



Retirement *Lifestyle* Advocates

RADIO PROGRAM

Expert Interview Series

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

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

Phone: (866) 921-3613

Email: info@planners.com

Website: www.RetirementLifestyleAdvocates.com

Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me on today's program is returning guest, Dr. A. Gary Shilling. You have undoubtedly heard of Dr. Shilling. He has been and was a Forbes columnist for decades. He publishes a widely read newsletter, Insight. It's published monthly. It's more of a magazine really than a newsletter. It's just a comprehensive look about what's going on in the economy and in the markets. If you'd like to learn more about that you can give his office a call at (888) 346-7444, or visit agaryshilling.com.

And Dr. Shilling, welcome back to the program.

Dr. A. Gary Shilling:

Glad to be back with you.

Dennis Tubbergen:

So, Gary, it seems that when you look at the latest unemployment numbers, it wasn't much of a tick up, but there seems to be panic amongst many prognosticators that this means recession is imminent. What's your take?

Dr. A. Gary Shilling:

Well, that's been the case for the last couple of years. You certainly have indications of recession. Some of the leading indicators, which in the past have had perfect records such as the inverted yield curve, with short-term treasury yields above longer-term yields, and also the leading indicators index, which has been down now for many months. Both those indicators have always correctly forecast recessions, and they haven't had any false starts. So you kind of wonder when the recession is coming.

Now, the reality is that the timing is always uncertain. You can have these indicators start to signal recessions a couple of months ahead, or it can be many months or years even ahead. So, it isn't a lock step kind of forecast, but it does tell you that you've got issues. And then you look at things like the speculation we have, you look at what's going on with the Magnificent Seven stocks and Nvidia people have really gone hog wild on investment speculations, and that's very typical of the end of bull markets. So there are a lot of indications out there that say we should be looking at a recession and a bear market in stocks, but the timing is, as usual, uncertain.

Dennis Tubbergen:

Well, Gary, let's focus on stocks here for a minute, because you bring up an interesting topic. I think I read recently, correct me if I'm wrong, that I think it was Google, Apple and Nvidia make up about 20% of the market cap of

the S&P 500. That's not much breadth is it? I mean, has there ever been a time in history that that has been the case to that extent?

Dr. A. Gary Shilling:

Well, we've had similar periods like that. If you go back to the 1970s, you had the dotcom stocks, tremendous concentration of interest in relatively few stocks. You got to the point where the only thing that was interested to people were gimmick cameras, Polaroid, motor homes, Winnebago, amusement parks, Disney, and hamburgers. That was McDonald's. Those four companies were really the leaders. And I said back then, and still feel that when you have that concentration on areas that are not really the guts of the economy, they're the limbs and outward flourishes, as Shakespeare said, and when you get that kind of concentration, it usually tells you that there's trouble.

Dennis Tubbergen:

So, Gary, what are you telling your Insight subscribers about stocks presently? Are you suggesting you steer clear of stocks? What's your forecast for stocks moving ahead?

Dr. A. Gary Shilling:

Well, our investment strategy is really neutral on stocks. We're positive on the dollar or positive on treasury bonds. And there are a few stocks, India, we've been very bullish on India for the last couple of years. But US stocks I think are just way too expensive to be justified. And investing in them I think is high risk at this point.

Dennis Tubbergen:

So, do you dare be so bold, Dr. Shilling, as to predict a 30, 40, 50% decline? Are you putting a number on what we might expect?

Dr. A. Gary Shilling:

Well, that's always tough. I think in the past I've said I thought we could have a 20 or 30% decline in the overall stock market, and I still think that's possible. And of course, you have to be very cognizant that many parts of the stock market are actually weakened now. I would say that short of the guts of the market and the areas that have had the big run-ups are the tech stocks and the Nvidias and Microsofts and these, and of course all the crypto stocks. These are the areas that I think have gotten out of hand and are the most vulnerable.

Dennis Tubbergen:

So, Gary, I read recently doing a little bit of research that the spread between the overall stock market and the overall commodities market hasn't been this wide in 50 years, and stocks are extremely overvalued and relative to the value of stocks, commodities are extremely undervalued. Would you agree with that assessment?

