Why current Hyper-Inflation fears will turn out to be a False Positive

2022 Predictions on Real Estate and the US Economy

John C Botdorf, MBA 2022 US Economic Report

November 30th, 2021

What time tested Indicators are Telling Us. It is no surprise in today's mixed bag of indicators, bloggers, and crypto economists popping up like a new covid-virus, that the average investor may feel confused. In addition, with the gamut of social media economists pushing the latest get rich secrets via alternative assets, that we as a society have hit information overload. Even the current forecast about hyper inflation, interest rates, and unemployment news are perplexing to the most informed economist of our day, forcing the average investor to ponder whether to just double down on the current menu of "alternative wealth options" or just buy gold and silver and bury it in your back yard. (Not the worst thing one could do). What is a highly intelligent, educated, and rational person supposed to do?

In times of turmoil, I find that using the tried-and-true economic tools can serve one very well. The above issues should first direct us back to the basics, things like how does Money Supply impact the future of interest rates? What does Money Velocity have to do with inflation? What is the real cause of inflation? If we solve for these things, we can look at history, factor in the "new economy" and get closer to an educated guess on where inflation and housing prices are going. This will help understand where other asset prices are headed overall and help to adjust asset allocation models. Even the best forecast can involve a small dash of luck but most in depth economic reports include a large dose of logic backed by credible research. We can now begin to ascertain how to play 2022. Bingo, we now have the goal in mind.

Remember that college Professor who tried to tell you in economic speak why Money Supply and GNP (Gross National Product for our newcomers), matters, and moreover, what is the relationship between inflation and M2? Let's start with a simple definition. For those preferring to keep it simple, M2 is the amount of money the public could raise if they counted and sold all of their liquid assets like cash, money market deposits, and liquid securities like mutual funds. Now you know why the definition of Money Supply can vary between countries that may add or subtract what constitutes the definition of Money Supply. It is not a universal definition.

Now to get to Money Velocity we just divide GNP by M2, and we have something special. You have the measurement of how fast money is turning over in the economy, and therefore a possible prediction about what this turnover suggests about longer term inflation rates. You see, while this ratio can be volatile during times of change and while it can produce short term false positives, in the longer run money velocity has helped predict the future of inflation since the Great Depression (1932) and therefore this little understood ratio deserves some respect. The trick is that short term movements on this barometer can be misread, (year over year) but what happens decade over decade has been remarkedly reliable. Like all indices, it is best measured in relation to its close cousins, current federal monetary policy, GNP growth, and the direction of

unemployment to help smooth out the cross currents. To better understand the power of Money Velocity, I have provided some M2 definitions. Next let's examine how big the supply of M2 in the United States is as of Q4, 2021. Remember we are talking trillions in the graphs below; hence, we have to convert the near 21,000 billion into trillions.

Definition of Money Supply-M2 definition

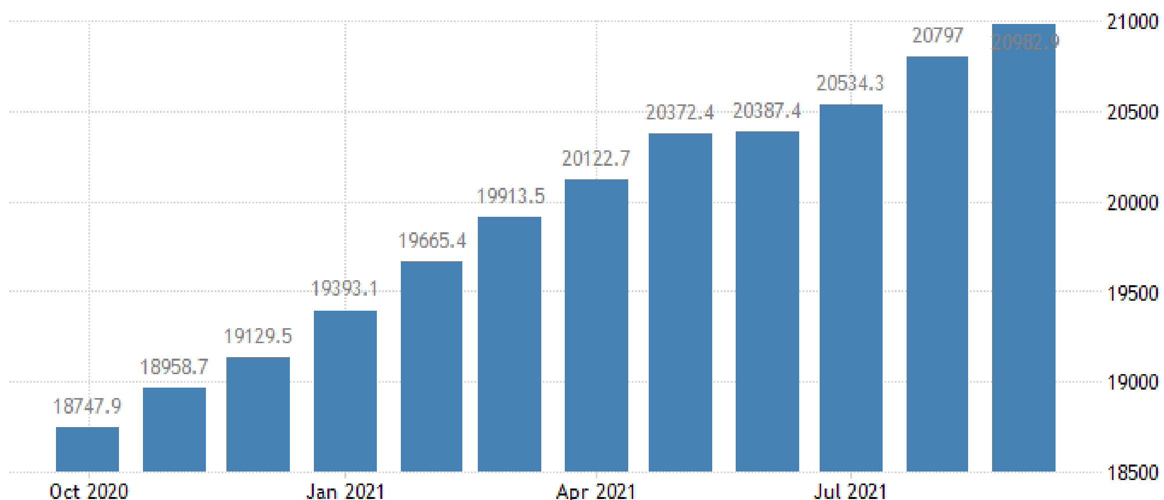
M2 is a calculation of the money supply that includes all elements of M1 as well as "near money.". M1 includes cash and checking deposits, while near money refers to savings deposits, money market securities, mutual funds, and other time deposits. (2021, M2-Definition, Investopedia see: www.investopedia.com/terms/m/m2.asp).

