December 2022 Volume 6, Issue 12

# THE "YOU MAY NOT KNOW REPORT"™

## A PUBLICATION OF RETIREMENT LIFESTYLE ADVOCATES

# 2023 Forecast Issue

By Dennis Tubbergen

As this issue of the "You May Not Know Report" is being assembled, there is a little more than one month left in calendar year 2022.

It's been an ugly year for most asset classes; reminiscent of 2018 in some respects in that most asset classes had either negative or anemic performance in that year as the Federal Reserve began to tighten.

The performance of most asset classes in 2022 has been more negative than in 2018 which stands to reason given that the tightening by the Fed has been more dramatic.

Since so much of the performance of asset classes is based on Federal Reserve policy, putting together a 2023 forecast issue poses some challenges since Fed policy can change quickly.

At this point in time, the Fed is still talking tough, stating that the central bank will continue to increase interest rates to attempt to get inflation back to its 2% target.

Will the Federal Reserve's actions be congruent with the current narrative?

Doubtful in my view for reasons I will discuss.

# Federal Reserve Forecast

The Federal Reserve, a private group of bankers who control US monetary policy initially stated that they would continue to increase interest rates until they are confident that the current inflation problem is brought under control.

While Fed Chair, Jerome Powell, has maintained this hawkish talk for the most part since the Federal Reserve began to raise interest rates, there are other Fed members who are talking more dovishly about future rate increases.

Raphael Bostic, President of the Atlanta Federal Reserve Bank, recently stated he was of a mind to move away from large increases in the interest rate. This[1] from Reuters:

> *Atlanta Federal Reserve President Raphael Bostic said Saturday he is ready to "move away" from three-quarter-point rate hikes at the Fed's December meeting and feels the Fed's target policy rate need rise no more than another percentage point to tackle inflation.*
>
> *"If the economy proceeds as I expect, I believe that 75 to 100 basis points of additional tightening will be warranted," Bostic said in remarks prepared for delivery at the Southern Economic Association. "I believe this level of the policy rate will be sufficient to rein in inflation over a reasonable time horizon."*
>
> *That would set the Fed policy rate at a range between 4.75 and 5%, slightly below the peak rate expected by investors. It is currently set in a range between 3.75% and 4%.*
>
> *The Fed at its December meeting is expected to raise rates by half a percentage point after using three-quarter point increments at its last four meetings, a view endorsed by Bostic as well as a range of other Fed officials recently.*
>
> *Bostic said that given the inflation surprises of the past year, it is possible the "landing rate" might be higher than he currently anticipates, and that he was going to be "flexible in my thinking about both the appropriate policy stance and the pacing."*
>
> *But at some point, he said, the Fed would need to pause and "let the economic dynamics play out," given that it may take what he estimates as anywhere from 12 to 24 months for the impact of Fed rate increases to be "fully realized."*

I don't think that raising interest rates by just 1% will be enough to get inflation under control. I believe, as do other analysts that real positive interest rates are required to control inflation. That means that interest rates will need to be higher than the inflation rate.

However, I do agree with Mr. Bostic's assessment that there is a time lag between a policy change and feeling the full effects of that change.

This was evident with the emergence of inflation. Massive currency creation began in early 2020 and continued through 2021. Inflation emerged in earnest about one year from the time the currency creation began.

Another Federal Reserve Bank President is also raising concerns that the Fed may be going too far too fast when it comes to interest rate increases. San Francisco Federal Reserve Bank President, Mary Daly is echoing the concerns of Mr. Bostic.

This[2] from "MSN":

> *Daly said ignoring the actual impact of Fed rate policy on the economy would raise the chances of overtightening — leading to a recession.*
>
> *"As we make decisions about further rate adjustments, it will be important to remain conscious of this gap between the federal funds rate and the tightening in financial markets. Ignoring it raises the chances of tightening too much," Daly said.*
>
> *The Fed could also overtighten if it doesn't take into account "lags" from all the rate hikes so far this year.*
>
> *The Fed has raised its benchmark rate to 3.75%-4% range. Rates were close to zero in March.*
>
> *"We have to account for the fact that while financial markets react quickly to policy changes, the real economy takes longer to adjust. Overlooking this lag can make us think we have further to go when, in reality, we just have to wait for earlier actions to work their way through the economy," Daly said.*

The reality is that the Fed is in a no win situation.

In my opinion, as I just noted, inflation will not be brought back down to the 2% target level without real positive interest rates, and we are a long way from that.

