



Retirement *Lifestyle*
Advocates

RADIO PROGRAM

Expert Interview Series

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Pento Portfolio Strategies

Date Aired: December 25, 2022

Produced by:

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Dennis Tubbergen:

Welcome back to our RLA radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is the host of the Mid-Week Reality Check Podcast, Mr. Michael Pento. Michael is also the founder of Pento Portfolio Strategies. You can learn more about the Mid-Week Reality Check Podcast as well as Michael's work at Pento Portfolio Strategies at pentoport.com. We're catching up with Michael today as he is driving.

Michael, I appreciate you multitasking, and I know the listeners do as well. Welcome back to the program.

Michael Pento:

Thanks for having me back on the program, Dennis. No problem.

Dennis Tubbergen:

Hey. Let's just jump in, Michael. Let's talk about your current assessment of the US economy. Are we in a recession?

Michael Pento:

Well, we were in a recession the first half of 2022. We had two quarters back-to-back of a negative growth. Of course, that was dismissed by the mainstream financial media. "Hey. Don't worry about that. Labor is still strong," blah, blah, blah, blah, blah. All right, then we're going to have two quarters of positive growth, one in Q3 and we'll have one minor positive Q4, but then we're going to go right back into a recession in 2023.

Dennis, don't forget that we have had for the better part of the last 12 years negative interest rates in a real sense and, in a nominal sense, less than 1% for most of that duration. From the end of 2008, December of 2008, all the way through to 2017, interest rates were below 1%. Then they went to two and a half for a brief stint, and then they went back to zero very quickly in early 2020 where they have remained there since till March of this year, but now we have the most aggressive Fed tightening cycle in history. They have gone from 0%, effectively zero, in March of this year to 5% by March of 2023. That is the most aggressive rate hike regime in history, and you add onto that the fact that they are burning, the Fed is burning \$95 billion a month now. That started in September, \$5 billion a month from the base money supply.

That is why we see M2 shrinking for the first time in history from a growth rate of a record high 27% in 2021. The fuel for asset bubbles is gone. We are now in a very tight monetary policy regime, and we will have, in my opinion, a very steep and acute recession in the first half of 2023.

Dennis Tubbergen:

Michael, as I have been interviewing a lot of very smart folks like yourself, there seems to be two schools of thought here, one, that the Fed will maintain the course. They'll stay the course. They will sacrifice the economy. They'll get inflation under control. They'll maintain the integrity of the dollar. The other school of thought seems to be that the Fed will pivot and forget the dollar, "Let's try to save the economy." Would you identify with either of those schools of thought, and why?

Michael Pento:

Well, both are true. Why do you have to pick one? This is the benefit of having an active money manager like myself. I'm not married or wedded to any philosophy. The dollar is going to go down. Gold is going to go to the moon or gold is going to go down. The dollar is going to crash or go to the moon. I don't have those kind of set dogmas in my trading philosophy. I look at the second derivative of inflation and growth, the rate of change, the rate of change of inflation and growth. They're both headed sharply lower right now because the Fed is, as I just laid out very succinctly, the most hawkish regime of monetary policy tightening since 1913.

Right now, you have to invest to be very defensive because the Fed is fighting inflation. That's their number one priority, and they will continue to do so until something breaks, I don't like when people say that, so I'd like to put a little more meat on the bones, until the credit markets freezes, until you can't float commercial paper any longer, until the collateralized loan market freezes, the leveraged loan market breaks, the money market funds start to dissolve, the shadow banking system starts to dissolve, pension plans, hedge funds, investment banks go under.

It is that systemic risk that will then cause the Fed to pivot to being very, very dovish, but they'll do it more reluctantly and more slowly. They're going to be dragged into that. Hence, that is why I'm very defensively positioned now, but will be less so as 2023 waxes on because you're going to see, as the economy deteriorates faster and faster and you see the credit crunch evolving, you got to start getting positioned for a weaker dollar and a much better gold market.

Dennis Tubbergen:

If you're just joining me, I'm chatting today with Mr. Michael Pento. He is the host of the Mid-Week Reality Check Podcast, also the founder of Pento Portfolio Strategies. You can learn more at pentoport.com.

