Harry’s Take

February 25, 2025

Reader Mailbag: Questions and Harry’s Answers on Tariffs, TLT and Gold

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 should think you follow the commentaries of Dr. John Hussman? He's been onto this greatest equities overvaluation of all time for quite a while now. BTW, it is my view that Trump's idiotic approach to tariffs is sure to tank the US economy for the average (non-billionaire!) American as US companies are forced to jack up prices to compensate themselves for the added cost of importing. IMHO of all the areas of knowledge in which Trump is sorely lacking--and they are legion!--**Economics is right at the top of the list!!**

A: Yes, new Trump policies only increase inflation and decrease GDP. Hard to understand why he doesn't see this. I think he triggers a 5-year overdue recession and stock crash - and for that I will thank him. The markets and economy need a detox.

Oh, and I love Hussman. He’s one of the true realists.

Q: I am a long time subscriber. I am currently in BBOZ, which is an Australian bear ETF. I purchased it years ago and have been holding it for the crash of a lifetime. Just wondering what your current analysis is with holding stock shorts?

A: I think the crash is most likely to start soon or it will be harder to gauge than it has already been. I would give it to early June to show signs of starting to go down hard, or reconsider. Stocks look like they are struggling to go much higher near term. A break below 8,000 on the ASX 200 would be a good sign near term. A break below 7,600 would be even better.

Q: With inflation looking to rise and interest rates not going lower any time soon wouldn't it be better to be in Short -term ETFs than the Longer term ETFs like TLT.

A: Yes, you can start off in a shorter term, but it's the long-term Treasuries that appreciate, but that happens most in the later stages of the crisis. I would just prefer to be in the longer-term as you never know how the crisis will proceed. If there are signs of deflation earlier TLT and long T bonds will react more earlier.

Q: Given that long term bond ETFs like TLT don't really take off until the recession has hit, is it better to be in the shorter term bond funds until such time that we know we are in a recession or depression period? Is this something you could talk about in your next FAQ email?

A: The short term ETFs won't appreciate in the early stages either, and who knows, that may start earlier this time when investors see what happened last time. Best play is be short stocks thru PSQ or 3X SQQQ, and move to TLT after the first crash likely into late 2025. Stocks crash the most early on and T bonds rally the most into the worst of the crisis.

Q: Would annuities be good to buy to hedge against what's coming ? Or should I stick to gold, silver and Treasury bonds ?

A: I would stick with 30-year Treasury bonds as they lock in yields and appreciate substantially in a deflationary downturn. Gold tends to do well in the early stage of the crash and T bonds in the later stage.

Q: In response to your Rant on January 24th, what about the stimulus being given by technological advances in medical research, communications, etc etc etc?

A: There are always advances in technology cycles, but my 45-year cycle is going into winter from 2021 into 2032. So, that brings more caution. The Millennial Spending Wave cycle is now up since late 2023 into late 2037 and then more plateaus into 2054. But the one clear caveat: the second great debt and financial asset bubble has not burst yet, and that is most likely starting now! This has been put off for 5 years since Covid upped the stimulus game until recently. I'm looking at 2025 as the pivot year into that final, overdue bubble crash - or go into true long-term mediocrity and sideways movement. We should see soon if that seems to start happening. I prefer the sharp, deep crash and get it over with. Then we can get a healthy boom to play from around late 2027 into late 2037.

Q: If Trump can get a balanced budget (no more extra spending!) for next 4 yrs and get the deficit down maybe 2-4 trillion with DOGE, etc. we might have a way out of the bubble bust. What do you think?

A: This is now the longest and greatest bubble in history. They always burst. They may be able to slow the burst but have already delayed it 5 years… and bubbles always and must burst. They are a temporary happening, not sustainable long term.

Q: Are you still recommending TLT as the place to put your money?

A: Yes. But it won't show its best until we get into the worst of the crisis. Better to be short stocks through things like SH and PSQ (or SQQQ with 3X leverage) and long gold (GLD) in the first half of the crash. Then add more TLT as the crisis gets worse.

Q: Will the credit crisis impact the treasury Bond ETFS, i.e. Treasury interest rates may increase?

A: Most financial crises end up in a recession. The recession slows the economy and inflation rates fall. That means risk-free longer term Treasury

rates fall, and now your higher rate bond locked in for years is worth more. Only while inflation is rising - that will eventually trigger a recession - do Treasury bonds go down in value, as the new bonds have higher interest rates which make their lower rate less attractive.

I am expecting a deflationary recession ahead as that is what follows a bubble when it bursts. That means risk-free bonds like the Treasuries go up. Riskier or junk bonds go down as their chance of defaulting rises, more than the risk-free rate falling.

Q: How come you haven't made any comments on silver lately like you do gold. Do you think it will hold up better since it has so many industrial uses??

A: Silver is a lot more volatile than gold which means it is normally better to buy after a downturn. Gold has the monetary safe haven status still and that means it holds up significantly better in the imminent crash. However, long term gold will have an extra boost from its strong favor by Indian consumers mostly for jewelry and also for investment - as India becomes the next China in the next 4 decades. Therefore, I would lean towards gold over silver for the next global boom into 2037 (after a crash into 2027 or so), and into the next 30-year commodity cycle peak into 2038-40. I will be talking about this more ahead.

Q: Thank you for your update and coverage regarding TLT but when you first recommended TLT, you also mentioned ZROZ. For every 100 shares of TLT, I own about 5 shares of ZROZ. Mainly, I'm reinvesting the dividends of TLT into ZROZ. Should we maintain our ZROZ positions? Or go full TLT?

A: ZROZ and TLT trade the same except ZROZ about 1.6 times more volatile up and down. So, fine to keep both. TLT's advantage is higher volume and better fills. So, better to move in and out if you do at times in TLT.

Q: Have markets priced in duties vs. Canada, Mexico and China?

A: I think the markets have only reacted partially to this news of the tariffs. I think they are hoping that now that the threat has been made, maybe Mexico and Canada will come back and make gestures. Mexico has already

negotiated to put the tariffs off for a month, so they are obviously looking to offer some concessions. Canada has merely denounced the tariffs thus far. There is no way this is good as it will only reduce trade and GDP a bit and raise prices for consumers which feeds inflation again.

Q: I am curious if you think Trump will allow the government to default on parts of its debt and how that would affect bonds?

A: I do not think that Trump will be allowed or choose to default on US Treasury bonds. That would be a historic event and look very bad on a President's record. It would take the US out of risk-free status and raise rates 1% point plus on $136 trillion and growing in debt for a long time to come. That's $1.4T+ a year, when interest on the debt is already over a trillion.

Harry

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