Harry's Take

April 1, 2025

Reader Mailbag: Questions and Harry's Answers on Stocks, Bonds and Inflation

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: You state that Fed policy is tight. I disagree. Reported inflation is around 3% but we all know the games played with "reported" government numbers. Real life inflation is higher.

This leaves real rates around flat or slightly positive. I'd say we are in a loose rate environment. Your thoughts?

A: That is likely closer to the truth, but not what most investors actually see. A 425bps Fed funds rate is still perceived to be a bit tight with reported inflation at 2.5%+.

The biggest problem is the lag on policy changes and actual effects.

Q: My question has to do with whether you think the easing of interest rates over the last part of last year had anything to do with the election? It is clear that most people in Washington DC did not want to do anything to help Donald Trump win. It's just a hunch and we know the Federal Reserve is independent, not driven by things with which mere mortals are concerned.

A: No, I don't think the interest rate cuts had to do with the election. They were backing off of a tightening of 525bps, modest (only 100bps), and not even back to a neutral Fed funds rate of around 300bps. The stubborn inflation readings near 3% may make it hard to get back to neutral soon.

Q: A while back you stated that gold would go up, which it has. Currently over $3K. I think we may even hit $3,300 by year end. But you also stated that it would eventually drop back down to around $1,100.00 before sky-rocketing all the way beyond its previous peak. What is your estimated time-line of when this may happen?

A: Gold tends to go up into the top of the markets and holds up better in the early stages of the crash. It then joins the other crashing sectors into the worst as in the second half of 2008. That's when the Treasury bonds and TLT ETF rally the most.

Gold is likely near its peak at just over $3,100. Good time to sell now! Should most likely fall to $1,100 - $1,400 by late 2026 to mid-2027. That's the time to buy again.

Q: And now we will go to more all time highs???

A: The economy and markets have been over-stimulated and distorted to the point that Mr. Hyde has been literally turned into Frankenstein.

The cure can only come from a total breakdown and failure of the new, but unsustainable "artificial" system. That means a downturn greater than 2008-09, and more like 1929-32 to wash out the massive unproductive debts and financial bubbles that always come from such over-borrowing. There is no other ending in all of history after a bubble of even greater magnitude has already manifested.

I favor the scenario that says we have already peaked in stocks and are about to see that first 40-50% stock crash that wakes us up to accept that you can't grow on printed money and nonstop, escalating deficits.

But the alternative scenario is that they can stave off the collapse and necessary financial crisis a little longer, and the Great Crash comes 2026-28+ instead of 2025-2027+.

It's also less likely that we just choose to keep most of the unproductive debts and just float sideways at best for a long, long time. That's the worst, cowardly path!

This will likely be the hardest lesson ever learned in economics that simply comes down to "you don't get something for nothing."

I nor you, nor any politician can change this as it's already gone way too far. Most bubbles only last 5-6 years max. This one is now 16 years old. Hence, the "detox" will be greater than ever!

All we can do is protect our loved ones and associates and our businesses and lifestyles. That may include selling your beloved house, especially if you own most of the equity, not the bank. It clearly requires selling most or all of your other financial assets and cutting back your expenses as radically as you can, ahead of the crisis.

If you do that you will not only preserve your assets, but be able to buy more at "the sale of a lifetime," like 1932-33, and even for several years after that. That should be between early and late 2027 ahead.

That should end up with a greater expanse of your wealth and lifestyle merely than continuing to float down the "Bubble River" with inherent diminishing returns.

Most experts and few friends will support this view. It will take courage and common sense on your part. I wish that for you.

Q: What's your take on corporates vs. treasuries when it comes to safety in a serious downturn.

A: In a boom period even the safer corporate bonds are going to give you a 1% or better yield than a U.S. Treasury. But in a deep downturn that we are most likely to enter for a few years just ahead, the highest quality and

longest duration do the best. That's why the 30-year Treasury is king and the best ETF is TLT (10- and 30-year combined). If you are going to buy corporates for the higher yield, stay with the A-rated. But Treasuries will still beat even those as companies can't print money to pay off their bonds like the US government can.