Dr. A. Gary Shilling:

Yeah, I think so. Of course, it's always a question, what's overvalued and what's undervalued? It's all relative. I mean there's no absolute standard here, but certainly the spreads have opened up in a very unusual way, and I think unhealthy way. So, I do think that there is a great risk here, as I say, and commodities are not necessarily cheap now, but relative to stocks, almost anything is cheap.

Dennis Tubbergen:

So, Gary, when we take a look at these indicators that we talked about at the outset, and I should mention for our listeners that may be just joining us, I'm chatting today with Dr. A. Gary Shilling. He is the publisher of the widely read newsletter, Insight. You can learn more by calling his office at (888) 346-7444, or visiting the website agaryshilling.com.

So, Gary, the Fed's meeting here at the end of July. Given all these leading indicators that have a pristine track record, do we see a surprise rate cut?

Dr. A. Gary Shilling:

Well, right now the Fed is in no rush to do anything. And I think that's one thing that has become pretty widespread in terms of people's appreciation. You don't have an economy that's rip-roaring, inflation is above the Fed's target at 2%, but it isn't increasing. It's sort of stable at a higher rate percentage point or more above that 2% target. It's sort of a situation where the Fed isn't doing much of anything and I think just waiting to see what happens. So, I just don't think this is a period when you have Fed leadership.

And that's important because if you go back two years ago, the Fed was convinced that it had to do something about surging inflation. It was late to the party, inflation got up to 9% year over year, and the Fed thought it was a very short-term phenomenon. They finally realized it wasn't. So they really jacked up interest rates tremendously from about zero to close to double-digits. The Fed was very much the leader.

Right now, the Fed is not, I think the Fed is basically, I wouldn't say following the crowd, but doing nothing. Waiting to see what transpires and not feeling any particular pressure to raise rates or to lower rates. They obviously want to see inflation back toward their 2% target, but they're not tightening up the economy to get it there. And by the same token, they don't see things running away. So, the Fed is kind of a neutral. And the leadership now is not with the Fed, it's with the economy. And that's a very different situation than what we had two years ago.

Dennis Tubbergen:

Gary, we've got just a couple minutes left in this segment. You mentioned or characterized the Fed's inaction to use that term, as they're in neutral. Do you think any of that has to do with the fact that this is an election year and they want to appear anyway to be non-partisan?

Dr. A. Gary Shilling:

Well, that's the supposition. And of course, the closer to the election you get, the less likely the Fed is to make any dramatic moves because they do not want to appear that they are influencing the election. So, I would say we're getting to the point now where the first Tuesday in November, to pick a random date, is getting close enough that the Fed doesn't want to do anything precipitously. They could earlier in the year, maybe they still could if they felt it was absolutely necessary, but as time marches on, they really want to stay in a neutral position.

Dennis Tubbergen:

Well, I am chatting today with Dr. A. Gary Shilling. He is the publisher of Insight. I'd encourage you to check it out. You can learn more about Insight by calling his office at (888) 346-7444. Or you can visit his website at agaryshilling.com. The good news is I'll be back for another 12 minutes with Dr. A. Gary Shilling, after these words, stay with us.

Welcome back to RLA Radio. I'm your host Dennis Tubbergen. I have the pleasure of chatting today with Dr. A. Gary Shilling. He is the publisher of the newsletter, Insight. If you've not checked it out, I'd encourage you to do that. As I mentioned in the first segment, Insight is really more of a magazine every month than it is a newsletter. You can learn more at his office, by calling his office, I should say, at (888) 346-7444, or visit his website at agaryshilling.com.

So, Gary, we've been talking about, at the end of the last segment, Fed policy, and certainly when you take a look at Fed policy over the past couple

of years, as interest rates have gone up, it seems to be affecting the real estate market. Let's maybe start by talking a little commercial real estate. A lot of commercial real estate loans are coming up and have been coming up for refinancing at much higher interest rates. How do you see that impacting the commercial real estate market moving ahead?

