Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Dr. A. Gary Shilling
INSIGHT

Date Aired: March 14, 2021

Produced by:

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:

You are listening to RLA Radio. I am your host, Dennis Tubbergen. I have the pleasure again today to have a conversation with a gentleman I always like to interview, Dr. A. Gary Shilling. The website where you can learn more about Dr. Shilling's work is agaryshilling.com and his office number is (888)346-7444. And I'll be chatting with Gary today about his most recent INSIGHT newsletter, which is must-read. I would encourage you to check it out and if you'd like to learn more, again, you can visit agaryshilling.com, and I'll be glad to give that number again before the segment is over. Dr. Shilling, welcome back to the program.

Dr. A. Gary Shilling:

Well, glad to be back, Dennis. I always have great pleasure to be with you.

Dennis Tubbergen:

Well, let's jump in because the economy certainly seems to have a lot of mixed signals. How would you rate the overall health presently of both the US and the world economy?

Dr. A. Gary Shilling:

Well, obviously, we're working toward the end of the pandemic, but a couple of points. One is, I don't think it's an immediate leap to a wonderful world out there. There's always this nostalgia for what was a wonderful world back then. And I always think, "Hey, was it that good?" But anyway, there's that sort of feeling that somehow we get back to normal, but I don't know what normal ever is.

Dr. A. Gary Shilling:

But the second thing is, and I think most interesting, is there a lot of lingering effects from this pandemic. It is really magnifying a number of things that were already at work. I mean, one very obvious one is online shopping, the Amazon effect if you will. That's been greatly increased by the pandemic, people staying at home. Another one is people deciding that they'd rather spend more time at home, less time commuting. And obviously, these have very distinct implications for investments, for capital spending, for consumer behavior. I mean, you look at the situation now, we're choosing office buildings particularly... Excuse me. Particularly in high priced areas like New York and San Francisco are in trouble.

Dennis Tubbergen:

Yeah. In fact, Gary, I recently read that, I think it was HSBC Bank, is eliminating 43% of its office space, which I think that's not an isolated incident. That's taking place all across the country and all around the world.

Dr. A. Gary Shilling:

Oh yeah. And you've got real estate... A few months ago, we covered this in our monthly newsletter INSIGHT. We looked at real estate. I mean, historically, real estate all pretty much operates together. When you have strong economy, it means are there are more jobs, more need for offices. People have more money. They're spending in stores. It works across the board. But now it's very differentiated because here you've got malls are in big trouble, bricks and mortar stores. And yet, the online shopping is going great guns. People are abandoning apartments in expensive cities, but they're moving to the suburbs and more rural locations. It's a very differentiated kind of thing.

Dennis Tubbergen:

Gary, I thought in your most recent INSIGHT newsletter, you had some interesting comments about how demographics and aging populations are really influencing the economy and economic growth. Can you expand on that a bit for the listeners?

Dr. A. Gary Shilling:

Yeah, sure. There are demographic factors which are very important long term. Certainly birth rates, fertility rates, which are the percentage of women in the childbearing age who have children and you need those women, and this is roughly between the ages of 15 and 45, you need them to produce 2.1 offspring per woman to maintain a population. It's got to be a little greater than one because not everybody makes it to adulthood. Well, now you've got situations where you're below one in places like South Korea and Japan. Japan actually has declining population. And that's true, the fertility rates are below that too in almost every country.

Dr. A. Gary Shilling:

Now, of course, if you have strong immigration and particularly if it's immigration of people with skills, that can offset it. And that's been one of the things, historically, that's worked in the US. I mean, actually, we've been importing people for 400 years when you want to look at it that way, starting with the first Europeans coming here. But other countries, China for example. China, they had their one child per couple policy and now their labor force is actually declining and will decline for the next 30 or 40 years.

And even now that people can have more than one child, very few people are.

Dr. A. Gary Shilling:

Well, what does that mean? It means if China wants to achieve its growth ambitions, it's got to have a lot of productivity. In other words, those still working have to produce a lot more in order to have growth. Another important factor of this is that when you have so many retired people, and of course that's what's happening with aging populations, those still working have to produce a tremendous amount to supply themselves and the retirees. Otherwise, you get into a intergenerational warfare to split an inadequate economic pie.