Michael, for our listeners maybe that... When you say something breaks, the credit markets freeze, money market funds dissolve, pension funds are in trouble, a lot of very ominous statements or even forecasts, if I can push it that far, by you, just in that short or little explanation, what do you see breaking first?

Michael Pento:

Probably the junk bond market is probably the first one. CLOs leveraged loans from the junk bond market is probably first, but it's hard to predict. I mean let's just say this. We had a 1% Fed, not a zero, a 1% Fed funds rate from 2003 to 2004, one year, Dennis, one year, which helped engender the real estate bubble, which broke, and then we had a collapse of the entire financial system internationally, by the way.

We have had now 0%, as I said, for the better part of the last 14 years. 12 to 14 years have been zero to 1%, around that level, which is a short stint to two and a half in 2018, so what do you think happened? I mean what kind of risk do you think that engendered? We see the housing market, for example, the Case-Shiller/S&P, the National Home Price Index went to 300. It peaked at 180 in 2006. We have the highest home prices in history even in relation to the Great Recession and even in relation to income. Home price to income ratios are the highest ever. That's just one bubble.

We had a massive bubble in fixed income where we had negative nominal interest rates, where junk bonds in the United States traded 200-basis points below where treasuries normally trade. That bubble is bursting even in Japan. We learned today that they can no longer maintain a 25-basis point, one quarter of 1% cap on their 10-year note, and they broke that. Now, they doubled it. Now, it's 50-basis points, so half of 1%, but they say that genie is out of the bottle. Now, the Bank of Japan is engendering inflation by printing trillions upon trillions upon trillions of yen trying to maintain that peg that's longer a tenable situation.

Now, you have a situation where you could have rising bond yields in the United States like you have had this year, and that is happening in the context of a recession like you had in the first part of this year and we'll have in 2023. You're not going to have that ballast from the bond market perhaps as you used to, at least not as so much on the longer end. That's why we have a very short position in long duration treasuries. Most of our treasuries are shorter term because we're having a much better yield. We're getting a much better income stream there.

We had the bond market bubble. We had the housing market bubble and, of course, on the equity front, we had equity prices. The valuation of equities were 220% of the underlying economy at the start of this year. That is light years ahead of any other metric, that ratio, any other reading on that ratio in history. Just to give you an example, back in the start of the Great Recession, that ratio was just a hundred percent, 104 to be exact, not 220, Dennis. You have all three bubbles engendered from those very artificially low interest rates, the printing of the balance sheet up to, oh, \$9 trillion. All those bubbles are now bursting. How can we not? How can we avoid not having a recession, and a bad one? I don't see it.

Dennis Tubbergen:

Michael, you mentioned at the outset, at the beginning of this segment, we've got time for just one more question here in this segment, you mentioned at the outset that it's your belief we're heading for a deep recession. Can you maybe define that, and how will the average person following the Wall-Street-only advice of a 60/40 bucket of investments be affected?

Michael Pento:

Well, normally in a recession, Dennis, you'll see that, in an average recession, earnings drop by 30%. Well, Dennis, Wall Street now predicts earnings are going to grow in 2023 by 5%. We have a big trench and mismatch between reality. If I'm right and we have it in an average recession, earnings are going to plunge by 30%. That's a long way away from where they're predicted to rise to in 2023. If you slap the 15 multiple on that, which is an average multiple, then you're going to get an S&P 500 around 3,000. We're at 38, 3,900 today on the S&P. It's still a long way to go on the downside.

I would say that the 60/40 portfolio, as I mentioned before, 60% stocks, 40% bonds, and neither one of those are going to work, especially stocks, but even the bond sleeve of that portfolio is not going to function the way it did in past recessions, and the only reason why that's true or the main reason why that's true is because inflation is much higher than the Fed's asinine 2% target. It's three times higher than that right now, at least three times higher, the way they measure it.

Dennis Tubbergen:

Well, my guest today is Mr. Michael Pento. He is the host of the Mid-Week Reality Check Podcast. He is the founder of Pento Portfolio Strategies. You can learn more about both at pentoport.com. The website again is

pentoport.com. I'll continue my conversation with Michael when RLA Radio returns. Stay with us.