Ok, How Big is the Current Size of US Money Supply (M2) in Billions

United States Money Supply M2 **2021 Data | 2022 Forecast | 1959-2020 Historical**

Money Supply M2 in the United States increased to 20982.90 USD Billion in September from 20797 USD Billion in August of 2021. **source: Federal Reserve**

- September to August, 2021 Increase in M2 Money Supply-assumes 000,000,000's omitted

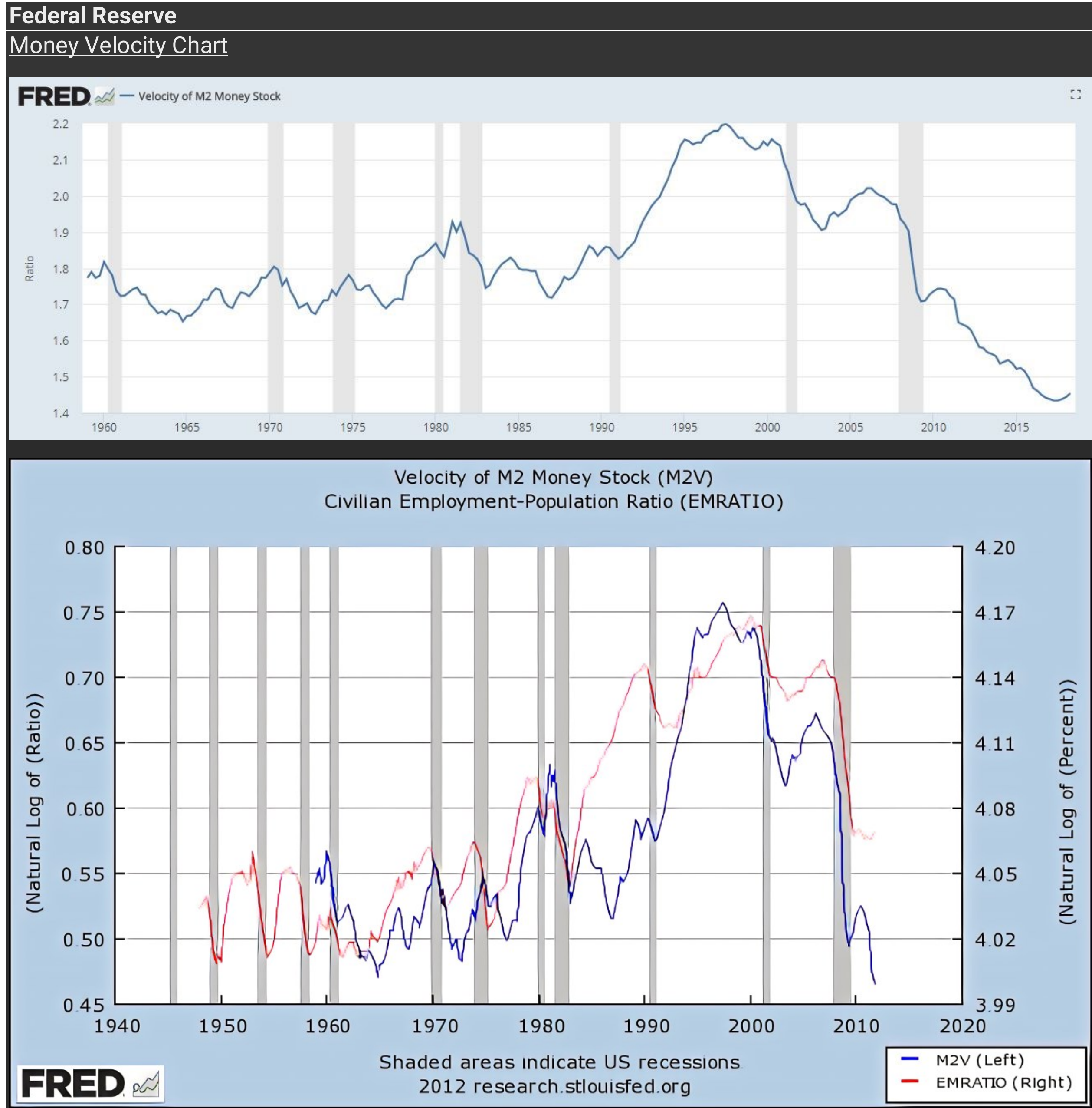


SOURCE: TRADINGECONOMICS.COM | FEDERAL RESERVE

Decreasing Velocity of Money Supply-A backdoor secret to Deflation

The velocity of money is a measure of the number of times that the average unit of currency is used to purchase goods and services within a given time period. The concept relates the size of economic activity to a given money supply, and the speed of money exchange is one of the variables that determine inflation. The measure of the velocity of money is usually the ratio of the gross national product (GNP) to a country's money supply. (2021, "Velocity of Money", Wikipedia).

OBSERVATION OF FALLING MONEY VELOCITY RATIO SINCE 1997



What do the Money Velocity Tea Leaves Suggest for 2022?

By itself, one can easily make the case given the Covid crisis, supply chain disruptions, and a look at grocery and gas prices, that the velocity of money is due to reverse its course, and that its 40-year decline from 1982 to 2022 (correctly forecasting either lower inflation or low inflation following each uptick in Velocity) is about to run dry, and that indeed, money velocity will have to pick up given the highest inflation in well over a decade. According to the most recent report from CNBC, gas prices year-over-year in September of 2021 were up 42.1% - while meat prices rose year-over-year in September by 12.6%. (2021, Dec, Inflation on the horizon, CNBC).

