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JIM RICKARDS'
STRATEGIC INTELLIGENCE

A Year Like No Other – 5 Forecasts For 2024

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A Year Like No Other – 5 Forecasts For 2024

This month, Jim follows custom and offers a look ahead at the coming year in the world of macroeconomics and geopolitics. He provides five predictions for 2024, including market forecasts to help keep you ahead of the curve in positioning your investment portfolio. Read about it all inside...

Bet On This Defensive Utility To Profit In The Coming Year

Dan discusses the cyclical system that defines our society and the current crisis stage we are experiencing today. He recommends a defensive stock in the electric utility sector as a safe bet to profit in 2024. See inside for Dan's recommendation...

Who Said Bonds Were Boring?

Zach gives an analysis on the perils of the popular 60/40 portfolio allocation. He also offers several ways to play the bond market for both a level of safety and a chance to grow your wealth significantly in anticipation of coming Fed rate cuts. Read more from Zach inside...

2024: When Everything Gets Marked to Market

Byron provides insight on the accounting principle of marked to market. He reveals how this principle will impact different sectors of the market in 2024 and the best way to profit from market resets of true value. Read on for Byron's insight...

JIM RICKARDS *Editor*
MATT INSLEY *Publisher*
DAN AMOSS *Senior analyst*
ZACH SCHEIDT *Contributing editor*
BYRON W. KING *Senior Geologist*
FRANK DEVECHIO *Managing editor*

For the December issue of *Strategic Intelligence*, it's customary to offer a look ahead at the coming year. That's exactly what we'll be doing in this special edition. I have five forecasts for 2024 to help keep you ahead of the curve in positioning your investment portfolio.

Forseeing a Tumultuous Year

Our first forecast is that 2024 will be more tumultuous and shocking than 2023. That may seem hard to credit. After all, 2023 featured the continuation and expansion of the War in Ukraine, the launch of a new war between Israel and Hamas in Gaza, and the start of the presidential election campaign with a series of Republican debates absent Donald Trump who is skipping the debates in view of his seeming insurmountable lead in the polls.

We also saw the former president, Donald Trump, criminally indicted on over 90 felony counts in separate cases in Georgia, Florida, New York, and Washington DC. We witnessed the mental deterioration of the Commander-in-Chief, Joe Biden, who trips up the stairs, stumbles onstage, seems lost in mid-sentence and can't express a coherent thought without help from teleprompters, cue cards, and instructions delivered through an earpiece.

At a time when America needs polished diplomacy with Russia, China, and the Palestinians, we have an enfeebled president who is an embarrassment in public and likely worse behind closed doors.

You get the point. With two major wars, an indicted former president, and a demented current president, how can 2024 be more challenging than 2023? Rest assured; it will be. We explain why below.

An Election of Dire Consequences

It's a cliché to write that the next presidential election will be the "most important in our lifetimes." Yet, in 2024 that cliché will actually be true. The Democratic Party has moved so far to the left, really to the point of neo-Marxism, that they have no room left for Robert F. Kennedy, Jr. (RFK, Jr.), whose family is practically synonymous with Democratic politics.

At the same time, the Republicans are lined up solidly behind Donald Trump, who is probably the most nationalist candidate since Andrew Jackson. The divide between the two parties is probably greater than at any time in U.S. political history since the Civil War. Depending on which party wins, the country will

continue down the path to Marxism, or do an about face and move toward America First policies in international affairs, trade, immigration and other key policy issues. The choice could not be more stark and the stakes could not be higher. That's why this election is so important.



Robert F. Kennedy, Jr. (RFK, Jr.) is challenging both Donald Trump and Joe Biden as an independent third-party candidate in the 2024 presidential race. In contrast to many third-party candidates who gather 1% to 2% of the vote, polls show RFK, Jr. with support in the 15% to 20% range. He is joined by other formidable third-party candidates including Cornel West, Jill Stein, and likely Joe Manchin. This election should show independents gain as much support as Ross Perot, Jr. in 1992 and Teddy Roosevelt in 1912.

We could probably write a book on the run-up to the 2024 election. Since our space is limited, we'll offer a synopsis broken into three parts — Biden, Trump, and third parties.

Joe Biden — NOT The Nominee

The main thing to say about Joe Biden is he will *not* be the Democratic nominee for president. The reasons are well-known. He's 81 years old now, and he'll be 86 years old at the end of a second term. There are 100-year-olds like Henry Kissinger who are still mentally sharp. Kissinger has written several books in recent years and does interviews and lectures. Still, age is about more than mental ability. It has to do with energy, quickness of thought, and the ability to handle stress.

A number of former senior policy officials now in their 80s have been asked whether they could serve as president today. They uniformly said "no way." Again, they are still mentally capable. Their answer is about energy and stamina.

Many of the best U.S. presidents were in their 40s when they were sworn-in including John F. Kennedy, Theodore Roosevelt, Bill Clinton, Ulysses S. Grant, and James Polk, among others. Only 12 U.S. presidents were older than 59 when they were sworn-in. Only 2 (Trump and Biden) were over 70 when first sworn in. This trend toward septuagenarian and octogenarian presidents is entirely new.

Biden's problem is not just his age, but the fact that he actually is mentally and physically impaired. He cannot complete sentences, recall facts or form coherent thoughts. The idea of Biden conducting high-level negotiations with Vladimir Putin or Xi Jinping borders on the impossible. He's simply not fit to be president, and everyone knows it even if Democratic operatives and media sycophants don't want to mention it.

That leaves two issues: who will replace Biden as nominee, and how will it happen?

The answer to the first issue is easy. The Democrats do not have a deep bench partly as the result of leaders such as Biden, Pelosi, Sanders, Clyburn, and Hoyer hanging on until they're in their 80s. They have squashed an entire generation of candidates.

The most likely replacements are Gavin Newsom, Jay Pritzker, Gretchen Whitmer or Jennifer Granholm. All four were or are state governors. They're all about the same ideologically; take your pick. Forget Kamala Harris; she's simply not bright enough even for the Democrats.