I expect that inflation will continue for the near future at the current level unless the Fed increases interest rates more aggressively, which they cannot do without potentially causing some government funding problems. Financing the deficit spending of the government at the higher interest rates we are seeing today is becoming increasingly difficult.

This[3] from CNN:

> *The Federal Reserve's war on inflation isn't just painful for home buyers and people with credit card debt. Uncle Sam is getting squeezed by higher borrowing costs, too.*
>
> *The cost to finance America's growing mountain of debt is rising rapidly as the Fed scrambles to put out the inflation fire by raising interest rates and shrinking its nearly $9 trillion balance sheet.*
>
> *During fiscal 2022 alone, the federal government made $475 billion in net interest payments, up from $352 billion the prior year, according to the US Treasury Department. For context, that's more than the government spent on veterans' benefits and transportation – combined. And it's nearly as much as the $677 billion spent on education.*
>
> *By 2025 or 2026, the United States may hit a bleak milestone: Federal interest payments could exceed the country's entire defense bud-*

*get, according to Moody's Analytics. For context, defense spending stood at $767 billion in fiscal 2022.*

*Although there's little reason to doubt Washington's ability to make interest payments, the surging cost to finance America's $31 trillion in debt leaves less room for Congress to spend on other priorities.*

As the article states, the national debt is $31 trillion. For every .25% that interest rates increase, the cost to service the debt rises by about $78 billion annually. That means a 1% increase in interest rates increases the cost to service the national debt by about $316 billion.

A 2% increase sees the cost to service the debt rise by $632 billion. Added to the $475 billion dollar cost to service the debt this year (which skews low because interest rates were lower for much of this year), the cost to pay the interest on the national debt new exceeds $1 trillion each year.

For perspective, total tax revenue is about $4.5 trillion.

As many of you know, the Federal Reserve has been the buyer of most recently issued US Government debt. China and Japan once had a voracious appetite for US Treasuries, but no more. During the month of September 2022, China and Japan both dumped US Government debt. This[4] from "Global Macro Monitor" as republished on "Zero Hedge":

*Central banks, both the Fed and foreign, have **morphed from the largest buyers of Treasury notes and bonds over the past two decades into the largest net sellers.***

*Japan and China, both private investors and central banks, sold $118 billion of Treasury notes and bonds in September, their **largest combined monthly dump on record**, which confirms our suspicions from a September post,*

*As of the end of September, the Japanese have sold $114 billion in coupon Treasuries since July, 9.2 percent of their holdings, and $208 billion from Japan's peak holdings of $1.33 trillion in November 2021, down 15.7 percent.*

*If the Fed is forced to step in and finance the U.S. Treasury as they did en masse with the COVID rescue packages or help in the rollover of Treasury refinancings, the economy will be set on a path of high inflation for many years to come.*

Here, in the proverbial nutshell, is the Fed's conundrum. While increasing interest rates substantially would get inflation under control, it would also create big problems when financing the massive government debt and the high deficits that still exist.

It is for this primary reason that I believe the Fed will eventually pivot and once again pursue easy money policies. I expect that could happen in 2023 which means inflation will continue to be a real obstacle for many American families.

As inflation continues to be a problem for many Americans re4ducing the discretionary income that they have to spend, I also expect that we will see the economy continue to slow.

This will ultimately lead to stagflation – rising consumer prices and falling financial asset prices.

# Stock Forecast

As I have often stated, it is rare that any market moves straight up or straight down. Instead, a downtrend is typically characterized by a series of lower highs and lower lows. Note the price action on the week price chart (below) of an exchange trade fund that tracks the price action of the Standard and Poor's 500.

Notice the downtrend line that I have drawn on the price chart that was current as of the end of November. The downtrend line is a textbook downtrend trendline. As is easily seen by the price chart, there is a downward price trend channel on the chart.

