Harry's Take

July 30, 2024

Reader Mailbag: Questions and Harry's Answers on Treasury Bonds, Global Markets, and Recession

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: During the Great Depression, Canada froze redemption of government bonds. Is that a risk with Treasury bonds? They did allow modest redemption and pitiful interest as the terms of the bonds were extended.

A: I don't know about that. I would not think the U.S. government would mess with redemption, as they need to keep T-bonds riskless to keep the rates down, given they are having to issue so many bonds and there seems to be no end to deficits: 17 years now.

Q: What is your take on the Indian market? Has it reached its historic high? Will it crash like the U.S. market in the near future, maybe by the end of this year?

A: I don't follow India as closely, but this will be a global crash. India should fare better than the U.S. India's market could go as low as its 2009 lows, down 70%+. So, it's no safe haven, there's just a little less downside than U.S. stocks.

Q: I recall way back when the SPX was around 1,500-1,800 that Avi Gilburt laughably projected an Elliott Wave path to 6,000 and perhaps beyond. He suggested this would take some time, perhaps into the 2024-2026 time frame. It seems to me we are into his final fifth wave here and currently wave three is completing. That suggests we are going into a wave four pullback before accelerating upward one last time. That might be in the 4,000 range, making it seem like the crash has arrived. We'll have to wait and see, won't we?

A: The problem with Elliott Wave patterns—and I know and respect Robert Prechter who created the Elliott Wave—is that patterns can keep subdividing into extensions higher or lower. That's why I like to combine them with time cycles, which can help refine whether you are in a time frame in which a final top or bottom in a specific wave pattern is more likely. One pattern I like is alternating "0" and "2" year bottoms in the Decennial cycle, for example, 1930, 1942, 1950, 1962, 1970, 1982, 1990, and 2002. However, this pattern has broken down since the $27T in nonstop stimulus since 2008. The 2022 mini-crash was much less severe than I would have expected, and we've had new highs into 2024. Hence, there is still huge downside potential, as the second artificial bubble has not shaken out like the first tech bubble in 2000-2002.

Q: Can you give me your thoughts on TLT? Do you still expect it to do well, and if so, do you have a time frame?

A: I see this bubble and crash ahead as a larger version of 2008 Great Recession and crash. This one should be 50% greater and longer. All the government did was run huge deficits and print money to get out of the Great Recession (which was really the beginning of a depression). That has created the biggest bubble ever, and now that must burst. When I look at the 2008 crash, gold went up in the early stages but crashed to a lesser degree in the second half of 2008. Hence, I don't recommend gold as the safe haven like Peter Schiff and other gold bugs do. I recommend U.S. 10-year and 30-year Treasury bonds. They should go up more than in 2008, while everything else goes down—even gold, albeit to a lesser degree.

The easiest way to buy Treasury bonds is through the TLT ETF, which holds 10-year and 30-year Treasury bonds. If you buy this, you have to sell it near

the bottom of the crash when stocks are down 80% or so. The upside in a deep downturn is 50% to 100%. My high-end target in TLT is 186, vs. 93 recently.

Q: As a U.K. resident, putting investments into U.S. long-term bonds isn't as straightforward for my pension fund. With regard to pension investments and investment in general, are long-term bonds from a developed country in which you are residing (such as the U.K.) still a good idea? Also, what are your expectations regarding the U.K. housing market and expected market drop?

A: The housing market is as overvalued in the U.K. as in the US, and maybe a bit more. Hence, I would expect a crash of at least 50% and likely 60%+. The more upscale the housing, the bigger the fall. The highest-rated U.K. government or corporate bonds should do very well. Just remember to sell when the economy is at its worst, likely sometime in 2026 or later. I still prefer U.S. Treasury bonds over U.K. government bonds.

Q: Do we need some sort of a black swan event?

A: A black swan event would be best, and we will get one, sooner or later. The markets will react much more when they are at record valuations like today, which compare to the highest valuations of 1929 and 2000. The year 2007 wasn't as bubbly, yet we still got a 57% crash on the S&P 500 with a recession. I keep saying this crash and recession will be 1.5X the 2008 financial crisis. That means a drop of 86%+ on the S&P 500 and 92%+ on the Nasdaq. The Fed overreacted to COVID, which led to the strongest tightening in over 40 years. The impact won't hit more fully until early next year, but it's best to be ahead of the game and be defensive in T-bonds or short stocks now or soon.