The how is more interesting. Biden is running and stands to gain a significant percentage of the convention delegates between now and next May. The four names above will have none. But Biden can make a decision to withdraw from the race and simply release his delegates; they all become free agents. This will be coordinated by leaders of the Super Delegates; a Democratic invention to make sure about one-third of the total delegates are approved by party leaders but never elected. (So much for Democrats whining about "democracy;" they favor a rigged game).

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Joe Biden will not be the Democratic nominee for president in 2024. Biden's problem is not just his age, but the fact that he actually is mentally and physically impaired. He cannot complete sentences, recall facts or form coherent thoughts. The idea of Biden conducting high-level negotiations with Vladimir Putin or Xi Jinping borders on the impossible. He's simply not fit to be president, and everyone knows it.

The Super Delegates will endorse one of the names above and the free agent delegates will fall into line. This makes the entire Democratic primary process a farce, but it gets to the desired result. Don't be surprised when this happens.

That leaves one loose end. The Biden Crime Family still needs a presidential pardon for Jimmy Biden, Frankie Biden, Hunter Biden, sister Valerie, and the Big Guy himself. The Bidens can't be sure a Democrat will win in 2024. So, the pardon will have to come from Joe Biden himself. That would be the first time in history that a president issued a self-pardon; (Nixon was pardoned by Jerry Ford). It's probably constitutional, but no one can be sure because it has never been litigated. It's another case for the Supreme Court, but Biden will be gone before the case gets that far.

Another possibility is for Joe Biden not only to quit the race, but to resign the presidency after the election assuming Trump wins. That would make Kamala Harris president for a few months before Trump is sworn in. She can then issue the pardon and secure her place in history as the first woman president. That might be just enough to get her to go along with the deal. Again, these scenarios may seem far-fetched, but they're playing out before our eyes. Just don't be surprised by any of this.

Donald Trump — A Conviction is Likely

On the Republican side, there's not a lot to say. Trump will be the nominee; no one can recall a non-incumbent with such a large lead in the polls. He's leading the pack by 55 points or more. Criminal indictments only increase his popularity because they are clearly motivated by Democrat hack prosecutors.



Donald Trump is leading in all state and national polls for the Republican nomination for president and is now even running ahead of Joe Biden in recent polls. Despite facing over 90 felony charges in four separate indictments in two state courts and two federal courts, (in current form) my forecast is Trump will win back the presidency in 2024.

A criminal conviction (likely in my view) will also solidify Trump's base because of the blatant jury shopping, targeted prosecutions, and absence of due process that Trump has had to endure. **The biggest curve ball in this disgraceful set of prosecutions is that Trump may actually be behind bars on Election Day.** That's OK, there is no legal or other prohibition on electing an incarcerated convicted felon as president. Third world, yes. Illegal, no. The man with orange hair may be in an orange prison suit, but that won't stand in his way.

The Third-Party Wild Cards

This brings us to the third-party situation. There are always third parties in U.S. presidential elections and they almost never matter. They usually get 1% to 2% of the vote, win no states, and that's it. It is possible that Green Party candidate Jill Stein actually did cost Hillary Clinton the presidential election in 2016 by getting just enough votes in Pennsylvania, Wisconsin, and Michigan to tip those states to Trump.

The bad news for Biden is that Jill Stein is back. And so is RFK, Jr., Cornel West and possibly Joe Manchin. The 2024 cycle will be a landmark year for third parties.

Jill Stein and Cornel West are competing for the Green Party nomination. It's not clear who will win but if Jill Stein gets the nomination, West will have other party lines to run on. RFK, Jr. tried to run on the Democratic Party line but was driven out of the race by the Democratic National Committee which threatened to unseat any

delegates he might win in New Hampshire if he even sets foot in the state. (This is consistent with who the Democrats really are — the anti-democratic party). Kennedy has the money, lawyers and smarts to get on the ballot with his own party. It's not easy (I've done it for other candidates) but it can be done.

Next to Kennedy, the most interesting case is Joe Manchin. He's a Democrat who just announced he's not running for reelection as U.S. senator from West Virginia. He's going on a coast-to-coast listening tour, a standard device for someone planning to run for president. If he runs, he's likely to go on the No Labels Party line. No Labels has done the hard work already and is on the ballot in almost every state.

Jill Stein may be in the 2% category, but the others are heavy hitters. RFK, Jr. is consistently getting 15% or more in the polls. Cornel West will have appeal both to blacks and ideological left wingers. Manchin will appeal to the middle-of-the-road types who are sick of Trump and Biden.

Together, this Gang of Four could get 25% of the vote. That could easily throw the election to Trump. It's not that every voter for one of the independents is a lost Biden (or Gavin Newsom) vote. Some Trump voters will go for Manchin or RFK, Jr. But it's fair to say the majority will come from the Democrats. In an election scenario where the margin of victory in a two-way race is about 2%, a 25% showing by third parties will bury the Democrats.

The historical precedents are sobering. In 1992, Bill Clinton only got 43% of the vote, but he won the election over George H. W. Bush who only got 37.5%. The remaining 19% went to Ross Perot. If the Perot vote were split 65% for the Republicans, Bush would have won 49.9% to 49.7% over Clinton. There's little doubt Perot cost Bush the election.

The other similar case was 1912. Teddy Roosevelt chose not to run in 1908 and the party nominated William Howard Taft, who won the election. By 1916, Roosevelt changed his mind and challenged Taft for the nomination. Taft won, so Roosevelt started the Bull Moose Party and ran against Taft and the Democratic nominee, Woodrow Wilson. In the end, Wilson got 41.8% of the vote, Roosevelt got 27.4%, Taft got 23.2%, and Eugene Debs got 6%. If you combined the Roosevelt and Taft votes, either candidate would have beat Wilson 50.6% to 41.8%. Thanks to the Republican split, we got Wilson who gave us the federal income tax, the Federal Reserve, and World War I. Yes, elections do matter.

