Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

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Pento Portfolio Strategies

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Dennis Tubbergen:

Welcome back to RLA Radio. I am your host, Dennis Tubbergen. Joining me once again on today's program is returning guest, Mr. Michael Pento. Michael is the founder and president of Pento Portfolio Strategies. You can learn more at his website, pentoport.com. He is also the host of the very popular podcast, Midweek Reality Check. You can go to pentoport.com and learn more about the podcast there as well. Michael, welcome back to the program.

Michael Pento:

Always great to be on with you, Dennis.

Dennis Tubbergen:

Well, it's always a pleasure to chat with you too. Let's jump right in. Michael, a lot of insider-selling going on in the stock market I've noticed of late. Do they know something maybe mainstream doesn't know?

Michael Pento:

Well, JP Morgan's CEO, Jamie Dimon, just dumped some shares for the first time ever. I think Jeff Bezos is right behind there. There's some research out there that shows that the ratio of insider selling to insider buying just hit 150. That's off the charts, Dennis. So, while everybody's running around screaming about soft landings and nirvana and puppy dogs and fairytales, the truth of the matter is that the salient issues of debt and inflation and asset bubbles, they haven't gone away. They've gotten exponentially worse.

I will say this to you, the Bank Term Funding Program, which was one of the alphabet soup programs that the Fed likes to launch. They had the TALF Program and the TAMP and the standing repo facility. They have all these words and acronyms that just stand for the same thing. I am going to print money out the wazoo. That's what these programs really stand for.

Well, the Bank Term Funding Program, which was enacted in March of 2023. Not too long ago, Dennis less than a year. Coming up on a year now. That bailed out the entire financial system because the assets these banks held, which were mortgage-backed securities and treasuries, were underwater, by a lot. The Central Bank came in and printed $400 billion in two weeks. Well, that program expires March 11th of this year. So just a couple of days away now.

And not too long after that, Dennis, the reverse repo facility. Just think of this as a parking place of all of the money that the Fed printed, about four and a half to $5 trillion post Covid. It was given to the banks. It's called Fed credit or high-powered money. It's part of the monetary base that's why it's called high powered money, Fed Credit, and the excess of these reserves that the banks didn't really need, they parked it at the Fed.

It was 2.5 trillion dollars about a year ago. Now it's 500 billion. So, it's running out quickly. But that's acted like a massive QE program to offset the QT program that's been going on, quantitative tightening. Those things are ending now. So, the puppy dogs and fairytales and the porridge being just right, that BS is ending soon. And the reality of an insolvent nation, unfortunately, and the reality of massive asset bubbles in equities and real estate is going to start to come to the fore. I think you're going to see some reality come very soon.

Dennis Tubbergen:

So, Michael, a couple follow ups I want, just based on what you said, a couple of follow ups first. It seems like there are now there's talk again of more banks on the ropes. New York Community Bank recently made some headlines. Was last years' experience of Silicon Valley Bank, Signature Bank, First Heartland, First Republic, was that just the canary in the coal mine? Do we have more coming?

Michael Pento:

Well, it's a great question that you ask. So there's a huge problem in the banking system, and as I said, they printed $400 billion in two weeks to bail out the banks. But the issues that were bothering banks of having the treasury yield go from 0.3% to 5.3% in a very quick period of time in a year, that sent these assets that they own, mortgage-backed securities, so mortgage-related debt and government bonds, massively underwater.

So, for a year, Dennis, these banks, the banks that went under you named, but there's still many, many, many, many more that are in deep, deep doo-doo, okay? They were able to take their assets, hand them off to the Fed. Let's say they were about 60, 70 cents on the dollar, sometimes even less than that. The Fed gave them money at full value.

So, if I had treasury that was issued at par, and it was worth 60 cents on the dollar, I was able to get full value, par value for that bond or mortgage-backed security or treasury bond, and I was able to park it at the Fed for a year. Well, that's over March 11th.