Besides economic scholars can point to an abrupt change in this index decline not being able to absorb the abnormal economic fall-out from Covid, and severe supply chain shortages, all of which have sent shipping, gas prices and both durable and non-durable consumer prices skyrocketing in 2021.

Why then in what looks like a period of Hyperinflation upon us, would rampant inflation from here not constitute the new normal? Remember when the oil embargo sent food and gas prices spiraling up and up and gas lines were a mile long in the 1970's. What is the difference this time around? To answer this question, we must analyze the latest in US GNP output, a key driver in calculating Money Velocity.

What is the current **US Gross National Product** is at a current level of **22.98T**, up from **22.27T** last quarter and up from **19.65T** one year ago. This is a change of 3.16% from last quarter and 16.93% from one year ago. (ycharts.com 2021) I note we are reminded by Antony Meuller from the American Institute of Economic Research in a great article on what the Velocity of Money ratio means to inflation.

"Inflationary expectations lead to a higher ratio of the velocity of money while deflationary and dis-inflationary expectations lead to a lower ratio of the velocity. The trends may be long or short, and when they are long and seem to be stable, they may change abruptly. A reliable calculation of the future trend is not possible even if many data points are available". Mueller (2018).

Well, it is rationale to assume that a steady 40-year overall decline in the Money Velocity ratio would qualify as "stable" as a long-term indicator under Mueller's observation. However, believing that monetary policy alone can control inflation, or that rising rates can stop it, does not comprehend the numerous variables that drive inflation or dis-inflation into a sustainable trendline. That takes many factors moving in the same direction to achieve. Most millennials today rightfully do not even know what real inflation is, after all, if you are under 40, real inflation has been relatively tame the past 30 years, so how would this generation be expected to understand it? Well, this is a good time to get boned up, just look at prices now versus a year ago on almost on any consumer product.

Since we have the data to calculate the newest ratio on Money Velocity let's crunch the most recent numbers garnered from independent sources in this article.

2021 (run rate) Gross National Product is now at: **$22.98T = 1.095 new money velocity ratio**
2021 (run rate) Most recent M2 amount in US: **$20.98T**

This data tells us that the current ratio of Money Velocity (amount of times money changes hands over time) has continued to fall throughout the Covid-19 breakout, rapid short-term inflation, soaring gas prices, and severe supply chain shortages. The question as Mueller notes above, is how can this ratio continue to fall when the charts suggest it should be rising and what does it mean toward understanding downstream inflation? To see what lies under the Money Velocity hood we need to understand what major cross currents are looming underneath the reported inflationary economy and why are they signaling something else is happening.

What are the cracks in the US Financial system that can lead to disinflation when Money Velocity continues to drop?

While China is a long way from our shores, their financial health will play a key role in not only partially financing US deficits, but also what we pay for money in the US on everything from mortgages rates and credit throughout the borrowing ecosystem. Although China only owns about $1.09 Trillion in US debt or about 4-5% of total $29T US debt, they still make up a source to finance a portion of the US treasury auctions. A number of possible default scenarios on China's massive real estate debt now over $300B with just Evergrande, could rock the US

financial system forcing the Fed to have to raise rates to stay competitive within the global debt markets. This point cannot be overstated because the world's finance markets are linked together. Remember the havoc that Greek defaults made in the global markets? In **2015**, Greece defaulted on its debt. "While some said Greece simply fell into " arrears," its missed payment of €1.6 billion to the International Monetary Fund (IMF) was the first time in history a developed nation has missed such a payment". (Investopedia, 2015). In fact, Greece actually went bankrupt in 1929 after their successor prime minister, Eleftherios Venizelos failed to understand the crash of 1929, eventually driving the US into the Great Depression. History matters and it tends to repeat itself. Did we not learn anything about the 2008 housing bubble?

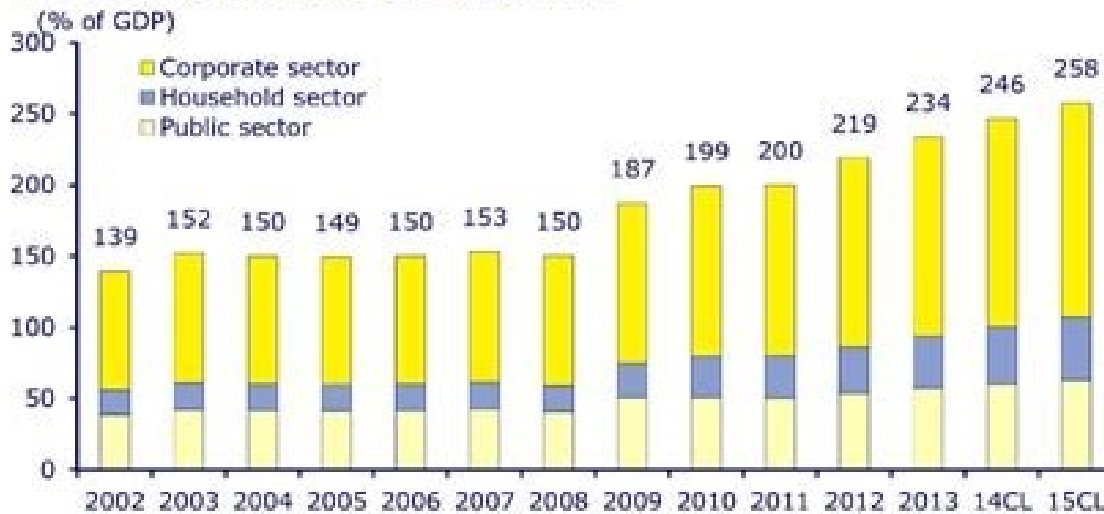
The Greek default in 2015 was not anywhere near a global credit meltdown but the credit markets felt the aftershocks. Many other countries continue to borrow heavily to finance their own deficit spending. This has the potential to stall the US economy and could lead to a mild or deep recession if Chinese defaults begin to wreak havoc in the international debt markets.