The 2024 election is set to be a third-party scramble similar to 1992 and 1912. Both elections produced results that probably would not have happened without the large third-party vote. This will happen again, and it does seem to favor Trump.

Forecast #1 – On current form, Trump will win back the presidency on November 5, 2024.

U.S., China and a Global Recession

The conventional wisdom about China is that it is the new superpower to rival the United States and its economy is expanding so strongly that it will soon overtake the United States as the world's leading economy.

This narrative was on full display during the recent summit conference in San Francisco that included a face-to-face meeting between U.S. President Joe Biden and Chinese President Xi Jinping. It's no exaggeration to say that Biden was an embarrassment on the world stage and Xi simply ran rings around him when it came both to optics and substance.

China ran the show. They made Gavin Newsom clean up the streets of San Francisco, leaving the residents to wonder why that was not done sooner. Xi's meeting with Biden preceded the main meeting of the Asia-Pacific Economic Cooperation (APCE), which is why Xi was in the U.S. This elevated the importance of the XI meeting instead of it being viewed as just another bilateral meeting in the APEC forum of which there are many.

Then Xi topped things off with a separate meeting with CEOs of major U.S. companies including Tim Cook (Apple), Larry Fink (Blackrock) and others to which Biden was not invited. By every measure, Xi was on top of his game and Biden appeared tired and confused.



At the November 2023 Summit Conference in San Francisco between President Biden and President Xi, Biden seemed lost and befuddled while Xi was on top of his game as a putative King of the World. The truth is that both the U.S. and Chinese economies are in serious trouble (for different reasons) and neither leader has a firm grasp on how to solve their problems or what policies to pursue.

BEST OF FIVE LINKS

The Green New Scam Won't Keep You Warm

The scientific evidence that the Green New Scam is a scam is now overwhelming. It started as a trickle a few years ago. Any scientist who questioned the green scam consensus was in danger of losing research grants, being denied tenure, or not being published in leading scientific journals. Now the worm has turned. It's the climate alarmists who are on defense and real scientists have been producing books, articles, lectures and original research showing that there is no climate crisis and CO2 has no detectable impact on whatever might be going on with the climate. Of course, the climate does change. We had prolonged warm periods during the Roman Empire and again around the year 1000 AD. That's when the Vikings were growing crops in parts of Greenland now covered in ice. There was an extended Little Ice Age from about 1500 to 1900 during which you could walk across the Thames River in winter because it was frozen solid. Real climate change was caused by solar cycles, volcanoes, ocean currents, water vapor and other macro events that had nothing to do with man-made carbon emissions. It's too bad Germany didn't get the memo. They spent the last 14 years, mostly under Angela Merkel and the influence of Germany's green party, deindustrializing Germany. They shut down every coal-fired power plant, almost every nuclear plant, and built huge arrays of solar modules and windmills. Guess what? It didn't work. Solar doesn't work at night or in bad weather. Windmills don't work when the wind doesn't blow. Together they are not enough to support a modern power grid. Germany also imposed so many regulations on energy intensive industry that companies simply moved their manufacturing abroad. This left Germans out of work and the GDP in decline. Now, Germany is at the end of its rope, as reported **here**. Facing severe winter weather, Germany has decided to fire-up one of its mothballed coal energy plants. It may reopen other coal-fired plants in the weeks ahead. It will take years to undo the damage the Green New Scam has caused in Germany. Hopefully this decision to reopen some coal plants marks a turning point on Germany's road back to sanity and away from the false science and fake claims of the greeniacs.

https://tinyurl.com/bdd4mavu

Two Economies Struggling (For Different Reasons)

Still, it's a mistake to believe the China power narrative or to read too much into Xi's star turn in San Francisco. Chinese economic growth has been slowing sharply since 2008. It is now in the low single digits (about 4% per year). That's down from the double-digit growth of the 1994-2008 period.

China is caught firmly in the middle-income trap where growth from low-income to middle-income is straightforward, but growth to the high-income ranks is extremely difficult without high-tech innovation and high-value-added manufacturing that China does not have. China's horrific one-child policy from the 1980s has ruined China's demographic growth for the next 75 years or longer. **China will probably never surpass the U.S. in economic output.**

In addition to these long-term problems, China has a list of immediate challenges including a commercial real estate collapse (Evergrande and Country Garden collapses among others), the drying up of residential real estate purchases by buyers who feel burned by crashing prices, and a slowdown in exports as the U.S. and EU move into recession.

China has had two failed "reopenings" (one after COVID in 2022, and one as the result of "stimulus" in 2023) and seems headed for a third. China gets a small boost from loose fiscal and monetary policy that rapidly fades because there is no real stimulus possible when a country is as heavily indebted as China.

The U.S. faces its own economic headwinds. These are different than China's but no less damaging. The Federal Reserve has raised interest rates to 5.50% from zero in 20 months and reduced its balance sheet by over $1 trillion in the same period; an even tighter monetary policy than the one engineered by Paul Volcker from 1979-1981.

Fiscal policy is also tightening since the COVID handouts and student loan grace periods are over. Fiscal policy will get even tighter now that Republican deficit hawks have the upper hand in the House of Representatives. This comes on top of a U.S. debt-to-GDP ratio of over 130%. Research shows that any ratio over 90% has a negative Keynesian multiplier effect; more debt does not produce commensurate growth and just makes the ratio worse.

The data showing the U.S. is heading to a recession is abundant. In fact, the U.S. may already be in recession. The indicators include inverted yield curves, negative swap spreads, rising commercial real estate defaults, declining industrial production, declining job creation, rising continuing claims for unemployment, falling bank loans and debt securities issuance, and the likelihood of U.S. credit downgrades by Moody's.