Now, these banks that you're still failing, New York Community Bank just went under a few weeks ago. It was massive, massive problems there, New York Community Bank. Those types of banks still have those issues and when the Central Bank hands back those assets to them, they're more underwater today than they were in March of 2023.

So yes, the problem with New York Community Bank is not an idiosyncratic situation. New York Community Bank, by the way, is the seventh largest originator of mortgages in America. It's a huge problem for all regional banks. Well, the regional bank index, the KRE is down 60% in the last two years, Dennis. Can you tell me how healthy the American consumer can be and the real estate market can be? These banks, by the way, own about 70% of their assets are mortgage-related assets. Very big creators of mortgages.

Dennis Tubbergen:

And Michael, is it... I'm sorry, go ahead.

Michael Pento:

How healthy can these banks really be when their value has dropped by 60% in the last two years, even with the Bank Term Funding Program?

Dennis Tubbergen:

So, Michael, when you look at what happened with this Feds low interest rate, this artificially low interest rate environment, you had a lot of office building owners that refi, pulled their equity out. They got much lower interest rates. Now it seems like because of that policy, this crash could be a lot tougher than it otherwise would've been because these landlords really don't have the same skin in the game maybe that they had five or six years ago in many cases.

Michael Pento:

The problem in commercial real estate is one of the main problems with banks, but you also have credit card loans, you have collateralized loan obligations, you have auto loans, you have private credit, which has gone from basically zero in 2007 to $1.7 trillion today. You have these banks with just check commercial real estate. You just mentioned. And everybody knows it. Everybody knows that the issues are there.

They have very high vacancy rates, and they suffer from the same problem of spiking interest rates that regular mortgage-backed securities suffer from.

So, the disaster in the regional banking system is systemic. It was papered over, but those problems are now coming to the roost very, very soon.

Dennis Tubbergen:

So, Michael, you mentioned auto loans, you mentioned credit card debt. I think some of the research I did is that between seven and 8% of all credit card debt and auto loan debt is now 90 days or more delinquent. This whole thing seems like it's just ready to implode, and we haven't even talked about government debt at this point.

Michael Pento:

I mean, this is very sad. The fiscal 2024 deficit is going to be around $2 trillion. We're going to be paying $1 trillion just in interest. Now, Dennis for comparison's sake, so your listeners can understand how bad things, how dire things have become. In 2007, which isn't too long ago, the year before the global financial crisis, our total deficit was $160 billion. Now the interest alone is a trillion. Hello.

The total debt of the United States is 123% of GDP, $34 trillion. For reference, it was 60% of GDP in 2007 or $9 trillion. Let's just talk now about the debt in the economy. Total non-financial debt as a percentage of GDP was 227% prior to the global financial crisis. It now stands at 263%. I quote this debt both in nominal terms as a percent and as a percentage of GDP to give you some kind of context because people say, "Well, look at how the economy has grown."

So even as a percentage of the artificially boost GDP. Why do I say artificial? Well, 10 of the last 14 years, interest rates were less than 1% of that inflated GDP. So even in context of GDP, these deficits and debt are unbelievable. Now, annual deficits increased by 200% in the last two recessions. So, the US is going to enter next recession from a position that is already insolvent, but it could reach $6 trillion of debt. $6 trillion annual deficit in one year.

If you just slap a 5% interest rate on that, that means, Dennis, two-thirds of all the revenue that's coming into the coffers of the national government is going to be spent on interest. Okay?

Dennis Tubbergen:

Very dire indeed.

Michael Pento:

Well, can I give you one more, and I'm not trying-

Dennis Tubbergen:

Yeah, please.

Michael Pento:

... to scare people. This is reality. The United States is adding 42% of our national revenue to the debt every year, and the debt is 733% of revenue. Yes, we are unfortunately an insolvent nation. Think about that the next time you hear about puppy dogs and rainbows and soft landings.