Dr. A. Gary Shilling:

Well, I think commercial real estate is the most vulnerable segment of the economy. Now, that doesn't mean that it's going to result in anything like the collapse we saw with subprime mortgages. It's not that widespread. It doesn't include everybody who's out to make a killing by borrowing virtually free. But it is a major issue because you've had a lot of commercial loans and office buildings are in the worst shape. A lot of that of course, because people have not returned to their offices, they've been working from home, huge vacancy rates.

And the problem is what do you do with those office buildings? They're not really suitable to convert to apartments. You look at the floor of an office building, it is pretty wide window to window. It isn't like a house where maybe you got 50 feet maximum from one side to the other.

So, you have a lot of these office buildings where they really don't know what to do with them. There's no real demand. And of course, they are suffering because a lot of them, the loans are coming due and nobody wants to refinance them. Banks are very shy on this. So, the office segment of commercial real estate is really the most vulnerable area and it's not getting any better.

Dennis Tubbergen:

So, Gary, let's shift gears a moment here and talk residential real estate. Certainly, we've seen housing sales slow a bit, but prices have not been significantly impacted. Maybe down a little bit, you can correct me if I'm wrong, but what's your assessment of the current state of residential real estate housing, and moving ahead, what do you see?

Dr. A. Gary Shilling:

Well, residential is in a very interesting and unusual situation. What happened was, back before the Fed raised interest rates, a lot of people got mortgages, 30-year fixed rate mortgages at three or 4%. Now what's happened subsequently with the Fed raising interest rates is those interest mortgage rates have essentially doubled. So, nobody wants to sell their

house and buy another one because they'd incur a huge increase in their monthly payments for the mortgage.

So, you have a very unusual situation where a lot of people just are locked into mortgages, they're paying low rates, but they have absolutely no incentive to do anything differently. So that means that there isn't much turnover in housing. And you have this odd situation of where the housing sector is really troubled, but yet there's no inventory. Nobody's selling houses because they're locked into these low yield mortgages.

And so, it's a difficult situation for anybody who wants to buy a house. And consequently, prices have jumped, and you would say, well gee, under these circumstances, if you didn't have these limitations on turnover, you probably wouldn't have ample inventories, but you don't. So, it's an odd situation and it probably isn't going to change much in the near future because people are still locked into those three or 4% yields. And on a 30-year mortgage, these things don't turn over that fast. So, you've got a situation where the housing market is pretty much stuck, and it's historically an odd situation, but one that's perfectly logical, but probably isn't going to change much in the foreseeable future.

Dennis Tubbergen:

I am chatting today with Dr. A. Gary Shilling. His website is agaryshilling.com. And if you'd like to learn more about his excellent newsletter, Insight, give us office a call at (888) 346-7444.

Gary, when you look at what happened around the time of the pandemic, there was a lot of stimulus that was distributed by the government. I think consumer savings, according to the San Francisco Fed, went to over two trillion. And over a relatively short period of time, consumers went through a lot of that, and then credit card debt started to build. Is this trend assigned that you've got lower income and middle-income households that are really struggling with inflation here?

Dr. A. Gary Shilling:

Yeah, I think that's right, Dennis. You did, as you pointed out, you had three rounds of fiscal stimulus in reaction to the pandemic, and that did result in a huge increase in assets of households. Now people have basically run through those and the excess saving, the saving over and above the normal positions, is pretty well exhausted. And so not surprisingly, people are resorting to borrowing on credit cards and auto loans and so on and so forth, and this is very expensive.

So, you have a situation where the excess saving is pretty much exhausted and the borrowing is expensive, and at some point, it's obviously got to curtail people spending. Now, surprisingly, it hasn't so far. People apparently had plans to buy a new car or whatever, and they haven't given up yet. But it seems to me when you're looking at credit card rates of 20%, that that does, at some point discourage people from borrowing. So, I think you do have a real restraint on the consumer. And of course, that's the kind of thing the Fed would like to see.

