Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Dr. A. Gary Shilling
A. Gary Shilling & Co.

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Retirement Lifestyle Advocates
961 Four Mile Road, NW
Grand Rapids, MI 49544

Phone: (866) 921-3613
Email: info@plplanners.com
Website: www.RetirementLifestyleAdvocates.com

Dennis Tubbergen:

Welcome back to the Retirement Lifestyle Advocates radio program. I'm your host, Dennis Tubbergen. Joining me once again on today's program is returning guest, Dr. A Gary Shilling. He is the publisher of the widely read newsletter Insight. If you'd like to learn more, you can go to his website. That's AGaryShilling.com. You can also call his office. The number is 888-346-7444 and I'll be giving that number again later this segment and, Dr. Schilling, welcome back to the program.

Dr. A. Gary Shilling:

Nice to be back with you. It's always a pleasure.

Dennis Tubbergen:

Well, Gary, to say the last year and a half has been crazy, economically speaking would be an understatement. Give the listeners your assessment of the health of the US economy as we talk today.

Dr. A. Gary Shilling:

Well, the economy is probably going to grow more slowly in the next few quarters, and it has recently. There's a huge reopening catch-up. But what is basically happening is that all of this money that has been pumped into the economy by the Fed and by three rounds of fiscal stimuli, all those checks people got in March a year ago, December the last year, and then March of this year. People have not spent that money. Now, consumers account for two-thirds of economic activity. So if they're withholding that spending and building up their assets, repaying their debts, you just don't have the making of a great economy.

Dr. A. Gary Shilling:

And this is... The numbers are really interesting. If you look at March a year ago of those stimulus checks, consumers spent 29%. They saved the rest. When it came to December, they spent even less. They went from 29 to 26% and in March from 26 to 25%, and that's based on surveys by the New York Federal Reserve Bank. So you really have consumers who are not in a big spending mood. I think they were shaken up by the pandemic and really feel the need to save, rebuild assets, pay down debts.

Dennis Tubbergen:

So, Gary, given that consumers are not in a big mood to spend, and yet given that there are signs of emerging inflation, how do you square those two phenomena?

Dr. A. Gary Shilling:

Well, I don't think that inflation is a major threat. It seems to me that it's more a matter of reopening, the problems of re-establishing supply of the signs, the bottleneck, and so on and so forth. I think these are temporary. And if you look at the numbers, the sentiment numbers and so on, inflation fears have definitely receded. You look at surveys made, the University of Michigan survey of consumer sentiment. They're forecasting. They say consumers over the next 5 to 10 years see 2.8% inflation. And that's the same forecast they've had since 2000 and hasn't changed. Atlanta Fed has a survey of businesses, about the same numbers. And then if you look at securities markets and these are what's priced in by the various futures' markets. They're looking at something like 2.1% inflation when you go out five years and then five years beyond that.

Dr. A. Gary Shilling:

So yeah, I think we're pulling away. And what's very important about that, Dennis, is we have not seen the development of inflation expectations. Now that's the situation that the Fed really worries about because that's when people say, "Prices are going up, I'm going to buy. I ahead of strained inventories, and strained production." So prices go up, response, suspicions are confirmed, people buy even more. It's a vicious circle. It works both ways on the inflation and deflation side, but that has definitely not occurred. So I think that we're going to see lower inflation numbers in the second half of this year and we will see that this is really no big lasting threat. It would probably be back to inflation 2% or even less.

Dennis Tubbergen:

So you would agree then with Chairman Powell's assessment that this is transitory and that it's largely a consequence of the reopening of the economy.

Dr. A. Gary Shilling:

Yeah, so I do. And I don't always agree, as you know, I don't agree with the Fed on a lot of things and certainly not all the time. But in this case, I think their view is correct. And, Dennis, one of the big challenges for us as forecasters, and a way you can really add value for your clients, is to see beyond the ephemeral developments, the day-to-day kinds of things. This is what dominates the media. And it's always, people want to be excited by something. I mean, no financial network is going to say, "Oh, there's nothing really exciting to report today. Why don't you go and they should turn us off and go out and weed your garden." There's always got to be something. I think that's a big role that I try to play is to say, "What is important and what is just a passing development that you ought to overlook, particularly as you look that your business, you look at your investment portfolio?"

