Harry's Take

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Reader Mailbag: Questions and Harry's Answers on the Fed, Govt Spending and the Markets

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 watch all kinds of inputs regarding the market ---

What I'm seeing now is that DOGE and cutting of government expenditure will curb the budget and the deficit (personally, I can't believe that) -

What is truly the effect of this on the stock market over the next 6 months or so?

A: The first issue I bring up: How do you significantly cut 20% of GDP (Fed govt) and not create a recession or close. Just 10% drops GDP 2% and we've been averaging about 2.2% real growth.

And the worst part? We've pushed off a recession for almost 16 years years now with $27T (and still growing) in stimulus. This is the longest period by far without a serious recession. That means a lot of bad debts and investments to flush out. Hence, it should be worse than 2008-2009. My forecast 1.5X = 15%+ unemployment and 86%+ stock crash (S&P 500).

Q: Treasury Bonds are the only asset who've been crashing for at least 3 years now. With the fiscal ideas of Trump, how is it going to play for bonds?

A: TLT is designed to do the best when a slowdown and/or recession is developing. That is not yet. It's fine to wait until after the election, and even a bit longer to wait for some sign of economic slowing, as that has not developed yet. However, once that becomes more obvious, TLT could start moving up faster. But most of the gains will be made when the recession sets in and becomes deeper. So, you can be a little late to this trade given that this final and major generational downturn now has been already put off for years. In natural cycles, this crash should have been between late 2019 and late 2022. A lot of investors don't like just sitting in cash. TLT is better than sitting in stocks which could reverse down fast ahead. Cash is also fine for now, then move into TLT if it corrects back to support levels like 88, or if it breaks back up above 94.

Q: What do you think of this opinion: https://www.pewresearch.org/politics/2024/05/23/top-problems-facing-the-u-s/?utm_source=www.optimisticallie.com&utm_medium=referral&utm_campaign=the-35-trillion-fright

A: I agree with most of this article. I am not worried about the U.S. government defaulting on its debt. It won't, as it can print money to pay it, unlike corporations or individuals. At some point its interest rate could spike a bit if it looks like they are getting too reckless, but we're not near that yet. And, the deflationary forces will generate lower rates.

The problem is the "Leverage" in the economy from its expansionary policies for over 15 years generated by running huge deficits ($19T since 2008) and printing money ($8T). Now if the economy slows down with 3 times the government debt in private debt, that leverage will reverse to the downside and create a crash that is hard to stop. It's the much larger private that will default, and very likely now more than any time in history!

Q: After digesting the latest Quarterly Review and Outlook, Third Quarter 2024 from Hoisington Investment management, the Aggregate Detrended Money Supply: U.S., U.K., Japan, Euro Area and China shows a serious drop of M, also V in the US is showing a serious reduction.

How and when will the reduction of these 2 indicators, M and V, have an impact on the excessive total money supply between2009 and 2021?

A: It takes failing debts and falling financial asset prices to really hit money velocity on the downward side. This will happen on a lag and be big when it does. Money velocity has been falling like a rock and that is the surest sign of a major stock crash to follow.

Q: Approximately a year ago, I purchased SQQQ and over have added to it periodically. In a year I watched SQQQ decline from about $32 to $7, and today, the ETF did a reverse 5:1 split. Yesterday and today the market started up, I guess because of the election results. Would you sell SQQQ and take losses or wait it out?

A: I would wait it out. Governments have put this off for 4 years now and stocks are looking very toppy. If there is no sign of economic weakness by early next year, then maybe sell SQQQ then and wait for a better buy opportunity.

Q: What do you think the outlook is for TLT with the recent rate cut and a Trump presidency?

A: I still think TLT bottomed back at 87, but the Millennial Spending wave has just turned up in 2024, and that's one reason the tightening is not slowing the economy. I am now recommending that investors can hold or sell TLT for now. I would not expect to see a new low below 87. But the biggest surge in history does not seem imminent quite yet.

The big surprise from Trump is likely to be that government cost-cutting could trigger a slowdown that causes the longest bubble in history to finally burst!