Q: I've been reading some other articles about the affected of Trumps policies and the sentiment they note is as follows;

" *Investors and economists worry that Trump's policies could lead the economy into a recession, a possibility that Trump has declined to rule out. Some worry that the U.S. could be headed for stagflation, a scenario in which inflation ratchets higher while economic growth flattens or declines."*

If this scenario comes to fruition which seems like a good chance, how would stagflation combined with flat growth affect our Long Term Treasury Bonds like ETF???

A: Long-term Treasuries and TLT ETF look like they have bottomed at 84 on 10/23/24. They will continue to be slow to rally as the economy continues to slow, but then explode as the recession/depression gets serious. At this point, shorting stocks through ETFs like PSQ and SQQQ (3X) will be more profitable as the first wave down is likely to be 40-50% into 2025. TLT and TMF (3X) will be stronger in the second half of the recession, likely more in 2026 to 2027.

Q: This sure looks like the 1st step in the ultimate Super Debt Bubble Crash that you have so accurately and appropriately illustrated for a number of years. No longer will the insane Bidenomics + FRB money printing artificially infect GDP and continue massive hallucinations amongst the "stocks will only go up" crowds; nor the unsustainable super inflated equity values.

What do you foresee over the next 6-9 mos. from your patterns, trends and cycles analyses?

A: First wave of a major bubble crash should be 40%-50% in 6-12 months. That means 2025 could end up being the biggest down year in history or close.

Q: Any interesting similarities in comparing the times, and characteristics of Herbert Hoover and Donald Trump's current presidency? Maybe even their backgrounds as people and businessmen.

A: They are both pro business, imposed tariffs and walking into a major long term top. Trump has made major strategic mistakes with bringing tariffs as it will look like he caused the crash of a lifetime when he just brought an important trigger. Otherwise, he wouldn't be blamed as much if walked in and the economy fell apart right away.

Q: Do you have any trends on the Automotive business? I run automobile dealerships, and we are the country's largest seller of Volkswagen vehicles. VW continues to decline in product reliability. Do you see a crash for VW in the U.S.?

A: As far as I can go is that automobiles tend to peak right with the overall spending peak at age 46. Housing peaks earlier at age 42. Hence, the next peak would be with the first and primary wave of Millennials in late 2037 in the US.

If you consider selling your auto businesses, either now would be good as we've put off a recession for a long time, and hence we could see a deep one ahead into around 2027. Or sell by late 2037 when Millennial demand will be at its best.

Q: I've been getting edgy waiting for this crash! I've got my superannuation in cash here in Australia as I read Vern Gowdies book "The End of Australia", and at 59, I don't want to lose it all, but what besides markets will be the best indicator that the crash is happening?

A: This second, totally artificial bubble should have burst under natural cycles between 2020 and 2022. So, it's 5 years extended now. I see 2025 as the pivotal year now: either we start a serious crash this year or we just drift into a flattish long-term mediocrity.

The recent shift back down in stocks in late March means the markets are most likely now to keep heading down.

Toughest market to read I've seen in 45 years of doing this. But the crash of our lifetime still looks the most plausible scenario and we should see more proof on the downside by early summer.

Harry

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

Disclaimer: Copyright 2020 HS Dent Publishing LLC. These e-letters (the "E-letters") are created and authored by Harry Dent (the "Content Creator") and are published and provided for informational purposes only. The information in the E-letters constitutes the Content Creator's opinions. None of the information contained in the E-letters constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable for any specific person. The Content Creator is not advising and will not advise you personally concerning the nature, potential, value or suitability of any particular security, portfolio of securities, transaction, investment strategy or other matter. To the extent that any of the information contained in the E-letters may be deemed to be investment advice, such information is impersonal and not tailored to the investment needs of any specific person. From time to time, the Content Creators or their affiliates may hold positions or other interests in securities mentioned in the Newsletters and may trade for their own accounts on the information presented. The material in these Newsletters may not be reproduced, copied, or distributed without the express written permission of HS Dent Publishing, LLC.