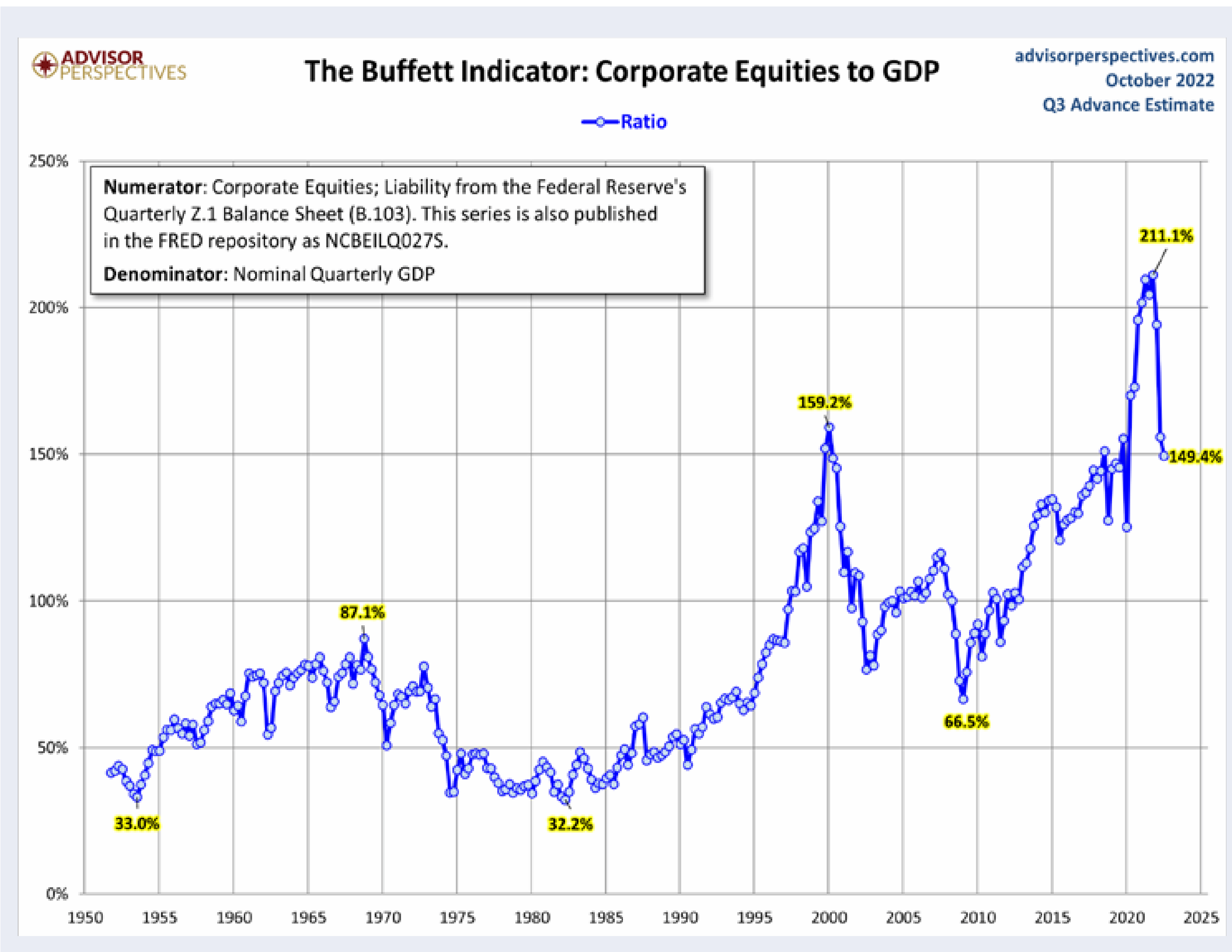
Until this downtrend price channel is broken to the upside convincingly, I expect more downside in stocks.

From a fundamental perspective, stocks remain overvalued. One of the most commonly used valuation metrics for stocks is a tool that is now known colloquially as "The Buffet Indicator" ever since the Oracle from Omaha stated in an interview it was his favorite indicator to use to determine if stocks are overvalued or undervalued. The chart[5] reproduced below, from Advisor Perspectives, shows the current valuation levels of stocks using this indicator.

Notice that stock valuation levels are slightly lower than they were prior to the tech stock bubble imploding about two decades ago and much higher than at the time of the financial crisis. As you probably recall, stocks fell more than 50% in both of those prior time frames.

That tells us that despite the miserable year in stocks that we have just experienced, there is likely more downside ahead.

While it remains to be seen if the Fed can reflate the now deflating stock bubble, in my view it is unlikely. I expect another tough year for stocks in calendar year 2023.



# U.S. Treasury Bond Forecast

U.S. Government debt, once the most desired 'safe money' asset in the world is quickly losing favor. As noted above, China and Japan are dumping US Treasury holdings at a record pace.

Yet, despite the obvious problems and shortcomings of US Government debt, there are not terrific alternatives…yet.

The chart below is a chart of an exchange traded fund that tracks the price of the US Treasury long bond.