Dennis Tubbergen:

Well, I'm chatting today with Dr. A Gary Shilling. He's the publisher of the widely read newsletter Insight. You can learn more at his website, AGaryShilling.com and his office number, if you'd like to learn more, is 888-346-7444. I'd encourage you to check that out.

Dennis Tubbergen:

So Gary, several years ago, you wrote a book called The Age of De-leveraging. And forgive me if I got the title wrong, but in the book, you talked about massive levels of debt that will have to kind of work its way through the economy. Where do you stand now? It seems that debt levels are maybe higher than they were when you wrote the book.

Dr. A. Gary Shilling:

Well, no. Actually, Dennis, debt levels you always have to have a denominator on it. Everything gets bigger in time, but if you look at debt, consumer debt, most economists tend to look at it in relation to after tax income, disposable personal income it's called. And if you look at that, it used to run 60%, that ratio, and that's debt from mortgages, car loans, student loans, almost any borrowing that's legal. That ratio, used to be about 60%.

Dr. A. Gary Shilling:

In the early eighties, it started to rise up to 135%, 60 to 135 with the financial crisis. It's now down to about 104%, but it's still a long way from that, from that 80% norm. And I'm a strong believer in returning to norm, particularly when they're well established on top of that that I mentioned earlier. That ratio has done a further nosedive recently, as consumers have socked away all this money they had gotten from the government. They're not spending it, they're saving it. They're investing it otherwise, but they're not spending it on goods and services.

Dennis Tubbergen:

What do you see as the Fed's policy moving ahead? It seems that they still have the pedal to the metal, to use that term. Still creating currency. Interest rates are low. Do you see anything changing there?

Dr. A. Gary Shilling:

Well, the Fed is... The analogy is pushing on a string. If you have a string, if you pull it, you tighten it, you can get a result. But you push on a string, nothing happens. It just goes limp. And that's the role of monetary policy. When the Fed wants to tighten, they can reduce the availability of credit, and it has very distinct effects on the economy. But when they try to ease credit, and the markets and individuals and businesses don't want to borrow, nothing happens.

Dr. A. Gary Shilling:

You look at, for example, the increase in the money supply that the Fed has created, it's gone through the roof. But then you look at what's called the velocity of money, the turnover of that money, it's collapsed. That money is just sitting in an account. As a matter of fact, big banks are encouraging their major borrowers not the leave deposits in the bank because they have to pay reserves. They have to pay fees on those.

Dr. A. Gary Shilling:

So you really have all this money and it's just lying there, foul. It's not going anywhere. So the Fed is very ineffective right now and they basically admitted it. They sort of said that, "The action is with fiscal policy." But then you had all this fiscal stimuli that I mentioned earlier, and it's done very little to increase the economy.

Dr. A. Gary Shilling:

You said, "What would you do with the Fed?" I'll move to a different aspect there. If I were the Fed, I'd give up on this idea of what they call forward guidance. Telling investors, the country, what they're going to do next. Because they have been among the worst forecasters you can imagine in the last decade. And none of us have covered ourselves with glory. I'm not suggesting the contrary, but there are forecasts have been atrocious. They have been forecasting, a rise in inflation, a rise in interest rates. Even the interest rates that they control, they set them, the federal funds rate. It's their rate. Nobody but the Fed can fail on that one. And yet they have been very poor forecasters of what they're going to do with their own rate in the future. If I were the Fed, I'd go back to where they really just don't try to tell the markets anything, because I think lousy information is worse than no information.