Q: My husband thinks the reason no one believes property prices will crash in Australia's capital cities is that's never happened in our lifetimes. Everyone we speak to loves property! There has always been a floor on prices here due to immigration into Australia of well-educated Chinese immigrants and the rest of the world, too. Even now, we see a number of people at open inspections in bayside Melbourne. I believe there's still bidding wars in Queensland, Western, and South Australia. Prices keep moving up there! (Bubble, indeed!)

A: Yes, I have found Australians to be the most blindly in love with real estate, and for good reason: your demographics are stronger from high levels of Asian immigration, and those immigrants tend to be more educated and affluent in general than the immigrants most countries get. Hence, a real estate burst is likely to be the biggest shock and have the worst impact where you are. The U.S., Europe, and East Asia have a broader demographic slowing to deal with.

That's why my first pick on where to buy real estate after this crash is Australia. Despite heavy losses, there will be more potential for a comeback. I don't think most of Europe, North America, and East Asia will ever again see prices like they have now in any of our lifetimes. Australia may not either, but you at least have a shot at it. But I still expect the real estate crash to be about as bad as in the U.S. and other developed countries. Hence, if you keep your real estate, know that there is likely to be a 50% to 60%+ crash and that real estate will be slow to come back.

Q: I understand your view of the upcoming Nasdaq and your view that TLT will increase in value. We own a TON of tax-free 4%-5% muni bonds here in California. Given the severity of the upcoming crash-of-all-crashes, are you expecting the value of these bonds to grow as TLT goes up? Is there a realistic risk of municipalities defaulting?

A: There is risk that such munis will default. I would keep them only if they have very high ratings. Nothing will beat the safety of 10-year and 30-year Treasury bonds in a financial crisis.

Q: Do you think a small rate increase in September will have much effect on TLT?

A: A substantial rate cut is expected, and that should support stronger growth, which is not good for TLT. TLT likes falling inflation, which occurs more when growth slows. Signs of slowing and more so of a recession are what will propel TLT higher. The fact that TLT has been rising since April is a sign the markets expect some slowing. Anything (for example, a larger-than-expected rate cut) that suggests higher growth will cause TLT to fall a bit. The reason to own TLT is a decent 4.5% interest return plus a

hedge against stocks, real estate, and other financial assets falling a lot when the second and greatest bubble of our times finally crashes to reality. It's not a question of if but when, as bubbles always burst and we've had the greatest and most global bubble ever from 2009-2024!

Q: If there is a global crash in 2025, then for how many years will the recession last?

A: Major bubble crashes tend to end in depressions and usually take two to three years. The 1929-1932 crash was 34 months from top to bottom. The first tech bubble crash in 2000-2002 lasted 31 months but had only a minor recession. Since this is the longest period ever without a recession, 15+ years, it should take closer to three years to work out. This one will be hard to predict, as central banks and governments will try to double down on deficits and money printing. The real question is this: When will enough people say, "Enough is enough! We keep stimulating more and only getting bigger bubbles and bigger bursts!" I think that's what finally will happen this time.

Q: I work for a large corporation (a Fortune 500 company), and there is a huge push for people to contribute to their pension funds/superfunds at present. We are presently in a financial wellness week, and all the presenters are encouraging additional personal investment into managed superfunds (pensions). Our company is global and has a huge reach. The company will match any contributions made, so they are positioning it as a great way to grow your retirement pot. Do you think this circus can keep the market marching higher? I'm almost certain it will be not just our company but a number of large organizations targeted perhaps by the government.

A: Programs like this are good for the markets, but they don't compare to the $27T in combined fiscal and monetary stimulus we've had since 2008. Bubbles like this finally peak when everyone that can gets in, no one is left to keep pushing it up, and then sellers start to gain the upper hand. Then, the more the markets go down, the more existing investors will start to sell, and so on. If you want the benefits of matching by your company, then put your money in the safest long-term bonds offered or into safer utility stocks, if you have to buy stocks. If they let you add but leave in cash for a while, that's okay to do to get the matching.

Harry

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