Dennis Tubbergen:

Well, and Gary, another thing you bring up in your INSIGHT newsletter, and if you happen to be just joining us today, we are chatting today with Dr. A. Gary Shilling. He is the publisher of INSIGHT newsletter. It's a terrific newsletter that he publishes every month. You can learn more at www.agaryshilling.com or you can call his office at (888) 346-7444. Gary, this past week I was reading an article that Elizabeth Warren and Bernie Sanders have now proposed the wealth tax, the name of the bill escapes me now. And you write a bit about income redistribution, particularly in blue states, in your INSIGHT newsletter. How is that going to impact the economy and economic growth moving ahead?

Dr. A. Gary Shilling:

Well, obviously, it's a response right now. And, of course, it's a key feature of the Democrat's agenda. But it is a response to the fact that we've had income polarization going on... Well, the good data starts in 1966. And if you look at that data, the top 20% of the population share of total income has increased and the shares of the other four lower quintiles have been declining. Now, that doesn't say that their purchasing power is declining with their share. But what's happened recently with globalization and a lot of manufacturing and other high paid jobs shifting from North America and Europe to Asia, is that people not only are losing share, but they're losing purchasing power. And I think that's what gave way to populism. That's what got Trump elected in 2016, given the reactions of far right and extreme left parties in Europe.

Dr. A. Gary Shilling:

It has a lot of implications. But the fact is that with this aging of population, it means that you inherently have slower economic growth, unless you have a lot of productivity. Now, I happen to think we are going to have strong productivity growth, is from new technologies, which are growing tremendously, the productivities like self-driving cars and biotech and so on. But when they start from very small basis, it can take years, decades, before they're big enough to move the productivity needle. But I think that will occur in time

Dennis Tubbergen:

Gary, you mentioned the growth and income and wealth and the top 20% of the population. I would be curious as to what effect or to what extent, rather, do you believe that Fed policy has impacted that or driven that wealth disparity or the wealth gap?

Dr. A. Gary Shilling:

Oh, that's a good question. A lot of the money that's been created by the Fed and that goes back to the quantitative easing after the financial crisis in 2008, that money did not go into capital investment and spending on goods and services. It's basically went into stocks and stocks are predominantly owned by people on the top. If you look at the data, and the Federal Reserve has what they call a survey of consumer finance, publish it every three years. And it shows very, very distinctly, the people on the top 10% owned, I think, about 20 times as much stock as the bottom 50%. It's a very skewed distribution. When you got your strong equity markets, it very much benefits people on the top. It does add to that. Now, is this Fed policy or is it simply that we're in a deflationary era? I think it's some of both.

Dr. A. Gary Shilling:

But there's no question that the Fed's abundant largesse has certainly created a lot of money. And as I say, I think much of it has gone into equities, which are owned by people at the top. But, of course, now getting back to your previous question, Dennis, you're having a great desire to redistribute income. And if you look at many of the programs that Biden has proposed and are being introduced, that's in effect what they do. They redistribute income. They provide more income for people on the bottom. Now, of course, you do have the effects of the pandemic and a lot of those people at the bottom were much more severely affected than those at the top. But I think they've gone beyond that and used this as an opportunity to do what they've been wanting to do all along, which is redistribute income.

Dennis Tubbergen:

Well, my guest today is Dr. A. Gary Shilling. He is the publisher of the newsletter INSIGHT. If you would like to learn more, I would encourage you to visit his website at www.agaryshilling.com or you can call his office at

(888)346-7444. I will continue my conversation with Dr. A. Gary Shilling when our RLA Radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen. You are listening to RLA Radio. My guest today is Dr. A. Gary Shilling. He is a returning guest. I always enjoy my conversation with him, and I always enjoy his perspective. If you'd like to learn more about his thoughts and his perspective, I would encourage you to check out his newsletter. It's called INSIGHT. He publishes it every month. It's extremely comprehensive. You can learn more at www.agaryshilling.com or you can call his office at (888)346-7444.

Dennis Tubbergen:

And, Gary, given that we have all this money creation going on and given that in your book that you published several years ago, the Age of Deleveraging, in which you said we were going to have a deflationary environment, a couple of questions for you. One, do you think we're going to see inflation before deflation? And have you changed your thoughts on that at all?