It's a weekly chart with each bar on the chart representing a week of price action. The red bars on the chart represent weeks that the long bond declined and the green bars on the chart represent weeks that the long bond advanced in price.

If you examine the chart, you'll see that that since the US Government long bond market peaked in early 2020, US Government bond prices have fallen more than 40%!

That's simply a remarkable level of decline. While the right hand side of the chart shows an advance as of the time this month's issue is being assembled, bonds are very obviously in a downtrend that is pushing three years. Should the Fed 'pivot' and pursue easy money policies as I have forecast, there may be a short-term to mid-term opportunity to trade the US Government bond from the long side but over the long-term, I expect that this asset will continue to decline.

However, as it relates to 2023, since that is our focus, I would have US Government bonds as a neutral to bullish holding especially since I am forecasting another negative year for stocks.


# Gold and Silver Forecast

Gold and silver, like just about every other financial asset have had a challenging 2022.

The chart below is a weekly price chart of an exchange traded fund that tracks the price of Gold.

Year-to-date, gold is down a little more than 3%. Looking at the chart, you'll notice that the downtrend line has been penetrated to the upside which indicates at least a short-term change in trend.

The chart on the bottom of the next page is a weekly price chart of an exchange traded fund that tracks the price of silver.

Examining the price chart, one notices that silver is still in a downtrend while gold has, at least at this point, broken out to the upside.

I expect that may change however, and 2023 may be the year. The following excerpt is from a "Portfolio Watch" weekly newsletter that was distributed during the first week of November:

*Over the course of this year, the disparity in pricing between the paper or "spot" price of precious metals has widened. Put another way, the "premium over spot" at which physical precious metals sell has increased in calendar year 2022.*

*For example, the spot price of an ounce of silver is now just over $21 after last week's big rally. But you won't be able to buy an ounce of physical silver at a price that is anywhere near the spot price.*

*While physical silver has always sold at a premium to the spot price, those premiums have now dramatically increased.*

*Here are some approximate examples of actual physical silver prices as of this writing (NOTE: prices can change quickly in this market and there is no guarantee that these prices are valid at the time this issue is distributed):*

| | |
|---|---|
| *100-ounce silver bar* | *$2,525* |
| *(Approximate premium to spot $4)* | |
| *1-ounce silver bar* | *$28.40* |
| *(Approximate premium to spot $7)* | |
| *1-oz Maple Leaf* | *$32* |
| *(Approximate premium to spot $11)* | |
| *1-oz American Eagle* | *$39* |
| *(Approximate premium to spot $18)* | |

*As you can see, the silver market has a spot price which is not at all representative of the physical market for silver.*

*This week, I thought it might be interesting to look at why this disparity exists and what has caused it to widen recently.*

*Silver futures contracts are traded on the COMEX, a commodity exchange. An investor can buy a silver futures contract which controls 5,000 ounces of the metal. An investor who*

*thinks that the price of silver is going to rise, might buy a silver futures contract with a specific maturity date.*

*When that maturity date arrives, an investor can sell the contract for a profit or take delivery of the 5000 ounces of silver that the investor controls with the silver futures contract. Historically, investors took the profits on a profitable futures trade in cash, but more and more investors of late are taking delivery of the silver.*

*This developing trend is changing the dynamics of this market. The COMEX market has always been highly leveraged, with a small amount of physical silver backing the futures contracts that are traded.*

*Now, with the increasing number of traders who are electing to take delivery of the silver when their contracts reach the settlement date, COMEX silver inventories are running low. As of this writing, according to COMEX, there are 34 million ounces of silver in their vaults. (Source: https://www.silverdoctors.com/silver/silver-news/silver-price-to-3000-per-ounce-physical-will-be-gone-from-warehouses-in-less-than-two-months/)*

*That total is the lowest number of silver ounces in the COMEX vaults since June 20, 2017. Open interest is now 229% of all vaulted silver. If you are not familiar with the term open interest, it is the total outstanding contracts that have not been settled.*

*What this means is that if about 40% of open contracts stand for silver delivery, the vaulted silver supply will be exhausted.*

*This fact, coupled with the fact that the Fed now may be signaling the 'pivot' or policy reversal that I have been predicting, could be very bullish for silver as the year winds down and 2023 arrives.*

Moving in to 2023, I am bullish on both gold and silver.

*December 2022 Special Report*

# IRA, 401(k) and Other Retirement Plan Strategies for 2023

This month only, we are making available a free report titled, "IRA, 401(k) and Other Retirement Plan Strategies for 2023".