Let's examine some factors that could stall the US economy in 2022.

1-Levels of Chinese real estate debt-China Property Stress Triggers Fed Warning as Bond Losses Spread (12:51 p.m. HK) "Now that a bond rout has spread to China's entire real-estate sector, concern is growing about the potential risk to the global financial system. The Fed made that link explicit in a report on Monday, (Nov 8th, 21) warning that what happens in China's property industry could impact financial markets and threaten world economic growth. At the heart of the bond market selloff is concern that developers may have far more debt than disclosed on their balance sheets". (Bloomberg .com Nov 2021-"China Property Stress Triggers Fed Warning").

History has taught us that if the US Bond Market goes bearish and corporate borrowing and taxes increase at the same time, a meaningful decline in US assets prices at some point is in the making. Moreover, the amount of US Debt held by the Chinese provides another method for China to single handedly dump massive amounts of Treasuries onto the market, triggering an immediate increase in US debt prices. We do not believe this to be likely given the need for China to export into the US markets, but the mere possibility is worrisome. As noted in a recent article by Seth Shobhit with Investopedia on ***Why China buys US Treasuries***, he noted.

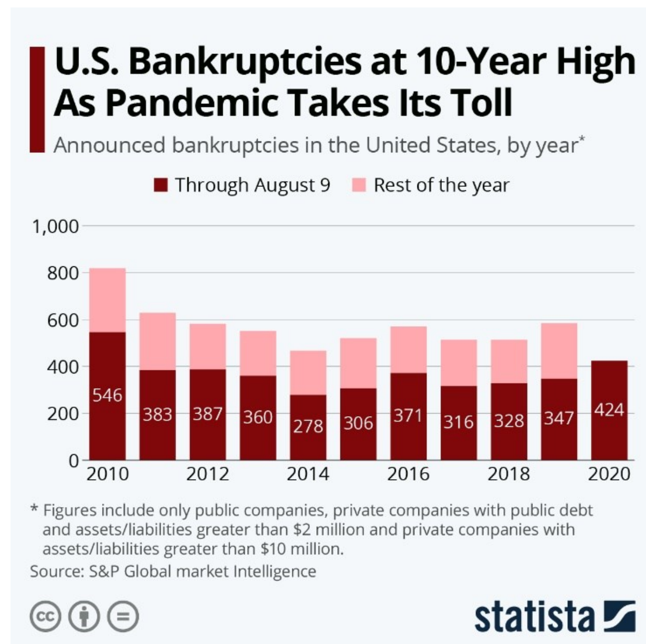
"Some analysts and investors fear China could dump these Treasury Bonds in retaliation and that this weaponization of its holdings would send interest rates higher, potentially hurting economic growth". (Shobhit, March 16, 2021). A more likely scenario is that China may need to liquidate some of these bonds to shore up what could be a near trillion-dollar collapse of its real estate exposure. China now leads the industrialized world with total debt to GNP now approaching 3 times its Gross National Product as we head into 2022. Note the chart below through 2015. I cannot underestimate that this scenario now playing out is one of the top reasons the US economy is at risk. Furthermore, China is paying too much money to refinance its debt, 300-400 basis points higher than US rates for commercial property. Leading the way is Goldman Sachs who has helped package some of this debt to help stave off major defaults on this debt and maintain sanity in the global credit markets. This is not being reported in the news, but this scenario should be leading the headlines.



2-US Bond Auctions-Bid to Coverage ratio. This indice could be at risk if the cracks on Chinese debt expand from here. The Covid outbreak actually increased demand for US debt as more of a flight to safety as much as anything else. Afterall, it was the US that brought calmness to the pandemic because of the vaccine. While bid ratio's have been healthy lately, a drop in the US bond bid ratio below 2.75 to 1 on our long-term debt auctions could trigger panic in the global markets and send bonds prices soaring. As the Chinese massive debt rollover continues or deteriorates from here, this ratio will be a forward indicator that things are about to get much worse for the global credit markets.

3-Number of US Bankruptcies-Typically when US Bankruptcies are on the rise, it can signal the economy is softening as businesses close and more people lose their jobs. We note the projected increase in 2021-22 filings due to the stimulus packages now sunsetting, leaving many families unable to pay bills. Estimates for up to 1M new filings for 2022 could be on the way. Let's take a look at the graph below.

What is disturbing is that 2020 was a highly subsidized year with massive government stimulus programs that were put in place to temper massive defaults on consumer and business credit. Even with these programs, 2020 bankruptcies were on the rise and 2022 is lining up to be worse. Next year will not have the benefit of billions of dollars in stimulus spending meaning bankruptcies could be the worse we have seen since the Great Depression.