Welcome back to RLA Radio. I'm your host Dennis Tubbergen. Joining me again on today's program is Mr. Michael Pento. Michael is the host of the Mid-Week Reality Check Podcast. I'd encourage you to check it out at pentoport.com. Michael is also an active portfolio manager and the founder of Pento Portfolio Strategies. You can learn more about his work at pentoport.com.

Michael, let's just talk for a minute about all the debt that exists in the economy. I think, world worldwide, I think there's \$300 trillion in debt. If the Fed and other central banks around the world do reverse course, if they do become more dovish, do they have a prayer of kicking this can down the road further in your view?

Michael Pento:

Well, I wrote a book in 2012 which was derided by most people who read it in the mainstream financial media because, I guess, that's a badge honor when you come to think of it. It didn't work for a long time. I predicted the reason why. It told you the reasons why the bond bubble was going to break, and the two reasons were the Fed was eventually going to engender inflation which would cause them to do one or two things. They would have to react and dramatically raise interest rates, which would be a de facto bursting of the bubble. That would be the right thing to do, but I said, if they ignored or if they got chickened out on that process and they ignored inflation, then the long end of the yield curve would begin to rise intractably because that is the part of the yield curve that is most concerned about inflation.

Well, I think both of those things, or both of those conditions are happening. Right now, we're seeing part one of the bursting of the bond bubble which is causing yields to spike from 0% on T-bills, short-term T-bills, all the way now to four and a quarter, four and a half percent, going above 5% on the very short end of the curve, Fed funds rate, overnight interbank lending, and then I think, after they collapse the economy and the markets, particularly the credit markets, then they're going to start to slowly move back towards Q.E. and ZIRP which will cause the long end of the yield curve to start to rise intractably.

Don't forget, Dennis, that most people who are alive today in the financial industry weren't managing money in 1980 or in the '70s, so the mantra for decades was, "Hey. Inflation is dead. We can't engender it. We can't cause it to rise. We can never get to 2%." That was the main concern, but now everybody who's alive and managing money understands that inflation can go from 1% to 20%, if you count it accurately, very quickly or at least from 0% or 1% to nine the way the Bureau of Labor Statistics counts it. We already know helicopter money causes inflation to run. We did that. We did to the tune of \$6 trillion. We know that the psychology behind disinflation and deflation has been broken. If they once again return to some form of government handouts that are monetized by the Federal Reserve, you're going to have inflation below right past 9% and go into the double digits and higher.

In that case, you can't have a long bond in the United States trading at 4% or 3%. It's going to go much higher alongside that, so there's a big problem coming. If you don't aggressively monitor the dynamics between inflation and deflation and the machinations of our fiscal and monetary policy, you're going to be on the wrong side of that trade because there's going to be a time when you want to be long bond and there's going to be a time you want to be short bond and bond swaps. There's going to be a time when you need to be long base metals and energy and inflation hedges, and times you want to be short with them, and that's what I try to do.

Dennis Tubbergen:

We're chatting today with Mr. Michael Pento. His website is pentoport.com. Michael, give us your take on precious metals. You just mentioned precious metals and other inflation hedges. What's your assessment now of gold and silver?

Michael Pento:

Well, it's hard to answer that question because I was long on them early in 2022 and I sold most of my positions at a small 5% position in physical gold. Then gold flattened out and the minors crashed. I avoided most of that debacle, and then I went back into the minors for a quick trade a few weeks ago and I then exited that trade. I'm now actively trading the minors. The minors are up big today because of the fact that the dollar is weaker based on the Bank of Japan's actions. I think that you're going to be in a trading market in gold until we get a clear manifestation of the recession. Once that happens, the door is going to be blown off for the gold market. It's going to be a mad rush into physical gold and into the minors because, at that point, they're going to be front running the next ZIRP and Q.E. from the Fed.

