Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is Mr. John Rubino. If you're a longtime listener to RLA Radio, you recognize John as the co-author of the book, The Money Bubble: What To Do Before It Pops. That book was really a prophecy. I'd encourage you to pick it up and you can read his work at rubino.substack.com. That's rubino.substack.com. I would encourage you to do that as well. And John, welcome back to the program.

John Rubino:

Hey, Dennis. Good to be back.

Dennis Tubbergen:

John, let's talk a little bit about the health of the US economy to get started. It appears, as we've been talking about here on the program, that the American consumer has more credit card debt than ever. The stimulus savings seems to be gone and default rates are rising. Does that mean a recession is imminent?

John Rubino:

Yeah, it means it's coming. And the timing has been hard to call, here, because we really should have had a recession already, with interest rates going up as high as they have, and housing starts falling dramatically, and lots of other things happening, they point in that direction. But it feels like 2024 is when a lot of this stuff is going to really bite. And I've been covering it on Substack because pretty much every indicator that people normally look at as a recession indicator is pointing in that direction. And I just did a piece on how even some really unusual indicators, that we don't even know these things exist until somebody points them out to us, they're pointing in the same direction.

So, I'll tell you a couple of them now, there's five or six that I covered, but two interesting ones especially are the spread between mortgage rates and Treasury yields, in other words, a 30-year mortgage versus a 30-year Treasury bond. Those things constitute a spread, where the mortgage rate is usually higher than the Treasury bond yield. But the width of the spread tells you what people think of the economy. When the spread widens out, in other words, when mortgage rates are much higher than Treasury yields, that means people are nervous in the financial markets about what's coming. And lately the spread between mortgage rates and treasuries has widened to the highest it's ever been. And it spiked in 1999, just before the tech stock bubble burst. It spiked again in 2007 just before the housing

bubble burst. And now it's spiking to an even higher level than that, implying that even more trouble is coming than in those two bubble bursting.

And then there's another one called excess household savings that explains why we haven't had the recession yet. When the pandemic hit, everybody was terrified, and they weren't going out and spending money or anything, and the government was sending people money, and so people cashed their stimi-checks and just saved them. So, Americans' savings went way up by about $2 trillion. And since that time, we've been coasting on that big cash cushion, and spending a little bit of it each month to maintain our lifestyles. And now that money is almost gone. So just as the interest on student loan debt now has to be paid back again starting in October, people are basically out of money that they got and saved during the pandemic.

So, we've got these two things colliding, here, where our costs are going to go up, or at least anybody who has student loan debt, their costs are going to go up. And the money that we had saved over the past few years is basically gone, too. So, consumer spending is probably going to crater in 2024, and that normally brings on a recession. So, we've got those two things, among many other things pointing towards a big slowdown coming. And that a slowdown like that normally coincides with an equities bear market. So, stocks are probably going to tank when the economy slows down. So, 2024 is looking like the year 2000 or 2008, in other words, when everything rolls over, and the financial markets are thrown into turmoil, and people become terrified about the future.

Dennis Tubbergen:

John, you mentioned the spread between mortgage rates and the 30-year US Treasury, and the spread now is wider than it was, I think you said in 1999 and in 2007. In both of those instances, shortly after those dates you mentioned, we saw extreme declines in the equities markets. I think stocks dropped more than 50% in both of those instances. And you said now we even have a wider spread. So, are you so bold as to maybe have a forecast for where stocks go from here?

John Rubino:

Well, there's that old saying, "Pick a number or pick a date, but don't pick both." That's good policy with the stock market, because you never really know for sure. The future is inherently unknowable, but there are repeating patterns in life that give you hints about what's coming. And as you said, stocks crashed in both of the times when that spread between mortgage rates and Treasury yields was as high as it is, or when it spiked, they'd

never been as high as it is today. So that one indicator is implying a stock market crash commensurate with those two previous ones. And both of them were 50% down on the big indexes. I think the NASDAQ tech stocks fell even harder in the 2020 bursting of the tech stock bubble. And financial stocks fell even harder in 2008, 2009 because that was really a banking crisis. So, it's possible that pockets of the stock market fall more than 50% if we have that recession and equities bear market. And this indicator is still a good picture of what's coming.