Dennis Tubbergen:

My guest today is Mr. Michael Pento. He is the host of the Midwest, excuse me, Midweek Reality Check podcast. The website to learn more about his work and the podcast is pentoport.com. I'll continue my conversation with Mr. Michael Pento, when RLA Radio returns. Stay with us.

Welcome back to RLA Radio. I'm chatting today with Mr. Michael Pento. He is the founder and president of Pento Portfolio Strategies. You can learn more about his work at pentoport.com. He's also the host of the very popular Midweek Reality Check podcast. And Michael, before we jump back in and get your perspective on financial markets, let's talk about the podcast.

Michael Pento:

So, it's a weekly podcast, comes out every Wednesday night. It costs $50 a year, and there's a five-week free trial if you're still interested in kicking the tires on it. But I think it's very valuable for my clients who I manage money for and for people who don't really either you don't have the money or don't want to be with me. Because the value in it is that I actually go through from an economic and market standpoint.

I give the salient data that has been released each week that you need to know that's not promulgated on CNBS.

Dennis Tubbergen:

Okay.

Michael Pento:

In other words, this is how a lot of mainstream financial media make their money from their advertising and their advertising is Wall Street, right? It's

Wall Street banks. So, the game is rigged for them to portray a condition of never-ending rainbows in the stock market and never-ending reality from all this debt and market manipulation and asset bubbles. It's in their best interest.

So, I take a look from a independent point of view because I can go long or short in my portfolio and I have done so and will do so in the future. I look at the salient data and analyze it accurately and let you have it so you can do your own analysis and make your own conclusions rather than just nonstop spin. It's like watching CNN and expecting to get an in-depth criticism of the current administration. And the same would be true for Fox.

Would Fox News do an in-depth report on how bad Republicans are? No. So I'm a libertarian. That's my political standpoint, but I don't come at this data from any other angle other than the truth, which is what you'll get here.

Dennis Tubbergen:

So, Michael, in that vein, you quoted some stats at the end of the last segment regarding US government debt. The numbers were just staggering when you stop and think about them, and you really put those into a great perspective. Does it mean that moving ahead, the Fed's really going to have no choice but to go back to easing and currency creation? Because I mean, it is the only thing they know how to do. You just punt and deal with the inflation when it kicks in?

Michael Pento:

Dennis, I find it remarkable. The short answer to your question is yes. But I always find it remarkable that the Fed has no choice. But I find it remarkable that they pretend that they're actually going to try to tighten monetary policy.

Well, tightening monetary policy kind of works when your level of debt is serviceable, easily serviceable. But the statistics that I just quoted, I mean, when you have 733% outstanding debt in relation to your revenue, and when you're adding to that debt 42% of your yearly revenue, you're not paying down the debt, you're adding to the debt. It's not far from 50%. Think about it that way.

Half of all of my income, I'm adding to the debt every year as an annual deficit. So yes, they're going to have to print. But they go through these iterations of pretending and this time that it was forced to pretend, that it had to pretend because inflation went from below their asinine 2% target to 9% the way they counted, the government counted. But in reality, it was closer to 20% inflation annualized CPI.

I mean, I was looking at some statistics the other day. The price of oranges was 46%, eggs was like 70%. The cost of insurance is up 40%. Let's just talk briefly. I know I'm rambling. But the housing bubble, I touched on it in the first segment. Well, housing is unaffordable now for most Americans, initial first-time buyers. But when you add in the cost of insurance and the higher interest rates with your mortgage, the home prices are out of reach, completely out of reach.

The Fed is to blame here, but they claim to be in favor of the... Why do we do what we do? Why is the Fed in place? To protect the poor and to protect the middle class. Dennis, it's the exact opposite. We wouldn't have a home price to income ratio of 5.5, home price is going up 20% per annum, if it wasn't for a central bank that just destroys and dilutes the outstanding stock of money on a regular basis.