Amazingly, Dennis, amazingly, I was shocked when I heard this. This was at the FOMC Conference in November. Mr. Powell stated that he has no problem. He understands exactly how to fight deflation. He was asked that question about what happens if you over tighten and what happens if the credit markets break and the stock market falls and goes into free fall? What would you do? He goes, "We know how to fix that. That's easy to do. We'll just go back to the Q.E. and ZIRP." He said that. You can look it up. I'm thinking to myself, oh, my God, this person has learned absolutely nothing. He's learned absolutely nothing. He is willing to go back into the same policies that engendered the real estate debacle and the Great Recession, and the plunge of economic growth and earnings, and real estate, and bond and stock market that is to come in 2023 and has already started to happen now in late 2022.

He said, "No problem." What he should have said is, "We've learned our lessons. We are not ever going back to a regime of zero interest rate policy ever. We will never go back to that." To his credit, in the December meeting, he said, "We're not going to cut rates in 2023," to his credit. That's his plan, but when the credit markets freeze, I want to see which Jerome Powell do we get. Do we get the Jerome Powell in the November press conference or the December press conference? Do we get the November press-conference Powell or do we get the Brookings-Institute-interview Powell where he was talking about, "Hey. We don't want to hurt the economy. We don't want to raise the unemployment rate too high." You have to follow not what they say, what they do. If you follow the monetary fiscal policies of the G3 nations, which are Europe, China and the United States, I think you have a better chance of making money in this chaotic environment.

Dennis Tubbergen:

Well, we just have a few minutes left in this segment. Michael is a busy guy. Michael, what's your take on the big push by governments and central banks around the world towards digital currencies, and what effect might that have on the metals markets moving ahead, if any? Do you have an opinion?

Michael Pento:

Yeah, I have one opinion on it, and I've said it many times, and the opinion is this. If the central banks, the major central banks of the world resort to a CBDC, you are going to circumvent the fiscal policy. In other words, if everybody gets a digital wallet and the Fed is responsible for putting digital money into that wallet, they can ascribe an interest rate to that money, negative as it may be, you have no choice but to have that negative interest rate affect your savings.

In other words, right now, if I wanted to go to the bank and withdraw money because I was worried about a negative interest rate of, say, 10% in nominal terms, losing 10% of my assets in nominal terms, I have a choice. I can withdraw my funds from the banking system and hoard dollars. If we have a CBDC, the only thing I can do is either save my money in the bank or spend it. I have no choice. The Fed will then have usurped control of both fiscal and monetary policies. That's my big fear. They can impose a digital negative real interest rate and they can control fiscal policy by giving you money, by increasing the amount of digital currency in your digital wallet. That's my big fear. I hope it doesn't happen.

Dennis Tubbergen:

I'm sorry. Michael, we have time just for one last question, if we could. Real estate, you mentioned that you believe the real estate market is going lower. Do you have a forecast? How low does it go?

Michael Pento:

Lower. I don't know how much lower it goes, but I'll tell you this. It's going to go lower from a much higher level and it's going to go lower into a much weaker economy. Now, the only ballast or offsetting factor that might save real estate from going down 33% like it did during the Great Recession is that the underwriting standards are better, but I'll caveat that quickly by adding that Wall Street, in its infinite wisdom, owns 20 investors, I'll include Wall Street and investors into one bucket, owns 20 to 25% of all homes purchased over the last year or two.

There's no shortage of homes. There's a shortage of common sense on Wall Street, where people own multiple houses, single-family homes. One quarter or one fifth are owned by investors who, when people are paying their rent and the principal is going higher, everything's wonderful. My balance sheet looks great and my income cashflow looks wonderful, but when people lose their job, stop paying rent and the principals start to erode and go down, then it's a double whammy, and you might see a lot of listings come on the market so, lower, it's not a good time to buy a house right now. Unless you have to, don't do it. They're going lower in my opinion.

Dennis Tubbergen:

Well, my guest today has been Mr. Michael Pento. The website is pentoport.com.

Michael, thanks for joining us. Have a happy holiday season and a happy New Year. We'll catch up again after the first of the year.

Michael Pento:

God bless, Dennis. Thank you. Bye, bye.

Dennis Tubbergen:

We'll return after these words.