Dennis Tubbergen:

John, you mentioned also that these student loan payments begin again in October, and I've read studies that have indicated that will be the equivalent of almost a $200 billion a year headwind to the US economy. And when you start talking about consumers having the ability to spend, I have seen research that indicates that that's about 70% of the health of the US economy is dependent upon you and I going out and spending money. So, it just seems like all these potential straws to break the camel's back are coming at the same time.

John Rubino:

Yeah, they are, because interest rates have gone up, among other things. But rising interest rates makes everything tougher for people who need to borrow money, and that's almost everybody these days. So yeah, people are putting their day-to-day life on credit cards to an increasing extent. Now, credit card debt has reached an all-time high, and the number of people who are carrying balances has reached an all-time high, which means there's a lot of people out there who have debt that is charging them 20% or more per year in interest. So that right there is a recipe for bankruptcy for a lot of people.

And a lot of people who have student loans but aren't paying on those student loans yet are delinquent on their other debts, meaning that even without having to pay off these student loans, they can't cover the current debts that they've got. So, when you dump student loan interest back onto those people, you're going to see an awful lot of people just start defaulting on things, especially credit cards, but also auto loans, and mortgages, and whatever else is out there. And that's the kind of thing that normally happens in a recession, so we shouldn't be surprised by it, but the numbers are so much bigger this time around that it's liable to happen on a bigger scale than anything we've seen before.

And it makes it very hard to predict what's going to happen. When you've exceeded past levels of leverage, things get commensurately more dangerous and more unstable. And that's what we're looking at at some point. And I think there's a very decent chance that mortgage rates spiking as they have, and credit card debt spiking as it has, and student loan debt becoming payable again, all coming at once is a recipe for a very tough 2024. And what that means is one step beyond, there's a crisis coming. Is the Fed capitulating and starting to ease interest rates again?

So, I think in the not-too-distant future, there's a Fed reversal coming, and we'll see them try to stop the bleeding by cutting interest rates and buying bonds again, in other words, going back to creating a lot of new currency and dumping it into the market. So, we're going to see a very different world in the not-too-distant future, here, because things are going to happen and then the governments of the world are going to have to react to those things. So, it's going to look more like 2008, 2009 than 2022 or 2023.

Dennis Tubbergen:

Well, John, I was just going to ask you if you thought the Fed would reverse course, and you've stated that you believe they will. Doesn't that just feed the inflation monster again? And aren't we in this vicious cycle at this point?

John Rubino:

Yeah, that's what happens when you borrow too much money. You get booms and busts of increasing amplitude, which require more and more new currency creation to prevent the busts from turning into capital D depressions. And then that currency creation feeds inflation, which makes the next boom even bigger. So, we're in that kind of a cycle. Now, eventually we're going to get a boom that's so big that the resulting bust will be unfixable. And it's possible we're there now. It's possible that everything bubble of the last 10 years is going to turn out to be something that you cannot fix with standard monetary policy, in other words, cutting interest rates and creating a lot of new currency, because like you said, that will cause inflation to accelerate. And then once you've got inflation accelerating at the same time, the economy is weak. You can't fix one without making the other worse.

And it could be that we're in that kind of a box right now. And that's a very scary situation because it means there's no help available. There's always been the government running deficits and the Fed cutting interest rates, and being able, by doing those things to fix these previous busts, but it's possible that the bust that's coming is not fixable that way because we've

got inflation looming out there. And so, if you cut interest rates, that makes inflation pick up and the dollar crash. And so you just can't do it. So, we'll see. Eventually that situation is coming and it's possible that this is that situation. So, we will see.

But one other thing that's really important on the inflation front to talk about is wage inflation, now, because all of a sudden, unions who have been just beaten into the ground by corporations in the last 30 or 40 years because of globalization, we've shipped all our good paying factory jobs to other countries, and we've basically abandoned a whole big section of the population. Well, we're bringing factories back. And there's a labor shortage generally right now. And that has given a lot more power to existing workers. And they're flexing those muscles. We're seeing labor disputes and with double-digit raises for the next four years. That's what happened in the airline industry just now. Pilots got 10% raises over the next four years for a total of 40% increase, plus big benefits and things like that. And we just saw UPS drivers get a new labor contract that ends with them making, when you include benefits, a total of $170,000 a year.

Dennis Tubbergen:

Good.