Experts project bankruptcy spike in 2021

"Experts at an American Bankruptcy Institute conference projected a spike in personal bankruptcy filings next year (2021) as the economic effects of federal stimulus funds wear off."

"Data from the Administrative Office of the U.S. Courts show personal bankruptcies are projected to drop to 560,000 this year. That's the lowest number since 1985. However, analysts say an increase to more than 1 million filings could come in 2021". (Your Business Authority, Oct 2020).

"With the end of the CARES Act, there will be an uptick in filings," said Ed Flynn, an editor at the American Bankruptcy Institute Journal. "The only question is whether it will be a sharp uptick or a gradual one." (Your Business Authority Oct 28th, 2020).

4-Increases in the Number of US Foreclosures for 2022. The "look back" data on national foreclosures suggest the significant improvement that was made in the first half of 2021 versus the year ending 2020 data reflecting a healthy 63 percent drop in foreclosures.

Unfortunately, this period reflects the maximum stimulus period where millions of companies and tens of millions of consumers were living off of unemployment extensions and other stimulus payments. What is noteworthy is the projection by the American Bankruptcy Institute that more than 1M bankruptcies could emerge in late 2021 into 2022, far surpassing recent gains.

These US economic headwinds next year combined with any kind of US slowdown or Chinese defaults could exacerbate what is shaping up to be another housing meltdown emerging from over speculation, this time by the I-buyer public companies eager to cash in on run away price appreciation in the housing sector from 2018 to 2021.

According to ATTOM the parent company to (www.realtytrac.com), a total of **36,742** U.S. properties started the foreclosure process in the first six months of 2021, down 63 percent from the first half of 2020 ***but up 14 percent from the last half of 2020***. (ATTOM. July 2021).

5-Money Velocity Ratio-Has now hit a 40 year low of 1.095. This statistic has been reliable for over 50 years and when money circulation slows, it means the consumer is not spending. Prices generally do not rise when people spend less money. The new ratio of 1.09 is now below the 1.3 of 2020 and in line with reports that people are saving more and worried about taxes, Covid, and job loss. People despite reports of travel demand are not turning their cash at anywhere near historical levels.

6-All Time Highs in the Stock Market The correlation between rising stock market prices and the price of housing, while seemingly somewhat correlated, simply does not stand up under scrutiny. Study after study does not correlate paper wealth created by rising stock prices, to a behavior norm that causes home prices to rise. This remains a highly controversial subject, and while there are studies that do suggest under certain assumptions a correlation (like REIT's that trade based on their underlying real estate value), which do in fact have a close correlation, however these publicly traded real estate assets are more the exception than the rule. I therefore am not using the robust stock market as much of a barometer to support my conclusions. We have plenty of other issues on the table that constitute credible research.

7-The US Housing Affordability Index-Why many consumers cannot afford new homes

"Since 1965, average U.S. home values rose from $171,942 to $374,900, representing a 118% increase. During that time, median household income rose from $59,920 to $69,178 in inflation-adjusted dollars. That represents just a 15% increase. In fact, home prices have increased 7.6 times faster than income since 1965 and 3.1 times faster than income since 2008. Both of those measures account for inflation". (Backman, 2021).

Real Estate Witch also says that to afford a home in 2021, buyers need an average income of $144,192. But the current median household income is much lower at $69,178.

The data are very clear on the importance of buyers being able to afford a home. Once more, the current government regulation maze for home building combined with local zoning costs are driving up infrastructure and zoning costs for housing starts to record high prices, even before the foundation is dug. These costs are then passed onto the consumer now making new homes priced above the median income of just under $70,000 out of reach for most buyers.

Harvard economist Edward Glaeser estimated the cost of the regulatory burden associated with zoning regulation in markets like Manhattan, Los Angeles, and San Francisco is **between 30-50% of the cost of the price of housing there**. Another study indicates that each additional regulatory measure in California is associated with a 4.5% increase in the cost of owner-occupied housing. (Calder, 2017).

Rising equity prices on the west coast have fueled a net migration out of California for the first time in its history. People moving from California to the mid-west and southeast have allowed housing markets in Tennessee, Texas, Florida, Ohio, and Arizona to hit record numbers of new homes sales since the Pandemic began. In addition, with zoning and land costs rising considerably faster than median incomes in the Golden State, the affordable housing price gap between household incomes and 2021 housing costs in markets like California is now so wide a regression to a more affordable gap is almost inevitable. The most practical result on the horizon suggest that housing prices must fall and/or the amount of time to sell a home is going to multiple from days on the market to months and months on the market. In essence, the pool of buyers for homes above the median price for homes is going to shrink. Hence, we are now seeing massive migration to more affordable states. We note the top ten migration markets below.

CALIFORNIA SEES IT FIRST POPULATION DECLINE

California has been steadily losing people to other states for years. From 2010 to 2020, about **6.1 million** people left for other states and only 4.9 million arrived from other parts of the country, according to an analysis of census data by the Public Policy Institute of California. (NBC News.com 2021).

2020: STATES RANKED BY MIGRATION GROWTH

According to U-Haul, a leading indicator of migration patterns in the US, here are the top ten states people moved to in 2020. (U-Haul, 2020).

1-Tenn, 2-Texas, 3-Florida, 4-Ohio, 5-Arizona, 6-Colorado 7-Missouri, 8-Nevada, 9-North Carolina, 10-Georgia.