Q: Now that we know president Trump is elected for another 4 year what will be the impact on our economy and the possibility of a recession?

A: Biggest impact will be a recession to the degree he is successful in implementing mass deportations. That is a direct hit to GDP. Same with cutting government wasteful spending, with a loss of jobs as well. Also, fewer lower wage workers could create slightly higher inflation. Cutting taxes will increase an already runaway government deficit since 2001. None of this is good short term. Cutting government waste is good longer term. Cutting taxes is only good if we cut expenses commensurate.

Q: What do you see as a strong economy other than the Markets? I don't see any strength, I only see the rest of the world slowing rapidly. What are the strengths and what are we looking for to get back into the Markets? Still feels like nothing has improved.

A: The whole developed world is peaking and slowing starting with Japan in the 1990s. The massive stimulus has lifted global financial markets 2 - 3 times where they would be in normal times, and is the main reason for the wealth effect. You're right. This can't last and a major financial crisis will be hard to recover from due to the flat to declining demographic trends in the developed world. I don't think we will see stock or real estate prices this high again for the rest of our lifetimes in the western world or East Asia.

Q: Crypto over $91,500, DJIA hovering around 44,200 and 10 yr Treas at 4.445%, when the hell does this insanity begin the long slog back down the mountain towards reality???

Seems like the Pied Piper of the Massive Correction long overdue is leading 1,000,000s of our countrymen and women to a cliff of never-recover.

What are the 3 most important keys to understanding and gauging the ultimate Crash, so we set the stage for our client families and their having the highest probability of growing money in the recovery with the greatest degree of confidence? And in the meantime we keep them safe.

A: Unfortunately, investors are now 100% convinced the Fed and central banks won't let the economy or stocks fail for long… hence, little downside risk. So, everyone's buying on dips if they can.

This is simply what I call a "go until you blow" scenario. The markets keep looking like they are topping, but keep edging up. It will finally blow when there is no more net new money to come in…

Then it switches to a crash that feeds on more and more investors getting back to reality and selling more and more until that is exhausted. Greater the bubble, greater the crash!

The markets do look very toppy again… but my biggest concern is that the Bitcoin/crypto cycle still has until late 2025 until it naturally peaks on its 4-year cycle. However, its surge has started a year early, and that could

leave more time to turn a 3rd 4-year cycle into a larger-wave 1-wave up that takes 2 years to bottom on this 4-year cycle instead of 1 year, i.e., 2025 to 2026+. That would make a nice larger 2-wave cycle down into late 2026+.

This is the trickiest and most extended topping process I have ever seen. That's what happens after $27T+ in stimulus over 16 years and still going - total perversion! The monetary stimulus has been reversed a bit, but the larger fiscal deficit side is still full throttle.

So, go until it blows it is. Have a quick trigger if you play the late stage upside here. Later 2025 is the longest I could see this going, but it can blow any time at this point, and likely sooner than later. I think January will be key as it tends to be a harbinger for the rest of the year. Is 2025 the last bubble surge, or the first dramatic crash wave of 50%+? I think the crash scenario is more likely.

As long as Bitcoin keeps rising, you can feel better about playing stock upside near term. I would be more cautious about Bitcoin and crypto here as it could reverse fast and hard first. The trendline resistance through the past highs for Bitcoin is around $106,000 just ahead. That would be a good time to sell Bitcoin and crypto and stocks as well.

Q: It was mentioned that the 20% Government efficiency/people cuts would cause a huge swing or crash in the market. Would de-regulation improve businesses or even enable start-ups? In other words, wouldn't de-regulation offset the 20% Government efficiency cuts? Not to mention, typically, if a company cuts people (expenses), then, their stock prices almost always go up! Can you elaborate on your reasoning? Or, speak to the de-regulation and the possible positive business impact? Why are you specifically thinking the reverse?

A: Cutting government waste and spending is a good thing longer term. But it will cause a loss of jobs and spending in the shorter term, likely enough to trigger a major downturn and stock crash that is 5 years overdue from the $27T anti-free market stimulus program from 2008 to Now.

Harry

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