Dennis Tubbergen:

Well, we're going to get your forecast for various markets in the next segment, Gary. But when you take a look at one event that is coming up here, the rent moratoriums are due to expire. What impact do you think that will have on the housing market, which seems to be maybe repeating 2007, 2008, what's your take?

Dr. A. Gary Shilling:

Yeah, as a matter of fact, in our new Insight, our August Insight, which will go to Press later this week, I take a look at the housing market. We'd done this a couple of months earlier, and I think the single family housing market is peaking out anyway. You had this rush of people out of expensive, cramped, suburban, suburban apartments to larger quarters and suburbs and rural areas with a pandemic. They wanted more room for a home office, for the kids at home, et cetera, et cetera. So you really had that rush.

Dr. A. Gary Shilling:

But now I think it's topped out. It's starting to recede. The evidence are that housing inventories are rising, that applications for mortgages are declining, all the kind of indicators. Now you come to your point about the moratorium on mortgages, on foreclosures. That is set to expire in September, but we've seen a history consistently really going back to the Trump administration and even more recently, the Biden administration of a extending that, pushing it out.

Dr. A. Gary Shilling:

Home ownership is very near and dear to the heart of any politician. And the idea of somebody being thrown out on the street with their baggage and their wife and three screaming kids, the news cameras cranking. Hey, that's not anything that any politician wants to see. That's a little exaggerated, but I think they probably will end up extending that. But that's not what I think is the major issue. I think the major issue is that you simply had a bubble of in-housing with a rush out to single family housing. And it's really topping out.

Dennis Tubbergen:

Well, my guest today is Dr. A Gary Shilling. He's the publisher of Insight. You can learn more about the publication, which I would encourage you to do at Gary's website. It's AGaryShilling.com. You could also call his office at 888-346-7444. And I'll continue my conversation with Gary when RLA radio returns. Stay with us.

Dennis Tubbergen:

I am Dennis Tubbergen your host. You're listening to RLA radio. I have the distinct pleasure of chatting once again today with Dr. A Gary Shilling. He is a returning guest here to the program and publishes a terrific newsletter every month that's really more like a magazine. It's titled Insight. And if you'd like to get a complimentary copy to see what it's all about, I'd encourage you to do that. Gary has graciously agreed to provide you one. All you have to do to request it is call his office at 888-346-7444.

Dennis Tubbergen:

Gary, prior to the break, we were talking a bit about housing and it was your view that the housing market is probably topping out here. A number of the guests I have on the program are of the opinion that we're really in an everything bubble and that we're going to see stocks and real estate and a lot of asset classes probably react negatively. And we'll see a pricing reset here. What's your opinion?

Dr. A. Gary Shilling:

Well, there's no question there's been a tremendous amount of speculation. You have all this money pumped out by the Fed and by the fiscal stimuli. And it didn't go into spending on goods and services. Where did it go? Some of it went into housing, which is not counted as part of goods and services and going into that Dennis, as you know, is a long explanation, but it's a separate category. And of course, a lot of it went into stocks. And that's really a repeat of what happened after the 2008 financial crisis, when the Fed pumped out a lot of money, and it basically went into stocks and propelled stocks. So you had it, but stocks have gotten very expensive. There's been a tremendous amount of speculation. And when you look at what's happened to some of these things like Bitcoin and Dogecoin which was set up as a joke.

Dr. A. Gary Shilling:

I mean, not even a crypto reality, and then GameStop and AMC Entertainment, all these things. And you've gotten all these new investors who've rushed in, first time investors. And they think they are lords of the universe. And you've had some of these stocks that have had setbacks recently. Now that's after tremendous run-ups, but the attitude of many of these inventors is by the dip. Well, here's, here's where I call it grade school math exam. If you've got a stock that went up 100%, let's say it went from 10 to 20, but then it corrects by 50%. Where are you? You're back to 10. 50% off of a 100% increase takes you back to where you started. And that's what happened.