Those who are cheering the fact that intermediate-term interest rates have begun to fall may not understand that interest rates are a lagging indicator that usually falls *after* a recession has already started. Forget the soft landing. There's no such thing. This will be a hard landing and soon.

Forecast #2 - China, the U.S. and Japan will all fall into recession in the coming months. The EU is already in recession. A rare global recession will be the result in 2024.

Ukraine, Israel, and the Threat of Escalation

The War in Ukraine is the direct result of a series of diplomatic blunders by the U.S. that began in 2008 with George Bush's Bucharest Declaration, continued through the 2014 Kiev coup engineered by the CIA and MI6, and made worse by the failed Minsk Agreements of 2014 and 2015.

The Israeli-Hamas War in Gaza in just the latest in a long series of Arab-Israeli wars beginning with Israeli War of Independence in 1948, the Suez Crisis (1956), the Six-Day War (1967), the Yom Kippur War (1973), the invasion of Lebanon (1982), and the Second Lebanon War (2006).

We do not have the space in this article to review these histories in depth (we covered them extensively in past editions of *Strategic Intelligence*). Our focus instead will be on the current state of play in each war with particular emphasis on the risks of escalation, possibly to the point of nuclear war.

Russia is Dominating

It's likely no war in history was easier to prevent and easier to stop in the early going than the War in Ukraine. Russia's demands were straightforward: Ukraine would demilitarize, complete de-Nazification, not join NATO, remain neutral, and offer some autonomy to the Russian-speaking populations in the Donbass.

In exchange, Ukraine could keep its territory (except Crimea, which is permanently Russian), and join the EU if it wished. The U.S. told Ukraine it should reject these terms before the war. When Ukraine and Russia almost agreed to similar terms in March 2022 shortly after the war began, UK Prime Minister Boris Johnson, a Biden lackey, was sent to Kiev to threaten President Zelensky that he would lose Western support if he reached an agreement with Putin. Zelensky then abandoned the peace talks. The war has been going on ever since.

One powerful dynamic in the Ukraine War has been escalation. The U.S., UK, Germany and other NATO members have provided Ukraine with Patriot anti-missile batteries, Bradley fighting vehicles, Abrams tanks, Leopard tanks, Challenger tanks, HIMARS precision guided artillery, over one million 155mm artillery shells, Storm Shadow cruise missiles, Javelin anti-tank weapons, and over $100 billion in financial aid.

All of these efforts have failed. The Patriots were destroyed by Russian hypersonic missiles. The HIMARS were disabled by Russian jamming of GPS systems. The tanks and armored fighting vehicles have been left burning on the battlefield. The Storm Shadows have been mostly shot down by Russian S-400 anti-aircraft systems. Ukraine and the West are now practically out of 155mm shells. The $100 billion of financial aid has been mostly wasted or stolen by corrupt Ukrainian oligarchs. The vaunted Ukrainian counter-offensive was a complete failure and gained no territory. Between one-third and half the Ukrainian armor was destroyed in this failed effort.

Russia is winning the war decisively. The West and Ukraine have shown no willingness to negotiate and there's no reason for the Russians to negotiate because they're winning. All that's left for the Ukrainians is to withdraw to a defensive line, surrender or die.

With these prospects, it seems likely that Joe Biden will double-down on his losing bet. The Russians don't expect the war to be over until 2025. That gives Biden time to deliver F-16 fighter jets, more money, and to help Ukraine with its flying drones and sea-drones that can attack Russian vessels and the Kerch Bridge. Russia will certainly match that kind of escalation by shooting down the F-16s, increasing its cruise missile attacks on Ukrainian cities, and destroying Ukraine's energy infrastructure so that the country will lack electricity and heat this winter.

Forecast #3 (A) - Russia will not de-escalate because they're winning. Biden will not de-escalate because he's senile, is surrounded by warmongers, and has no reverse gear. The best hope for the world is that Biden loses the 2024 election (or withdraws from the race) and the Russians capture Kiev and put an end to Ukrainian and Western delusions. We do not expect escalation to the point of nuclear weapons, but the probability of that outcome is uncomfortably high and should not be dismissed.

The Threat of Middle East Escalation

The Israeli-Hamas War has its own risks of escalation. As of now, fighting is mostly limited to Northern Gaza adjacent to the Israeli border. Yet, Israel faces an enemy ten

times more powerful than Hamas in the form of Hezbollah, which is located in Lebanon on Israel's northern border, and which is heavily subsidized by Iran in terms of money, weapons, and intelligence. Hezbollah has launched some missile attacks from Lebanon on Israel's northern border, but those have not been extensive, and Israel has answered in kind.

In addition to Hezbollah, the Houthi rebels in Yemen are firing missiles into Israel. The Houthis are a direct Iranian proxy intended to threaten Saudi Arabia, but they are equally capable of threatening Israel.

If Hezbollah and Houthi attacks on Israel escalate, Israel will not limit their response to those two groups. They are likely to launch attacks on Iran itself going to the root of the problem. At that point, Iran may fire missiles at Israel and close the Straits of Hormuz.

In anticipation of that, the U.S. has moved the Gerald Ford aircraft carrier battle group to the Eastern Mediterranean and stationed one Ohio-class nuclear submarine in the Red Sea. It has also moved the Eisenhower aircraft carrier battle group through the Suez Canal to the Persian Gulf near the Straits of Hormuz.

The idea is to deter Iran from attacking Israel, but they can be used to attack Iran if the war escalates to that level. Russia is watching on the sidelines and will support Iran if necessary. Saudi Arabia and Qatar, two of the world's largest energy producers, are caught in the middle.

For now, the tensions have been reduced slightly. Hamas and Israel are completing a deal that would allow a short-term ceasefire in exchange for a partial release of the hostages taken by Hamas during the massacre of Israelis on October 7.