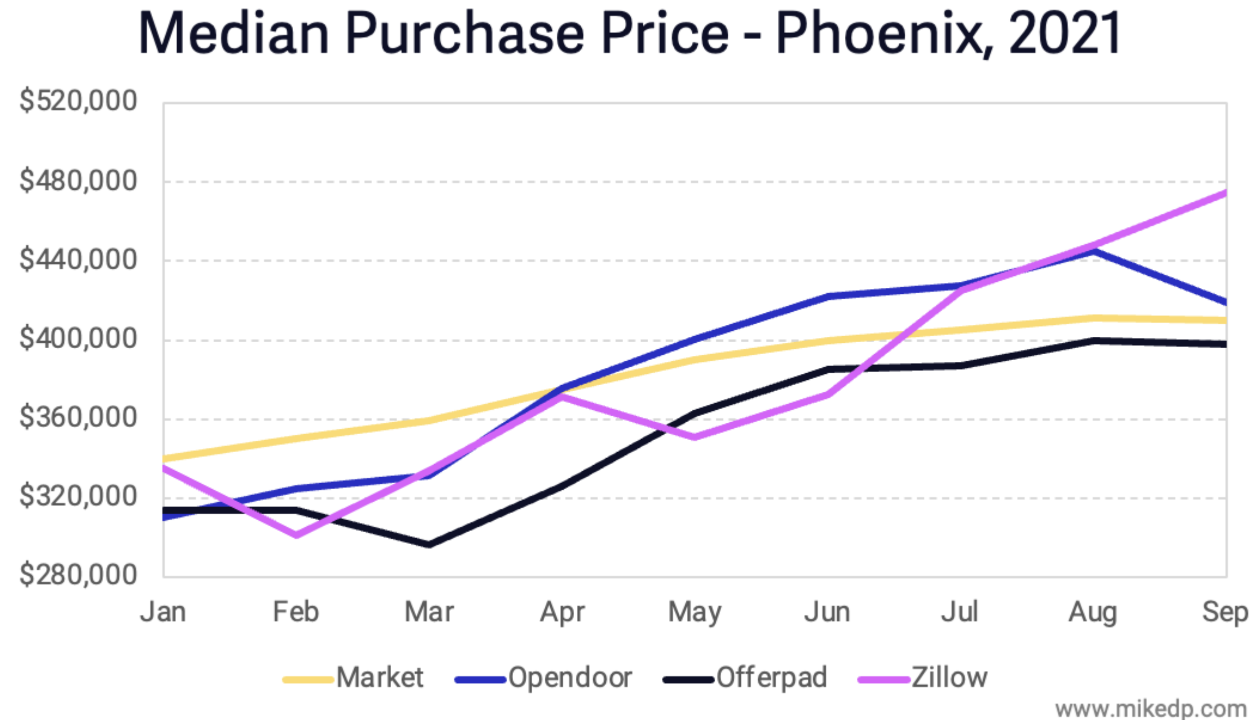
The 2022 US Housing Market-Why US Housing Values are likely to fall.

In order to gauge why Housing prices will begin to decline in late 2021 and throughout 2022, it helps to understand what drove US homes prices to record highs starting with the Covid outbreak (March 2020) through today. Like many housing bubbles in the making, some factors that can influence each bubble seem to retain common attributes like quantitative easing (lowering interest rates) and stock markets going higher to help finance higher housing prices similar to what we saw in the housing bubble of 2008.

In addition, the Covid outbreak saw a migration shift toward the suburbs to flee increasing crime and to lower tax states to help subsidize higher home prices. The advent of cheaper mortgages only enhanced the acceleration for home buyers to enter these out of state markets. The housing bubble of 2022 will be caused by the triple witching year of 2021 consisting of too much cheap mortgage money driving up prices. A systemic shift for housing locations into tax friendlier states, massive Chinese debt problems that will likely hit our shores, and the perception (soon to be reality) that tax hikes across the board are inevitable will add to the decline in homes prices, especially in high tax states. Thus, the demand to move to states with an overall lower cost of living will continue for the next several years. It is no wonder the top ten migration states also have the lowest taxes.

Now that the crack is forming up, let's look at the most recent data by the country's largest buyer of homes, the public I-buyers that now define the rampant speculation that started this housing bubble in Q3-2021.

Median Pricing Transactions from the Top Four I-Buyers of Homes



For those of you who cannot see colors on this graph, please note the references at the far right where the graph ends. The top line in the upper right corner is the Zillow line. The lowest line that ends on the right is the "Offer Pad" line, followed by the second highest line which is "Market" and the line below Zillow on the far right is "Open Door". The recent boom is US housing prices spurred an entire cottage industry where public money was easy to raise and companies that controlled the "data" saw things happening faster than the public. They recognized the trend and capitalized on this Disneyland housing market by buying up tens of thousands of homes for the sole purpose of flipping them as prices continued to their upward spiral.

The problem with this business model is what happens when the music stops. This entire model is based on home prices continuing to spike well beyond what is mathematically sustainable. These homes were not purchased to renovate, improve, and deliver a better home back onto the market like savvy speculators know how to do. They were purchase with the believe they had one value in January and a much higher one in April. The business model was based solely on the passage of time with unsustainable appreciation as the investment thesis. Furthermore, when these homes are bought by appreciation speculators, they must absorb all of the taxes, insurance, utilities, maintenance, and transaction cost, in addition to inheriting deferred maintenance issues on some homes which will require additional financial commitments. The buyer pools will not be there in

2022 to take out these homes at yet again much higher prices. After a two-year run up the music is stopping. We now have 2008 all over again in many housing markets across the country. The recent Zillow Headline says it all.