Dr. A. Gary Shilling:

And a lot of these people don't seem to realize this and they think that this is going to continue. And it really reminds me an awful lot of the speculation that happened in the early 1970s when you had the NIFTY 50. You and I, I think we're old enough to remember that. Maybe a lot of our listeners aren't, but you had this idea of stocks that the smaller and smaller group of stocks, and we have the same thing. And back then people zeroed in on stocks, like Winnebago, like Polaroid, like Disney and McDonald's.

Dr. A. Gary Shilling:

Well, I remember at the time I said, "Hey, wait a minute. These are not the guts of the economy. Hamburger stands, gimmick cameras, motor homes, amusement parks. That's not the guts of the economy." And that's one the reasons that I was successful in forecasting the 1973-75 recession, which up until that time was the deepest since the 1930s. I think we have a lot of that same kind of situation today. I don't know it's going to take the economy with it, but you have had an awful lot of speculation with all this money that it's floating around there as they say. It's not going into goods and services. So what do you with it? You put it into stocks.

Dennis Tubbergen:

So, Gary, do you see a similar outcome in the near future to what we saw in 2007, 2008?

Dr. A. Gary Shilling:

No, no. Housing was a big problem then, the subprime mortgages, and that was ridiculous. You got to the point where people not only didn't put down any money, but they were able to borrow on what was called a home improvement loan. So they give our 120% of the appraised value and the appraised value was inflated and everybody was playing the game. And then they were told by their lenders, you'll never have to make a monthly payment because we're going to refinance as the house appreciates and you'll simply take money out, month after month. It was a wonderful, wonderful construct. We don't have that. Now, down payments, a lot of them, are running 20% as opposed to 0. We don't have that kind of situation where you have those extremes. Now, of course, you always got to worry about fighting the last war.

Dr. A. Gary Shilling:

If it isn't going to be housing, what's it going to be this time? Could it be all the speculation in the GameStop and AMCs of the world and so on? I don't think that's big enough to take the whole economy with it. Housing really was a huge sector when you consider not only new construction, but existing housing stock. So I don't think you really have anything like that. Well, you certainly could have some disappointments for people who assume that the economy is going to continue to grow without an interruption and that there's no vulnerability. I think there is. Stocks are very, very expensive now. You look at one measure it's called the cyclical adjusted price earnings ratio put together by my friend, Bob Schiller, Nobel Prize winner at Yale. Very, very brilliant economist. And stocks would have to decline 55% to bring it back to their long-term average from where they are now.

Dr. A. Gary Shilling:

And other measures. You look at it. So you have a lot of speculation in stocks. One of the interesting things is, and of course you know, Dennis, I've been a big bull on treasury bonds since the early eighties and back then the yield on a 30 year bond was 14.6%. And I said, in print, we're entering the bond run like lifetime. And since then, long-term treasury bonds have outperformed the S&P by six times. Six times. So I've got a bias. I'm still in favor of bonds. I think we still have more appreciation and it's appreciation, not yield. As long as yield is going down, prices go up. But what bonds have been telling us lately is that there's no inflation problem, that's going to be substantial in the future. Bond prices have been rallying interest.

Dr. A. Gary Shilling:

Bond yields have been coming down. And it also suggests that the economy is probably not going to be rip-roaring and bonds are a better forecaster than stocks. We did look at bonds leading recessions, treasury bonds, and their average since 1980 and all the recessions with 16 months. Stocks also lead, but only by five months versus 16 months. So I'm not saying we've got a recession in the near future. But I think that the rally in bonds does suggests that we don't have the inflation problem or the runaway economic growth that many people have expected.

Dennis Tubbergen:

Well, if you're just joining us, my guest today is Dr. A Gary Shilling. He's the publisher of the newsletter Insight. You can learn more at AGaryShilling.com and if you'd like a complimentary copy of Insight, Gary has agreed to provide one to any listener that would like it. Call the office, call his office, I should say, at 888-346-7444 to request your copy.