Prediction #3 (B) – If the escalation scenarios play out even in part, expect oil prices to go to $150 per barrel or higher. That will put the U.S. and Western Europe in a recession worse than 2008 and the earlier oil shock of 1974. In the 1974 recession, the Dow Jones index fell 45%. That would equate to a crash of over 15,000 Dow points from today's levels. Don't rule it out.

Banking Crisis Stage 2

We're familiar with Stage 1 of the recent banking crisis. In less than two months from early March to early May, 2023, we saw the failure of Silvergate Bank, Silicon Valley Bank, Signature Bank, Credit Suisse, and First Republic. Silicon Valley Bank had over $120 billion in uninsured deposits. Credit Suisse was one of the oldest and largest banks in the world. First Republic was a major wealth manager. Silvergate and Signature Bank both had portals to the cryptocurrency world, which may account for why regulators were not eager to bail them out.



Before the Silicon Valley Bank collapse, the deposit withdrawals were so large that SVB had to sell billions of dollars of bonds to meet the withdrawal obligations. On March 12, the bank was bailed out by the Fed. A bigger and more acute Stage 2 of the banking crisis is coming after the quiet period that has prevailed since June.

In response, the FDIC abandoned its $250,000 insurance limit and guaranteed all of the deposits in the failed banks (not including Credit Suisse which is a non-U.S. bank and was backstopped by UBS and the Swiss government). The Federal Reserve created a facility that would buy at par value any Treasury securities held by any member banks, even though the market value of the securities is now 30% below par value.

It was the mother of all bailouts and seemed to leave stock market investors unfazed. Going forward, the issue is: once you've guaranteed every deposit and agreed to finance every bond at par value, what's left in your bag of tricks? What can you do in the next crisis that you haven't already done — except nationalize the banks.

Investors are relaxed because they believe the banking crisis is over. That's a huge mistake. History shows that major financial crises unfold in stages and have a quiet period between the initial stage and the critical stage.

This happened in 1994 when the spring bond market massacre seemed contained in the summer only to explode into the Mexican Tequila Crisis in December. It happened in 1997-98 when the Asian financial crisis calmed down in the winter of 1998 only to explode into the Russia-LTCM crisis the following August and September. It happened during the Global Financial Crisis when the original distress in August 2007 that seemed contained was followed by the failures of Bear Stearns, Fannie Mae, Freddie Mac and Lehman Brothers from March to September 2008.

Forecast #4 - History is repeating itself. A bigger and more acute Stage 2 of the banking crisis is coming after the quiet period that has prevailed since June. This new crisis will be focused on about 20 banks with $200 billion to $900 billion in assets – the so-called mid-sized regional banks that are not too big to fail. At a minimum, stockholders will be wiped out and noteholders will take a haircut. It remains to be seen if uninsured depositors will lose any money. If they don't, the credit of the FDIC insurance fund itself may be called into question. Crises of this sort can feed on themselves and cause losses that go far beyond the particular banks that may be most vulnerable. A new global financial crisis could be the result.

Stocks, Bonds, Commodities and Foreign Exchange

All of the above predictions involve turmoil either in domestic U.S. politics, international macroeconomics, ongoing wars, or a potential financial meltdown starting in the banking system. With that as background, our market predictions are fairly straightforward:

Forecast #5

Stocks – 2024 will be a difficult year for stocks. The market could decline at least 30% on a recession alone, and as much as 50% if either the Ukraine or Israeli wars escalate, or a global financial crisis emerges. The major sectors that will outperform even in a falling market are energy, defense, agriculture, and mining.

Bonds – 2024 should be an excellent year for U.S. government securities. All maturities will produce decent yields and capital gains as interest rates decline going into a recession.

Commodities – This will be a mixed bag in 2024. Basic commodities such as copper, iron ore, coal, non-precious metals, and agricultural produce will generally decline as the recession unfolds. Gold and silver should perform well based on declining interest rates and a flight to quality. Energy will be volatile. It will tend to go down based on economic weakness, but occasionally rally on geopolitical fears.

Foreign Exchange – These markets will be dominated by a continuing strong dollar and weaker currencies across the board including the Euro, Yen, Sterling and the Chinese Yuan. Despite well-known fiscal and monetary problems in the U.S., there remains a global dollar shortage and a strong bid for dollars to buy Treasury bills to post as collateral to support bank derivatives positions. That dynamic will not change until a global financial crisis emerges.

2024 — A Year Like No Other

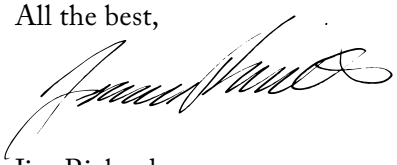
We are facing a presidential election with unprecedented efforts to stop one candidate, Trump, and unprecedented physical and mental weakness by the other candidate, Biden. What Americans want most is more choices and less partisanship, but they may not get it.

China and the U.S. are both slowing dramatically and are leading the way to a global recession. The Wars in Ukraine and Israel are each barely contained, and both could escalate out of control even to the point of nuclear weapons. A new banking crisis may emerge as Stage 2 to the crisis we saw last spring.

The investment choices are clear. It will be a bad year for stocks, a good year for Treasury securities, and a down year for commodities, except for energy and gold. The winners will be Treasuries, gold, oil, and King Dollar.

Put on your crash helmets for a wild ride in the coming year.

All the best,



Jim Rickards
Editor, *Strategic Intelligence*

"Jim, I have subscribed to many financial publishing groups over the years, and yours is by far the best I've seen. You really understand world affairs with detailed information you don't get from the mainstream news". - Steve T.

Bet On This Defensive Utility To Profit In The Coming Year

By Dan Amoss, CFA

As the New Year fast approaches, investors seem unprepared for simultaneous political, geopolitical, and financial rollercoasters.

Eight gigantic tech stocks hog everyone's attention. These companies dominate most portfolios and watercooler discussions.

Fans scoff at skeptics who point to these tech companies' financial sustainability or investment merit.