To request your complimentary copy this month only, return one of the postage-paid reply cards included with this month's newsletter. You'll notice that we've included three reply cards with this month's newsletter; we've done that so you can request a copy of this report for anyone you know that might find this information helpful.

In this month's special report, we will discuss recent 401(k) changes that could potentially negatively impact 401(k) plan participants.

This month's report also reveals several potential problems with 401(k) and IRA plans as well as strategies to consider now to protect yourself and possibly maximize results from your plan.

You'll potentially discover how to avoid the problems now associated with 401(k) plans after these recent changes as well as tax reduction strategies to consider.

This report is available only during December.

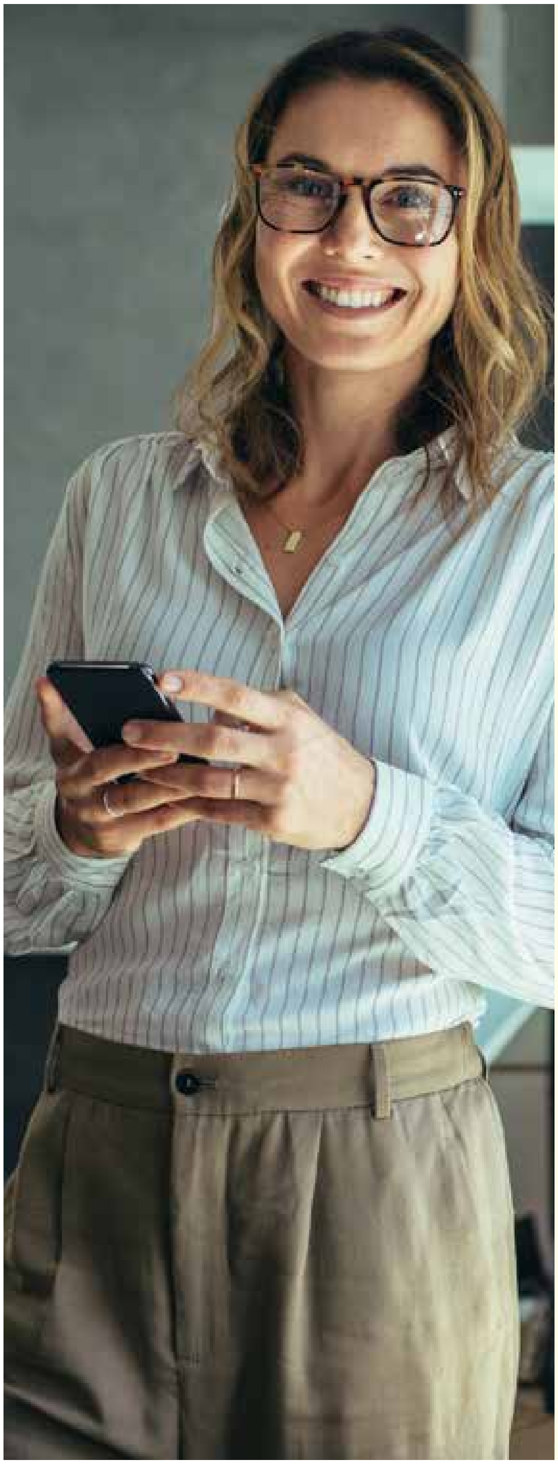

## Time Deposit Rates

At the time of publication, these rates were valid:

| | |
|---|---|
| 1-Year | 1.80% |
| 2-Year | 4.30% |
| 5-Year | 5.60% |

Call the office for details at

1-866-921-3613



## Resources to Help You Stay Informed

All these resources are available at the Retirement Lifestyle Advocates website:

**www.RetirementLifestyleAdvocates.com**.

As previously mentioned in this month's "You May Not Know Report"™, the weekly "Portfolio Watch" newsletter is available on the Retirement Lifestyle Advocates website. Each week, I give you an update as to where we are economically speaking and in the financial markets and where we are going based on my analysis.

The weekly "Headline Roundup" webinar. Replays are available on the website. "Headline Roundup" happens every Monday live at Noon Eastern Time. To get an invite to the live event, give the office a call at **1-866-921-3613**.

The weekly "RLA Radio" show and podcast.

We also have the RLA app available. All these resources are also available on the app.

You can download the YOURRLA app for free by visiting the app store (either Google or Apple) and searching under YOURRLA.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.

## Sources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