Dennis Tubbergen:

Gary, I'd like your take on the labor market. I read a story that in the city of Chicago, I think the average person that is on unemployment collects $52,000 a year. The average worker is making 56, something along those lines. It seems that we are disincentivizing work. I'd like your take. And is that really affecting this economic recovery?

Dr. A. Gary Shilling:

Yeah, I think it is. I think it is. If you look at nationally, 43% of people are making more money through unemployment insurance, and that's the $300 a week federal program on top of the usual state benefits. 43% are making more by staying at home and that doesn't account the cost of commuting of clothes for work and so on a show forth. So, given the fact that a lot of people are not exactly zealous for work and they can quit, they are staying at home.

Dr. A. Gary Shilling:

The interesting thing is, and again, I wrote this in our last Insight, wrote this up in detail, is that businesses despite their demand for labor and all their cries that we can't find people, they've done a fantastic job of increasing output with fewer people. If you look at from the bottom of the economy in the second quarter of last year through the first quarter of this year, latest data, real GDP. In other words, the total value of all goods and services in the economy corrected for inflation is actually up a bit from where it was at the beginning of the last year but employment is down 9%.

Dr. A. Gary Shilling:

In other words, they're producing more with fewer people. And I think that the pandemic just gave a lot of businesses the incentive, the urge, the push to figure out ways to be more productive, to promote productivity. And productivity is really the key to profits in the long run. Wage increases pretty much offset increases in corporate sales. So it's productivity that provides profits. And also productivity is very anti-inflationary because it means that everybody can get more in terms of purchasing power without taking away from somebody else. And by having prices that don't increase and maybe even decrease.

Dennis Tubbergen:

Gary, we have just a couple of minutes left in this segment. What asset classes are your favorites moving ahead? And what asset classes are you avoiding?

Dr. A. Gary Shilling:

Well, as you know, Dennis, we do manage money and I can tell you what we're doing right now. We have a substantial position in long treasury bonds. And I like the 30 year bond, as I mentioned earlier. It isn't for the yield, it's for the further appreciation as yields decline. And the lower the yields are the more price appreciation you get for a given decline in yields. It's called a convexity. It's another complicated term but like treasury bonds.

Dr. A. Gary Shilling:

I also like the dollar. The dollar is a safe haven and I think we're in a world of uncertainty now. And there is that great desire to be in the dollar. And also if foreigners want to buy treasuries, they got to buy dollars to do so. And by the way, the US treasuries, low as their interest rates are, if you look at the 10 year treasury note, and that's pretty much the standard world wise, and look at comparable 10 year, tallies they call it in all other countries. We have the highest yields. We have the highest yields of almost any other country.

Dr. A. Gary Shilling:

So investors, if the foreign investors that they invest in treasuries and the dollar's rising, they get a double kick, they get a increase interest return, and they also get an appreciating dollar in terms of their own currency. I like that.

Dr. A. Gary Shilling:

So commodities. I think commodities are probably overpriced. We don't see the economic growth. My favorite commodity on the short side is copper, cause it goes into almost anything manufactured, whether it's machinery, cars, appliances, plumbing fixtures. So if you see a modest growth in industrial production worldwide, commodities are going to be needed and copper is one of those.

Dr. A. Gary Shilling:

So those are the kinds of things that we're interested in. Another one is I think that mentioned housing and I think home builders. That's an area they have had a big run up. But I rather suspect that if a housing is thinking out a new construction, single family housing, that they're going to be week.

Dennis Tubbergen:

Well, the clock says, Gary, we've got to leave it there. My guest today has been Dr. A Gary Shilling. He's the publisher of the newsletter Insight. If you didn't catch his office number earlier to get your complimentary copy of Insight, let me give it to you one more time. It's 888-346-7444. And Gary, thanks so much for taking time out of your day to join us. Always enjoy our conversations.

Dr. A. Gary Shilling:

I enjoy it immensely, Dennis, and I always look forward to them. Thanks a lot.

Dennis Tubbergen:

We will return after these words.