"Just wait," they may say. "Artificial intelligence (AI) will be like the proverbial genie in a lamp that will grant all wishes, end scarcity, and maybe even lower the earth's temperature by a few degrees in the year 2100!"

Meanwhile, ignore the poor track record of AI's economic value-add and the tiny impact it has had on the physical world or on living standards. I've experimented with Chat GPT and other generative AI systems. While it can accelerate some processes, it also has poor judgment when asked increasingly difficult questions, and can lead questioners — with loads of confidence — into intellectual dead-ends.

I lead this article with a skeptical perspective on AI because considering the attention and market cap showered on anything tangential to AI, it seems mandatory for stock market analysts to have an opinion.

AI, like other software frameworks, is a garbage-in, garbage-out phenomenon. If a large language model is trained on overconfident, erroneous facts, it will accelerate the spread of misinformation without having the judgment to distinguish good information from misinformation.

As an example, Jim has been skeptical (and right) about the U.S. policy toward Ukraine. Yet, how many AI systems would label his view as bordering on misinformation? Jim makes efforts to fully understand things — including the longer historical context of the NATO-Russia dynamic. But because our data-saturated world tends to overemphasize recent (more data-rich) history and narratives, would it effectively ignore or downplay the long NATO-Russia history prior to 2022 in an attempt to make a judgment call?

So, my prediction for 2024 is that AI will accelerate the societal and political divisions that are already underway, and well-articulated by Jim.

These societal divisions can, in one sense, be defined as:

1. Those who think that truth can be gleaned from crunching enough unstructured data, and that human nature is ever more perfectible (more liberal, utopia-seeking people); and
2. Those who think that determination of truth must be constantly tested and proved in case after case, and that past successes and failures are worthy of study (more conservative, grounded people).

That's not to say that any person fits neatly into one category or another. It's easy to fall into false dichotomies. But it's helpful to think in categories to anticipate which way people, as groups, ultimately go.

History shows that ideas are powerful. They can inspire greatness or accelerate declines. Ideas influence habits and ultimately decisions that impact future generations. Speaking of generations…

Neil Howe Claims, "The Fourth Turning Is Here"

Will today's generational mix of Silent, Boomers, Gen X, Millennials, and Gen Z throw society into the meat grinder of total conflict? Author Neil Howe recently wrote a book on the subject. It's called *The Fourth Turning Is Here*.

Here is a summary of Howe's framework and terminology.

The Fourth Turning was a best seller, published in 1997. Howe co-wrote it with the late William Strauss. It outlines a cyclical theory of history based on generational archetypes. The authors identify four generational types. They argue that history follows a recurring pattern of crisis and renewal, which they call a "saeculum." Think of the saeculum as the length of a typical person's lifetime. Here's an outline of the current generational mix. I list the Strauss-Howe archetype first, then the generation label in parentheses:

1. **Prophet (Boomers):** The cycle begins with a period of crisis, marked by societal upheaval and a demand for change. The Prophet generation (Baby Boomers) emerges during this time. They challenge established norms and institutions.
2. **Nomad (Generation X):** After the crisis, we often see a period of individualism and dismantling of social institutions. The Nomad generation (Gen X) is described as resilient, pragmatic, and adaptive.
3. **Hero (Millennials):** The crisis triggers a collective response. A fresh sense of unity arises. The Hero generation (Millennials) becomes the force behind resolving the crisis. Heroes mostly display civic duty and optimism. They show a desire to

rebuild society. Importantly, in Howe's framework, the last Hero generation before Millennials was the GI generation that sacrificed much to win WWII.

4. **Artist (Generation Z):** After the crisis is resolved, we see a period of cultural and spiritual awakening. The Artist generation (Gen Z) values creativity. It does not conform to the system constructed by Heroes.

Howe argues that we are only partway through the multiyear crisis phase of the saeculum. This crisis started around 2008 and will last through the early 2030s. As Heroes-in-training, Millennials are expected to lead society through this crisis era.

What might make Millennials — many of whom struggled with "adulting" — grasp the leadership role that Howe says awaits them? This excerpt from Howe's new book stood out:

"Older Americans, no matter how sympathetic to the goals of the new regime, will always be bound by earlier habits of thought and behavior. Only Millennials will be able to imagine that the fate of the nation will rest mostly on their success or failure and that the crisis outcome will likely define the rest of their collective life story. Looking ahead from today's vantage point, most Millennials might doubt America's ability to pull together in the face of adversity or their own generation's willingness to pull together around any common public goal. Yet one lesson of history is that the real danger may be quite the opposite — that the nation pulls together all too brutally or recklessly.

"The young adult hunger for social discipline and centralized authority could take an ominous turn in the 2020s and enable Millennial brigades to put their energy and mass behind the agendas of older demagogues. Whatever startling new type of regime arises to compete with the old regime over the next decade (this may include a right- or a left-leaning autocracy animated by class or ethnic or sectional antagonism), we can be sure that the Millennials will be doing most of the heavy lifting.

"In his 1935 novel It Can't Happen Here, 50-year-old Sinclair Lewis warned that the rising GI generation might choose to follow anyone, even a revolutionary populist who promised to restore order, equality, and prosperity. So may many older Americans be warning, once again, 90 years later. To be sure, no generation looks forward to a dark and dictatorial future — least of all millennials themselves. Unless pushed in that direction by sheer desperation, they will struggle to establish a new regime that offers better lives to most citizens, while also revitalizing the best ideals of liberal democracy. But whatever happens, there will be a new regime, and this regime will collectively define the Millennials for the rest of their lives."

What would motivate Millennials in a crisis environment? To answer that, I suggest considering deeper questions involving meaning and purpose — the study of why people do what they do.

This inevitably takes us to the topic of religion, or lack thereof. It's unclear what specific type of church Howe refers to in an era of increasingly loose definitions. But his understanding of the Christian church, and its role in American and world history, seem ill-informed. Yet he opines anyway (as everyone has a right to do). He starts with the familiar Pew poll of falling church attendance.