Dr. A. Gary Shilling:

Not really. I mean, the guts of inflation, deflation are, I think, no more complicated than supply and demand. And right now, you've got excess globally of supply. And that's largely because with globalization, which is essentially the movement of manufacturing from North America and Europe to Asia, you've got these big producers, China and then other countries. They are big producers, but very lean consumers. There's an excess saving. They produce more than they consume. It's the saving glut, some people call it. And if you have excess supply, it pushes prices down.

Dr. A. Gary Shilling:

Now, of course, if we had complete protectionism that could offset it, but Biden is less aggressive on trade wars than Trump was. And anyway, manufacturing is moving out of China into lower cost areas. You look at Vietnam. Their exports have increased 60% in the last three years. This low end manufacturing is no longer economically feasible in China, but it's moving to other areas. Say, unless we had a complete protectionist policy in the US and other Western nations, I think you have this continual excess supply situation, which puts downward pressure on prices.

Dennis Tubbergen:

Gary, we have, according to the research I've done, a $2.3 trillion operating deficit at the federal level. The Senate, just a week ago, passed their version of a $1.9 trillion stimulus package. As we're discussing this, I think it's back at the House to be amended or accepted. By my math, that's a $4 trillion deficit. At what point does this have to stop? And how does it stop in your view?

Dr. A. Gary Shilling:

Boy, I wish I knew, Dennis. As long as you have this money being pumped out fiscally, and that's what this latest $1.9 trillion fiscal stimulus bill does. And the Fed is buying $120 billion in securities every month. They're just pouring money into the system. And as long as that continues, I don't see the immediate end to this. I mean, you sort of say, "Hey, wait a minute. This is ridiculous. It can't go on forever." But what really would cause a halt to this would be a rise in interest rates, because there's so much that is now dependent on low interest rates, all the borrowing.

Dr. A. Gary Shilling:

One of the things we've seen recently, which is very interesting, and we called attention to this in our earlier newsletters, is the effects of rising interest rates on tech stocks. Because tech stocks are really dependent on earnings way, way out there in the distant years. And, of course, the idea is that they are discounted, those big earnings, what's the present value? What are they worth today? Well, you basically discount them back at an interest rate and the lower the interest rate, the more the present value of those future earnings.

Dr. A. Gary Shilling:

Well, conversely, as interest rates rise and they have jumped up about half a percentage point, ten year treasury bonds and notes and 30 year treasury bonds, in the last few months, what that means is that these earnings are worth a lot less. And that's one of the key reasons that I think we've seen the sell off in tech stocks recently. This is one thing that could cause a party to come to a halt would be a rise in interest rates.

Dr. A. Gary Shilling:

The Fed does not control long term interest rates. There is some spill over effect. Our numbers show that if you have a one percentage point increase in the Federal funds rate, which is the overnight rate the Fed does control, that it results in a 43.43% increase in ten year yields and a 0.25% increase in 30 year treasury yields. In other words, the further you get on the interest rate curve from the Fed, the less the Fed has an effect, but it does have some effects. But at the moment, the Fed is committed to dumping money out there. And they basically said, at least for the next couple of years, they're not going to do anything else. If they change their mind and you had a big increase in interest rates, boy, I think a lot of things would be in trouble.

Dennis Tubbergen:

Gary, you mentioned in the first segment that... I think I'd asked you the question about the wealth gap and to what extent you thought Fed policy was responsible for that. And you stated that a lot of that money ends up in stocks. Given that the Fed is going to continue with this rather generous policy, do you think that that means stocks are going to continue to rise? Are we going to see the continuation of a bull market? Or do you think that stocks here are a little overcooked?

Dr. A. Gary Shilling:

Yeah. Well, as they say in Wall Street, trees don't grow to the sky. I think the risk that the stocks are just so overpriced and we're seeing so many signs of speculation, which are very typical at the peak of a stock market and speculative booms. You look at the rush into Bitcoin, other cryptocurrencies. All the futures kinds of activity, options, all these various speculative climates, speculative vehicles. They are very typical of the end of a cycle when speculation has gotten to the point that it's totally divorced from reality. And why are people buying this or that or the other thing? Well, because it's going up. I don't know.