"Zillow to stop flipping homes for good as it stands to lose more than $550M, will lay off a quarter of its staff". (Swartz, Nov 3rd, 2021).

This housing cycle like 2008, will take years to unwind as the housing markets will need to reprice into a declining market. Speculative markets like Phoenix that will have thousands of homes hitting the market on top of existing inventory will only accelerate the price decline. Phoenix, as an example will return to see more homes on the market than existing demand can handle. This will lead more and more buyers to conclude "If I wait a year that $900,000 home now priced at $825,000 will be $750,000 this time next year", further reducing the number of active buyers. Zillow now estimates they will lose an average about $80,000 per home in their portfolio. I suspect this does not consider how steep this decline is going to be and that deeper write downs will be coming.

This trendline once it starts takes time to unwind and usually takes two to three major price declines to hit bottom. Some housing markets may only need one or two rounds of repricing and a precious few housing markets will see fairly minor declines because like any asset, the very best in any asset class is always the last to fall and the first to recover.

Why $29 Trillion in Public Debt is different this time. The United States has always survived on deficit spending so what is different this time around? The answers are complex, and no one answer can fully comprehend the web of variables that goes into "How much US Debt is too much"?

The past two decades have been far more costly than the previous 225 years by over $14T dollars. In other words, it took about 225 years to get to $14T in debt and only a little more than two decades to double the national debt to $29T. Why did this happen? Well, lets follow the money, most of the increase in spending went into three areas, the Afghan war, the 2008 housing bubble resulting in the American Recovery Act under Obama, and most recently the Covid-19 worldwide pandemic.

If we take these three events and include support and logistical cost, well there went over $10 Trillion dollars. In other words, about one third of all of the US debt went to solve these three problems.

The problem America had was these problems needed to be solved to avoid either an actual financial collapse of some kind and/or the logical believe that fighting terrorism to protect US shores had to be a priority. We also missed the real costs of these problems by several trillion as it turns out. The main reason for this is that the problems took much longer to solve and of course cost more money as time went on.

While there is plenty of blame to go around on how and why and in what order the government spends money, the fact is we are where we are, and we are approaching a world where a US default is not only possible, but under a perfect storm it could happen. The Covid 19 pandemic did not help, the most recent estimates have put the cost of the worldwide pandemic at $24T dollars. Almost every government in the world had to borrow money to finance the pandemic. This kind of cost being absorbed into the global debt balance has never happened before.

The United States and every other large country simply cannot continue to solve problems using Trillion dollars bills as the answer. The data presented in this article is flashing red lights on where we and the many other countries are headed. It is time to pay attention to fundamentals and what is happening halfway around the world.

2022 US Forecast-Economic Conclusions

Earlier in this report I mentioned that the United States and many other developed countries are facing a triple witching hour. For those of us who do not follow the capital markets, a triple witching hour refers to trading deadlines that all expire at the same time. When this happens, volatility increases and the price for stocks and options can fluctuate widely, often seeing huge price swings throughout the day. The aftermath of this volatility could lead to falling home prices.

The reason the current US deficit and the issues surrounding it are different this time is because total US debt loads along with increased US bankruptcies could spell more volatility in 2022. According to the Institute of International Finance, the world's weighted debt-to-GNP level rose to 356% from where it stood in 2019, up a whopping 35 percentage points in just two years. (axios.com, 2020).

"That upswing is well beyond the rise seen during the global financial crisis, when 2008 and 2009 saw 10 percentage points and 15 percentage points respective debt-to-GDP jumps". axios.com, 2020).

What is troublesome about these increases is that like the US, the world's debt has been rising at an unsustainable pace to GNP. In fact, in the 1990's the International Monetary Fund recognized that a healthy Debt to Equity ratio for a developed nation should be around 60% debt-to-GNP. (Chowdhury, 2020).

Later on, this figure was revised to 192% "because that was the median number" that closely represented developed nations twenty years later. That is like saying the correct amount to be overweight is about 22 pounds for males because that is equal to the average amount of weight the median male needs to lose.

What does this ratio have to do with US inflation or disinflation? We now know that most of the latest data shows many of the developed countries in the world have around 2.5 times debt to GNP, about 4 times what was once suggested as optimal. We also know that global markets more than ever have to keep rolling their debt obligations by continuing to sell bonds. While

there has been relative harmony with pension funds and governments buying global debt, any type of regional default is going to force the global bond markets to reprice. Since risk will be increased, the price of bonds and therefore interest rates will have to rise, depressing GNP's at a time when economies are already under stress from adding debt to manage the Covid crisis. The reality is the world is now shopping at the same grocery store for money, the global debt market, where prices always adjust to what the markets are saying about the future.

The United States is already positioned to see an increase in bankruptcies and foreclosures in 2022. That is pretty much baked into the data unless massive stimulus is provided to create a softer landing. Given the recent passage of the Infrastructure Bill additional stimulus is unlikely but some of the bill could help drive the construction trades to benefit from this spending.