They don't come out and say, oh, we want to see people squeezed so they can't afford to borrow, but they do want to see a slower growth in consumer spending. And with much of it now being financed with credit cards and other forms of borrowing, it's the effects of high interest rates working through the system which are likely to bring about what they're looking for.

Dennis Tubbergen:

Gary, I read an article this past week, and I won't quote the source because I'm not exactly positive that I recall the source. But it said, from one of the mainstream news sources, that when it comes to student loans, there are estimates out there that about half of student loan borrowers are currently not making payments. What's your take on that? And isn't that just more evidence that the consumer is strapped, if that is the case?

Dr. A. Gary Shilling:

Yeah, I think that's true. A lot of people apparently felt that with student loans that they had no responsibility for paying the money back. The feeling of responsibility just wasn't there. So, you have a lot of these loans which are not being serviced, and there are all kinds of excuses, and we don't have an administration now, the Biden administration, which is interested in collecting these loans. As a matter of fact, Biden had a plan to forgive a lot of loans, which was shot down by the Supreme Court, you might recall.

So, you do have a situation now where there's a lot of student debt there. Now we'll see what happens with the election and whether there's a clamp down on this. But at the moment, you've got a tremendous amount of student debt, which is simply not being serviced. And the idea of will there be a moratorium, will there be forgiveness? I think that depends an awful lot on the politicians in Congress, but it is creating potentially a serious problem.

Dennis Tubbergen:

Well Gary, in the time we have left, I don't have really enough time to devote to this, but I'd love to get your opinion. US government this year probably will operate with about a 2.3, \$2.4 trillion deficit. There was a report out, officials report that the Social Security Trust fund will be officially out of money by 2033 using what I thought were relatively optimistic assumptions. How long can all this underfunding and deficit spending go on before we finally get to the point where the proverbial rubber meets the road in your view?

Dr. A. Gary Shilling:

Well, we've done a fair amount of research on that, and we've never been to the point that we've had so much debt that it has killed the financial markets. Now they've had that in countries like Argentina, but we've never had it. But we've looked at the numbers and we've looked at it in terms of interest on the debt. And when does that get to the point where the interest on the debt, which is part of the deficit, the annual deficit, where that simply adds to the debt in a geometric pattern, and gets to the point that the thing explodes?

And we're getting to that level. So, it really could be in the next few years, it could be a very serious problem. Because unless there's a decided change in the attitude toward deficits, they're going to be adding to the debt and the interest on that. And interest rates of course, have risen dramatically in the last couple of years. That really creates further strains. And I think we are at the point now. Now nobody tells you exactly when you get to the point where the whole thing collapses, but we're getting into ground we've never traversed before, and I think that the risk is increasing.

Dennis Tubbergen:

So, Gary, I'm going to run just a little bit over here, but when we get to the point that this does implode, assuming we get there, what does that look like for the average American out there that's trying to sock away some money in an IRA and a 401k? What does the world look like at that point?

Dr. A. Gary Shilling:

Well, it could look pretty chaotic, because you could have a big jump in interest rates and make it very difficult for people to afford to borrow, and you could have real restraints on borrowing. So, I think it could result in some real strains, particularly on people who have been borrowing. That's one of the things we've seen in the last couple of years with a jump in interest rates from virtually zero to where they are today, is that a lot of

people were used to paying virtually nothing to borrow, and suddenly it's getting expensive. And that's a real strain and it could be magnified from here. So, I think there could be some very serious restraints.

Dennis Tubbergen:

Well, the clock says we're going to have to leave it there. My guest today has been Dr. A. Gary Shilling. I would encourage you to check out his newsletter. You can learn more by calling his office (888) 346-7444. Let them know you'd like to learn about the Insight newsletter. You can also visit agaryshilling.com.

Gary, always a pleasure to catch up with you. I get terrific feedback when you're on the program. Thank you for joining us today.

Dr. A. Gary Shilling:

No, it's my pleasure as usual, Dennis, and look forward to doing it again soon.

Dennis Tubbergen:

We will certainly do that. We will return after these words.