"Over the last decade, churchgoing and religious affiliation have entered a steep decline — by some measures, an unprecedented decline, signaling yet another religious depression. Transforming humanity through technology and politics, on the other hand, is attracting growing interest, especially among the rising generation. On college campuses, STEM [science, technology, engineering, and math] majors are rapidly displacing liberal arts majors.

"Half a saeculum ago, ambitious youth admired celebrity humanities professors who taught philosophy and linguistics. Today they admire celebrity tech CEOs who build rocket ships and behavioral algorithms. The late scholar of sociology and religion, Robert Bella, once famously observed that the history of the American experiment could be described as an oscillation and tension between personal conversion and the public covenant. That oscillation remains with us still."

"A Fourth Turning lends people of all ages what is literally a once-in-a-lifetime opportunity to heal (or destroy) the very heart of the republic."

The history of the Christian church reveals that attendance ebbs and flows. The church often recovers most rapidly during crises. Crises have a way of making many ask what they ought to do. They look for answers beyond their personal preferences.

Howe's use of the term "public covenant" sounds suspiciously like 18th-century French philosopher Jean-Jacques Rousseau's concept of "the general will." Quick to extol his abstract ideas of equality and justice, Rousseau fans ignore that his personal life was a wreck. For example, he abandoned his children because they did not fit into his vision of what justice looks like. Rousseau's most ardent fans, including Robespierre and his Jacobin buddies, took the squishy concept of a "general will" down a road that ended in blood-soaked guillotines. In the proving ground of ideas known as "reality," those from Rousseau's creative (yet demented) mind have utterly failed. Unfortunately, they live on in academia, in the minds of ideologues who are as hard to nail down as Jell-O to a wall.

What can we conclude about how the Millennial generation might resemble the GI generation that fought in WWII?

Howe is not definitive on this point. As shown in the excerpt above, Howe speculates that Millennials will be quick to follow the lead of a persuasive politician. Millennial brigades may "put their energy and mass behind the agendas of older demagogues."

I hope not. Branches of Rousseau's intellectual family tree extend to the Cultural Marxism that skulked like a foreign agent in a "long march through the institutions," shaping the minds of impressionable youths on college campuses.

It would be encouraging if harder times poke holes in the luxury beliefs that polls say matter most to Millennials — things like climate change lockdowns and the fuzzy notions of "DEI" and "ESG." These are things that sound nice in theory but fail epically in practice. They also fail under the scrutiny of a few critical questions. In news stories that quote Millennials and Gen Z, the verb feel is used by so many people that I wonder if younger American voters would demand anything from a demagogue — even if unconstitutional — that promises to restore pleasant feelings after a recession.

Income Investors Will Run to Regulated Utilities in a Rocky Environment

Many individual millennials will be heroes in the classical sense. But political trends are a group phenomenon. While we watch and wait to see whether Millennials as a group ultimately become heroes, there are investments to consider.

This month, we recommend you consider the electric utility sector. Utilities use legal monopolies, regulations, and the federal tax code to benefit shareholders.

Beyond their ability to harvest benefits from federal tax breaks, utility stocks offer portfolio-diversifying benefits in a recessionary, falling-interest-rate environment. They often move in the same direction as U.S. Treasury bonds because their income statements and dividends are so predictable.

Regulated utilities have a "rate base" that measures the cumulative investments in electric plants and transmission infrastructure. Public utility commissions use rate bases to calculate how much a utility can charge its customers for service. This mechanism incentivizes utilities to invest in physical assets.

Most well-run companies aim to limit asset growth and operating expenses, thereby maximizing earnings and free cash flow. Earnings, cash flows, and dividends at regulated utility companies are different. These vital fundamentals track the amount of money that a specific utility invests in its asset base.

Combine the rate base mechanism with local monopolies, and you come to appreciate why utility stocks are defensive stocks.

A Bet On This High Dividend Achiever

Evergy Inc. (NASDAQ: EVRG) is an electric utility operating in the U.S. Midwest. It was formed by the merger of Westar and Great Plains in 2018. It has a combined rate base of $19 billion that grows steadily.

Including its subsidiaries Westar Energy, Kansas City Power & Light, and Great Missouri Operations, Evergy has 1.7 million electric customers. It controls 15 gigawatts of electric generation capacity, including coal, natural gas, and nuclear plants. It also has over 4 gigawatts of wind power. It also owns thousands of miles of regulated transmission and distribution lines.

Evergy first came to our attention in 2021 after reportedly getting a bid from NextEra Energy. Florida-based NextEra (NEE), another utility company, became a popular green energy stock. It once traded at an astronomical valuation, but NEE stock returned to earth as the role of wind and solar in the electric generation mix is turning out to be smaller than once believed.

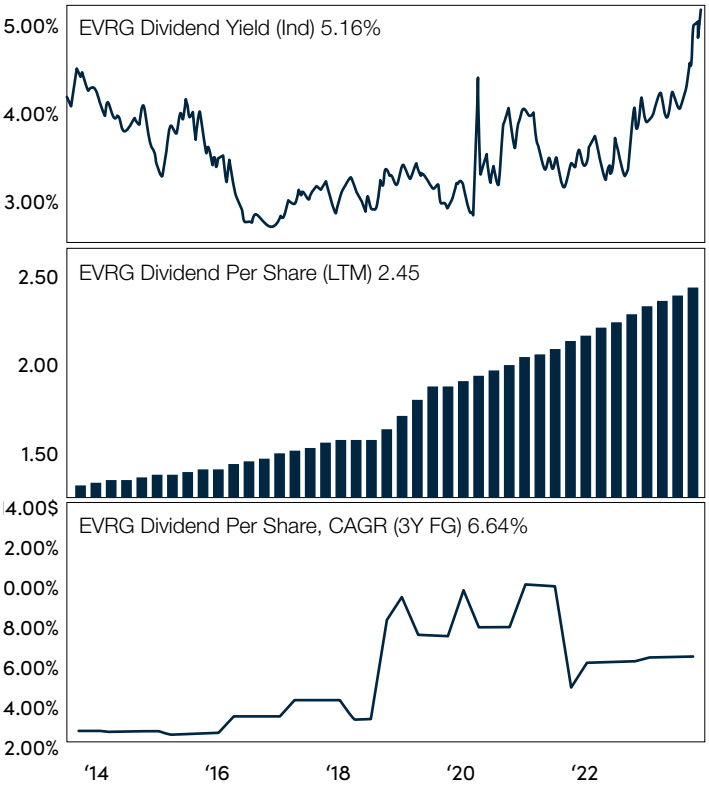
High-valuation stocks can be used as a cheap form of currency in mergers and acquisitions. NextEra management knows this. Making all-stock bids for other utilities like Evergy, trading at a 30% discount to its valuation, can substantially bump its earnings per share and cash flow per share.

