily to deal with a crash and pay off your bonds and interest due. The U.S. will not default on these bonds; that would threaten the low borrowing rate of the U.S. for years and decades to come.**

**Q:** Could you tell me the demographic outlook for Central America (particularly Belize, Mexico, and Guatemala), South America (particularly Paraguay), and Southeast Asia (particularly Thailand and Indonesia)?

**A:  Thailand already peaked in 2020, while Indonesia has a long plateau peak between 2045 and 2060. Most of Central and South America will peak between 2035 and 2040. India is the large country in Asia and will have the latest peak, around 2055.**

**Q:**  If the Fed lowers rates, won't the stock market rocket higher per usual?

**A:  Not if they lower rates as we are entering the next recession, which is typical—and this recession is the most overdue in history. So, it will not be a minor recession but more likely will be a short, deep depression! Stocks earnings and valuations both will plunge, as in 1930-1932. Long-term Treasury bonds will be the only safe haven; not even gold will be a safe haven in the end.**

**Q:**  I still don't understand how home prices will go down, when most of the home owners (the potential sellers) have locked in very low interest rates on their mortgage loans. What would force them to sell?

**A:  It will be more a combination of high prices and an exhaustion of demand than crashing supply that causes this final downturn after major rate hikes. A lot of people who bought vacation homes or speculated will be forced to sell when they are in default, and that will happen first to the people who bought the most recently at the highest prices and face negative equity and foreclosures.**

**Q:**  In the May 27, 2024, business section of the *New York Post*, Ken Fisher suggested investing in mortgage-backed securities (MBS) via ETFs SPMB and VMBS. I know from experience that investing directly in MBS can be aggravating when you try to sell. They tend to be pretty illiquid. I would like to know your opinion regarding the ETFs.

**A:  The big housing crash I expect will not be good for MBS. I like only 10-year and 30-year Treasuries and A+ rated corporate bonds for the next few years. MBS could be great buys at the bottom with higher rates from defaults that will then fall again. But note the default period likely will last a good bit longer than the recession.**

**Q:** As you know, the government has engineered a perfect Ponzi scheme, fueled here in Australia by high construction material costs, inflated land prices, high labor costs, and an uncontrolled immigration surge that has resulted in a housing shortage. The mortgage situation is different from the U.S., as most people have a floating interest rate on 30-year loan or a three-year, fixed-rate loan (most have come off now, since rate rises). The prices (along with rents) just seem to keep rising with the Consumer Price Index.

**A: Australia has the greatest real estate bubble outside of China. Hence, it has to burst, likely more substantially than in the U.S. Having a floating rate would help if it correlated more with the rate for long-term government bonds, which should come down in a deep economic downturn and have more of a safe haven standing. But if rates correlate more with the risk economy, like corporate bonds, then rates would rise due to default risks in the downturn. That definitely would be the case in the U.S. and likely would be in Australia. To be direct, there is no way in hell the world has the biggest real estate crash in history but Australia doesn't, when Australia has the largest bubble in the Western world. Building costs will go down very quickly in such a short-term depression as well.**

Harry

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