The rampant speculation in US housing prices will force the housing markets to reprice downward for the next few years. The wild card is how bad will the debt crisis in China get, and can they manage to refinance their real estate debt while digging out of a trillion-dollar hole. This is going to be almost impossible because they are refinancing at much higher rates, basically kicking the problem down the road. The US is now going to have to juggle short term inflation into 2022, continued supply chain problems, spikes in Covid, and a global debt crisis that is lining up.

The likely outcome given the global headwinds before us is more borrowing around the world to finance deficits, now approaching dangerous levels. When one country defaults, the cost of default has to be absorbed by the global markets on some level, even it if just means the cost of credit goes up. If the cost of the 29T US deficit goes up, the US budget needs to spend more on debt and less on everything else. This is a textbook way to create a recession.

This will lead to a slowdown around the globe and in the US economy but will initially be masked by inflation. The recent media hype about the great 2021 holiday season projecting an 8-10% increase in sales is primarily measured in dollars, not the number of units sold. This means a retailer could sell 10% fewer items but also show increased sales of 10%. What happens when the music stops? Those fewer item sold will need to discount to move product. The US holiday season for 2021 could prove to be a huge vacuum that maybe better understood when the 2022 holiday season reports its numbers should the US economy stall for any number of reasons. Moreover, with a 400% increase in gift cards counted into sales, a large portion of the 2021 holiday season is just converting one form of currency (cash) into another (gift cards). Nothing is really purchased when this happens. Many consumers may hold these cards for a rainy day.

We are at the point where if we can manage a soft landing from here, we will have hit a home run. The best course for individuals will be to stay diversified, reduce debt, and get in position to survive a five-year repricing across all asset classes. In simple terms the cost of being right will be less rewarding on investment choices and the cost of being wrong will cost more when repricing begins to occur in 2022 and becomes more evident into 2023.

There will be money made in a select few cryptos although many new issues will fail. The world does not need 14,000 crypto currencies. The stock market in 2022 will favor those companies whose business models are disruptive but given the current headwinds, large stock gains will slow in 2022 as investors seek liquidity when the bumps ahead are felt in the headlines. We will continue to see inflation well into 2022, with the fall out starting with housing, lower stock gains, and eventually falling retail sales as consumers absorb the increases in gas prices and interest rates. It will likely be 2023 before this unwinding is fully reported in the press.

I want to thank all of my references used in this report. Their work helped support the conclusions herein. Most of my followers know I am an eternal optimist and hence this report was hard to write. As an American and Entrepreneur, I believe in our country, and I believe our economy will survive this storm, but it will be more painful that most people realize.

Signing Off,

John C Botdorf.
botdorfjohn@gmail.com

References:

1-ATTOM Staff (Jul 15, 2021) Foreclosures, Most Recent Articles. https://www.attomdata.com/news/most-recent/attom-mid-year-2021-u-s-foreclosure-market-report/

2-Axios (2020). "Global Debt soars to 356% of GNP". www.axios.com/global-debt-gdp-898959ed-f96a-4c4d-85a3-5d3cc419631f.html

3-Backman, Maurie, (Nov 6th, 2021) The Motley Fool "New Data Reveals How Home Prices Are Rising Much Faster Than Income". https://www.nasdaq.com/articles/new-data-reveals-how-home-prices-are-rising-much-faster-than-income-2021-11-06

4-Calder, Vanessa. (Nov 2017). "Zoning Regulations have dire human costs" https://fee.org/articles/zoning-regulations-have-dire-human-costs/

5-Chowdhury, Anis (Nov, 2020). "Is there an acceptable Debt to GNP ratio? https://voxeu.org/debates/commentaries/there-optimal-debt-gdp-ratio

6-CNBC. (2021, Dec). Inflation on the horizon, CNBC.com.

7-Fred Charts. (2021). "Velocity of M2 Money Stock". research@stlouisfed.org.

8-Investopedia (2021) "M2-Definition", Investopedia see: www.investopedia.com/terms/m/m2.asp).

9-Mueller, Antony. (2018) "What is Money Velocity and What does it Matter?". American Institute for Economic Research.

10-NBCnews.com (2021) "California loses population for the first time" www.nbcnews.com/news/us-news/california-leaving-state-population-declines-fi…

11-Richter, Felix (Aug 2020). "U.S. Bankruptcies at 10-Year High As Pandemic Takes Its Toll on Bankruptcies" https://www.statista.com/chart/22563/bankruptcies-in-the-us/

12-Shobhit, Seth (March 2021) "Why China buys US Treasuries". https://www.investopedia.com/articles/investing/040115/reasons-why-china-buys-us-treasury-bonds.asp

13-Swartz, Jon (2021). "Zillow to stop flipping homes for good as it stands to lose more than $550M, will lay off a quarter of its staff. www.marketwatch.com.

14-U-Haul, (Jan 2021) Top Ten Migrations States for U-Haul in 2020. https://www.uhaul.com/Articles/About/2020-Migration-Trends-U-Haul-Ranks-50-States-By-Migration-Growth-22746/

15-Your Business Authority (Oct 28th, 2020). "Experts project bankruptcy spike in 2021". https://sbj.net/stories/experts-project-bankruptcy-spike-in-2021,71420 Read more from The Wall Street Journal).

16-www.ycharts.com (2020). US GNP, www.ycharts.com/indicators/us_gross_national_product).