Dr. A. Gary Shilling:

I mean, you look at GameStop where people, literally... I mean, that was a game, and the stock has had a lot of gyrations. But you brought in a lot of very green, new investors who thought they were going to beat the pros. Well, I think some of them got their heads handed to them in their accounts. But when you see that kind of speculation, you can see things follow their own way. That's what happened with the dotcom blow out in 2000. You had that big run-up in stocks for profit and all the dotcom stocks. And then, that basically collapsed of its own weight. It just got so overdone that it pulled... And when it starts down, of course, it unwinds because debts mount, margin loans are called and the whole thing cascades down very rapidly.

Dennis Tubbergen:

I ask all my guests what their opinion is of Bitcoin and Ethereum and other cryptocurrencies. I would love to hear your opinion.

Dr. A. Gary Shilling:

Well, I think they're giant Ponzi schemes. I just don't see... I'm very wary of anything where there is not full disclosure and there certainly isn't there. Bitcoin, there is supposedly a limit on how many can be issued, but the guy who issued them goes by a pseudonym. It's very hidden in mystery. I think all of these things... And there's no legitimate use for these things. I mean, they're too volatile to be used as a medium of exchange for buying things day to day or for investment purposes, a store of value, all the normal uses of currency. And so, I think you've got a highly speculative kind of climate which really feeds on itself. And I rather suspect that we are going to see a big collapse in these cryptocurrencies at some point. But they could go much higher in the meanwhile. I mean, the sky's the limit because the thing about speculations is they feed on themselves. They usually start off with some degree of reality, but then, as mentioned earlier, why do you buy it? "Because it's going up. I'm joining the crowd." But I do think there's a tremendous vulnerability in cryptocurrencies.

Dennis Tubbergen:

Gary, if someone's listening to this now and they have money in a 401(k), they have money in an IRA, they have dreams of a comfortable retirement and they don't know what to do with their money given the crazy environment in which we live, what kind of advice are you giving to your clients and your INSIGHT readers these days?

Dr. A. Gary Shilling:

Yeah, well, we do manage money and we have... First of all, we have a lot of cash. We have more cash than we probably ever had in our accounts. I think the volatility, what's going on there, we have had good success recently, actually, indirectly, being short tech stocks, which have fallen considerably, and that's worked out well for us. We've got a modest position in long treasuries. I think if things really get tough, they as usual benefit as a safe haven and, of course, low inflation, if not deflation, benefits them and the dollar. We think the US dollar has been over being up and there, again, that's a safe haven. That's where people go when things are tough. Those are the kinds of things that we're interested in.

Dennis Tubbergen:

And Gary, are there any sectors of the economy moving ahead? This is probably our last question. Any sectors of the economy moving ahead that you like? Are there any areas of stocks that you say, "Hey, this looks pretty good to me." Are you just saying, "Hey, I'm just going to stay in cash and we're going to let the dust settle."

Dr. A. Gary Shilling:

Well, one area that I think is going to be very, very important. We've talked about this for years, you might recall, Dennis, is infrastructure spending. We certainly need it in this country. Roads, bridges, railroads, what have you, and it's been sadly neglected. There was a concern earlier. And the reason it didn't get done is because Democrats and Republicans were fighting over how you're going to pay for it. But now with this modern monetary theory that we talked about earlier, this idea that deficits don't matter, I think all the restraints have disappeared. And, of course, it's a way that it creates economic activity.

Dr. A. Gary Shilling:

Now, it doesn't happen immediately. We saw that in the '09 big fiscal stimulus bill. And those so-called shovel-ready projects, well, it turned out that they hadn't even made the shovels and they probably were going to be made in China. It takes time because the federal government can allocate the money, but it's spent by the state. And they have to go through all the environmental impact statements and throw out the specs for a new road or whatever. Three years later, only 30% of that money had been spent. But I think this is probably going to be a big push in future years. Maybe have some of the effects of the interstate highway program, which in the '50s and '60s was a huge boost to the economy.

Dennis Tubbergen:

Well, we're going to have to leave it there. Our guest today has been Dr. A. Gary Shilling. I would encourage you to check out his newsletter titled INSIGHT. You can learn more at agaryshilling.com or call his office at (888)346-7444. And, Gary, always a pleasure to chat with you and love to have you back again down the road.

Dr. A. Gary Shilling:

I look forward to it, Dennis. Thank you.

Dennis Tubbergen:

We will return after these words.