John Rubino:

So, we're seeing wages go way up, which is a form of inflation, which the Fed recognizes its inflation, and so it feels obligated to lean against that with higher interest rates. So, unless that's going to change instantly in the next equities bear market, that's one of the things that prevents the Fed from being able to cut as aggressively as they would. So, there's a lot of problems out there that don't seem easily fixable with our old tools, and that's the big issue, "Will those tools work? And if they don't, what do we replace them with?" It's not obvious that there's anything on the horizon that fixes things.

Dennis Tubbergen:

Well, my guest today is Mr. John Rubino. You can read his work at rubino.substack.com, the website again, rubino.substack.com. I'll continue my conversation with John when RLA Radio returns. Stay with us.

I'm Dennis Tubbergen. You are listening to RLA Radio. I am chatting today with Mr. John Rubino. John is the co-author of the book, The Money Bubble: What To Do Before It Pops. This book has been out there for a few years, but is very prophetic. I'd encourage you to pick it up, very relevant today.

And you can read his work at rubino.substack.com. That's rubino.substack.com.

And John, as we finished up the last segment, you talked about the fact that UPS drivers are now making up to $170,000 a year. In fact, I've read that the new bait on dating sites is to tell the prospective “date”, I guess, if that's a term, that you're a UPS driver, that's garnering a lot of attention now. And you look at the UAW, their demands are a 46% raise over four years. And all that seems unfathomable in the past. So, if the Fed goes back and says, "Okay, we're going to reverse course." Doesn't that create even a bigger set of problems?

John Rubino:

Well, it's liable to. If wages are rising really aggressively, then that's a form of inflation that the Fed recognizes as real. They don't think rising stock bond and real estate prices represent inflation, so they ignore those things. But let workers start being paid a little better and the Fed snaps to attention and starts raising interest rates to prevent that from happening. That's just how our financial system works. It's skewed in favor of the very rich who own stock, bonds, and real estate, and against the people who are paid by the very rich. So, there's a very safe bet that the Fed is looking at today's labor deals and thinking, "Wow, this means we have to raise interest rates more, and then we have to keep them higher for longer." That's the new phrase, "Higher for longer," that they're using. And so that will keep them from easing as aggressively as they otherwise would, which will exacerbate the problem of high interest rates, bankrupting a lot of borrowers.

So, we're in a box that doesn't appear to have a fix. And the solution for that, for individuals, is to be very defensive with your money going forward, because in 2000, and in 2008, 2009, the last thing you wanted to be was long equities. You lost a lot of money if you stayed with your old 60-40 stock and bond portfolio back then. So, I think that it makes a lot of sense to raise some cash now, and to anticipate the Fed's aggressive easing at some point, when they finally break down and start easing, by owning real assets that the Fed and the other central banks can't just inflate away.

So, own some gold and silver. If you were able to buy some farmland, or a homestead, or something like that, those things have a lot of utility, so they'll hold their value and look at energy assets that pay dividends. And we're going to be driving, regardless. We're going to be heating our houses regardless, we hope, of the economic situation, and that means oil and

natural gas retain their value and something like uranium becomes more valuable as we shift back to nuclear, which a lot of countries are doing.

So those are things that are defensive investments that will help you get through what's coming, but you probably don't want to be loaded up on tech stocks and other richly valued financial related assets because those are the things that are going to get hurt in a really serious equities downturn. So, it's possible to come through something like this in good shape and even to make a lot of money, but you don't want to do the things that worked in the recent past in anticipation of them continuing to work, because that's not how that goes. Usually, the things that worked to get you to the bust are the things that are hurt most badly during the bust. So, a lot of people are going to have to change their perspectives about what kinds of things are good to be invested in. And if they don't, they'll very possibly suffer dramatically in what's coming.

Dennis Tubbergen:

John, I want to shift gears if I could. I'd love the listeners to get your perspective on what just transpired at the recently completed BRICS Summit in South Africa. There was a lot of talk leading up to the summit that the BRICS countries, Brazil, Russia, India, China, and South Africa, were going to roll out a gold-backed trade currency, which didn't seem to happen, but there were some interesting things that transpired. What are your big takeaways that you'd point out to the listeners from what happened at the BRICS Conference recently?