Dennis Tubbergen:

So, Michael, what do you see as the end game here? Do you see that we go into a hyper inflationary type of depression? Do you think we get a libertarian leader like we just saw elected in Argentina that just blows up all the social programs and says, "Look, we're going to pull the Band-Aids off quickly. We're going to have a surplus. It's going to hurt, but 250% inflation hurts too." Well, which way do we go here?

Michael Pento:

Well, you're going to have both at different times. That's the genesis of my model, the inflation, deflation, the economic cycle model. So, we had rapid inflation. My model predicted that, and we understood it. Then we went to a period of disinflation. Now we are a very short, truncated period of reflation. I think it lasts for another month or two, and then we're going to go back into disinflation and then outright deflation.

But here's the thing, you can't have happened. We talked about banks in the first segment. Banks are loaded to the gills with mortgage-backed securities and treasuries and corporate debt and collateralized loan obligations. And the shadow banking system, which is responsible for private credit, which you talked about in the last segment, $1.7 trillion of private credit. It used to be zero prior to the global financial crisis. What's private credit? Those are loans to businesses that can't get access to the credit bond market, and they can't get loans from a bank. I mean, these are really risky loans.

You can't have a deflationary depression like we had in the 1930s and come out of it quickly. It's just an untenable situation. It's not going to be a steep recession or a mild depression that lasts for a few years and like you said, rip the Band-Aid off and we'll come out smelling like roses. It's going to be the worst depression we have ever seen in this nation. That's what's needed to reconcile these imbalances.

I'll give you another statistic. The total market cap of equities is 185% of underlying GDP. Now, for reference, before the Great Depression started, it was 130% of GDP. So if you have a real economy where asset prices fall to a level that can be supported by the free market, where you have debt, deflation, people defaulting on their debt to bring down the amount of leverage in the economy, it's not going to be some fly-by-night truncated period of, "Well, I lost my job, but I got two part-time jobs and I'm kind of doing okay."

It's going to be an absolute decimation of this economy. That's why the Fed can't ever allow, and the Treasury, can't and won't ever allow it to happen. They will have no choice. So, as we waxed into this deflationary recession slash / depression, the initial stages of it, the incipient stages of it, you'll see them come to the rescue again with more alphabet soup. They'll stop quantitative tightening; they'll engage in QE. They'll go back to zero and straight policies.

People say, "Oh, well then this'll be great." Dennis, it's okay to go back to the old playbook of ZIRP and QE and helicopter money when there's no inflation. "In other words, when getting to 2% inflation was your problem." I'll put that in quotes. You can't see me, but it's in quotes. You can't do that when you just finished coming off of the worst inflationary problem we have ever seen in this country. Can't do it because people will lose faith in the bond market and long-term interest rates will rise instead of fall. That's the real danger.

In that case, the normal healing process of an economy, which is falling interest rates, lower borrowing costs as people default on their debt, guess what? That goes away. There's no healing process. It's just a runaway yield on the long end of the bond market, which means you're not going to get any healing in the housing market. Affordability construct.

So, what I'm trying to say unfortunately, is that since we as a country have completely abandoned free markets, and it's not just us, it's China, Japan, it's Europe. Since we have abandoned free markets for so many decades now, there's going to be a problem. It's going to be severe. There's no easy way around it. And you have to actively navigate your portfolio and your investments to make sure you survive and thrive in this current and the coming chaos.

Dennis Tubbergen:

Well, the clock says, Michael, we're going to have to stop there. My guest today has been Mr. Michael Pento. He is the founder and president of Pento Portfolio Strategies. You can learn more at pentoport.com and I would encourage you to check out the Midweek Reality Check podcast that he hosts. You can get more information at pentoport.com and check it out for free. So, Michael, thank you for joining us today. Love to have you back down the road.

Michael Pento:

Thank you, Dennis. Look forward to it.

Dennis Tubbergen:

We'll return after these words.