John Rubino:

Yeah, that was actually funny, because they threw out this idea ahead of time about, "Maybe a gold-backed currency," and had everybody all excited and everybody was watching for that during the meeting. And then on the last day, they pulled a different blockbuster announcement out, and said they were going to induct Saudi Arabia, the United Arab Emirates, and Iran in the coming year, which means that now you've got Saudi Arabia, the second or third biggest oil producer in the world, in an anti-dollar coalition, and you've got the United Arab Emirates, which has a big military connection to the US in an anti-US coalition. So, it's not clear what that means going forward, but it is clearly an indication that a lot of the world is fed up with US behavior. We have the world's reserve currency, and we have the world's most powerful military, and we've combined those two things into basically a weaponized empire that punishes anybody who steps out of line with US foreign policy.

And a lot of other countries are sick of it, and they're afraid of being the next victim. So, the BRICS, which has been around as kind of a notional thing for quite a while, has started to become a real organization aimed at bypassing the US dollar and bilateral trade between BRICS countries, and maybe setting up a parallel global financial system that doesn't depend on the dollar and isn't vulnerable to US foreign policy initiative. That's potentially a big deal, because it could mean that fewer dollars are needed for trade in the world, especially with Saudi Arabia maybe taking other currencies instead of a dollar for oil.

So, it means a lot of the dollars that people are holding in the world may not be quite as necessary as they were, and those dollars might come back home. In other words, people holding dollars would take those dollars and maybe buy US assets. They might buy farmland, apartment buildings, or real estate, otherwise, factories, or whatever, which pushes the price up of assets in the US, which is inflationary. That means the dollar loses value and prices go up here. Which, as we talked about before, is something we're not really prepared for.

So, it's one more thing to worry about, basically, in coming years. And it's a thing that the US doesn't have a lot of control over now. So, it's something that might be a threat and it's something that we don't really have any way of countering. And so, you add it all up, you add the BRICS thing up with the current financial situation, all this debt, and consumers as strapped as they've ever been, all of that put together, and you have to worry about the stability of the US financial system, because we have so much debt that we've got to manage in some way. And it's not clear that anyone in the rest of the world is going to help us. So it could be that we're on our own, at some point, with problems that we really don't have any way to fix. And in that case, as I said, as an individual investor, you want to try to be as far away from that whole thing as possible, just ride out the storm in things that aren't directly affected by political and financial turmoil.

Dennis Tubbergen:

John, it just seems to me that this whole anti dollar movement, although it has existed and been building, really, since quantitative easing started in earnest, but it seems like this is really accelerating at a pace that seems almost unreal. It almost seems surreal, I guess I should say, how quickly these developments are taking place, how long do you think it is before the US dollar maybe becomes not the world reserve currency? And what would be the implications for our average listener?

John Rubino:

Well, I think we're a long way from the US dollar losing its reserve currency status, but it could get some competition. And prices are set at the margin. So, if the dollar, I think 55 or 60% right now, represents that percentage of global reserve currency assets. In other words, that's what the central banks all own in their own balances to back up their own currencies. It's mostly dollars. Well, if some of that is converted from dollars into other currencies, or into gold, which is, the central banks are buying gold like crazy right now. And I think they're using their dollars to do that. So, let's say that process accelerates. At the margin, the dollar’s exchange rate goes down. And that's inflationary for us. If the dollar loses value, that's the same thing as saying, "Prices of things go up for Americans."

It doesn't necessarily happen overnight. It can be a trend that maybe inflects just a little bit so it's moving slightly faster than it was in the past. And that might be enough to boost US inflation rates to the point where we're in that box where, "We have to do something about inflation. But if we do something about inflation, we'll crash the leverage speculating community and we'll have a gigantic financial crisis. And what do we do?" We're in one of those situations that whatever we do is risking some really horrific result. And the BRICS thing, and the general de-dollarization thing out there, could be something that moves that process along. It's not going to cause it in and of itself, but it's one more thing in a constellation of things that are all pointing towards a weaker dollar and a potential crisis for the US financial system.

Dennis Tubbergen:

Well, my guest today has been Mr. John Rubino. He is the co-author of the book The Money Bubble, What To Do Before It Pops. You can also read all of his work, and he is a prolific writer and commentator, at rubino.substack.com. The website again is rubino.substack.com. John, amazing how quickly 25 minutes goes by when we started having a conversation. I really appreciate you joining us today, and I know the listeners do as well. Love to have you back down the road. So, thank you again.

John Rubino:

Thanks, Dennis. Look forward to talking to you next time.

Dennis Tubbergen:

We will return after these words.