In the past, NextEra made a hostile made for Duke Energy, which Duke rejected. NextEra seems eager to make another because the arbitrage opportunity — swapping high-P/E NextEra shares for low-P/E shares in another utility — is compelling.

Regulated utilities also enjoy the macro tailwind of being able to pay 4% to 5% dividend yields from very reliable

cash flow streams in a falling interest rate environment. At current yields, utility stocks are far superior to junk bonds as a portfolio supplement for U.S. Treasuries.

As I write, EVRG's dividend yield is 5.16%. After its sell-off, EVRG's yield is higher than it has been in over a decade. In the nearby chart, EVRG's dividend yield is in the top panel. The middle panel is the stock's dividend per share. It has grown at an impressive rate, from $1.35 a decade ago to $2.45 today.



Dividend growth from utility stocks, fueled by the power to raise utility bill prices in line with inflation, helps them to outperform Treasury bonds. The chart's third panel shows Evergy's 3-year trailing dividend growth rate. It's been growing by over 6%.

EVRG is a high dividend achiever. These are stocks that have raised their payouts for at least 10 years straight. These companies usually have sound financial health, which helps them to produce stable earnings over the years. This year's record inflation has brought dividend growers like EVRG to the forefront.

Evergy can maintain an annual dividend growth rate of 4% to 6% in the years ahead. Considering the interest rate environment and Evergy's dividend growth potential, we wouldn't be surprised to see the stock rise to the point where its dividend yield is 4%. If EVRG's yield falls to 4%, the stock would trade 30% higher than today's price. Add a 5% yield and you have a potential 35% total return in a year.

ACTION TO TAKE:

Buy Evergy Inc. (NASDAQ: EVRG) up to $56 per share.

Best regards,

Dan Amoss

Dan Amoss, CFA
Senior Analyst, *Strategic Intelligence*

Since 1955, there is ONE indicator that has been 100% right about stocks.
Whenever it appears, stocks crash.
I call it "The Black Pattern."
Because it is quite literally an Angel of Death for the stock market.
This Black Pattern is telling us 2024 could be the worst year for stocks we've seen yet.
And it's a MASSIVE opportunity that could be extremely lucrative to you.
Click here for complete details because this pattern is flashing again.
RICKARDSDEAL.COM/PATTERN

Who Said Bonds Were Boring?

By Zach Scheidt, Contributing Editor

Three years ago, I had an argument with a friend.

Larry is a financial advisor and has built a large independent practice. For the most part, I think Larry is a good person who really wants to help people grow and protect their wealth.

But like many wealth managers, Larry is often much more focused on finding new clients than on helping his existing book of business manage their investments. Larry prefers to put each investor into a "model portfolio" — or a cookie cutter investment program — instead of actively choosing investments that will help optimize their money.

In 2020, wealth managers across the country still lauded

the "sixty-forty" portfolio as a safe and conservative way to invest (the 60 / 40 portfolio consists of 60 percent stocks and 40 percent bonds).

If you've followed me for some time, you know that I'm a proponent of balanced investment approaches. And I strongly believe that diversification will go a long way in helping to preserve your wealth — even in challenging environments.

But I won't *blindly* follow some cookie cutter model because it's an "easy" way to invest. We absolutely MUST think critically about how each area of our investment approach really contributes to the overall picture.

"Larry, treasury bonds are *supposed* to offer risk-less returns." I told my friend. "But with interest rates near zero, investors aren't getting much return at all! Plus, they have a huge amount of risk if rates start to trade higher!"

Larry didn't seem to care about the logic.

He just said "Zach, people have been making that argument for years! And we're still doing just fine. I'm keeping 40% of my clients' capital in treasury bonds and they're going to be just fine."

If only he knew...

The Punishing Crash of the 60/40 Portfolio

Not long after my 2020 conversation with Larry, inflation started picking up. The Fed called this inflation "transitory" at first and failed to act quickly.

But as the rate of inflation rose to 5 percent... 7 percent... and eventually over 9 percent, Fed Chairman Jerome Powell finally stepped into action. Since then, the Fed has engineered the most aggressive rate hike in our generation.

And during this time, investors experienced a devastating bear market in *both* treasury bonds and stocks. Investors across the country who followed the traditional 60/40 approach were absolutely crushed. And it will now take years for them to rebuild their wealth.

I never brought the subject up with Larry again. It's not my style to say, "I told you so."

But I'm troubled by the way that "Wall Street Wisdom" wound up leaving retirees in such a vulnerable place three years ago. As is often the case, conventional wisdom can be a terrible influence when applied the wrong way.

To understand why the 60/40 portfolio was hurt so bad, it's important to have a basic grasp of how bond prices work. And the good news is that this knowledge will set you up for some extraordinary potential *gains* in 2024 — as conventional wisdom is once again proved to be ill-timed at best.

How Bond Prices Respond to Interest Rates

You may have heard that bond *prices* move in the opposite direction from bond yields. But do you really understand how the relationship works?

Let's look at a couple of examples to explain exactly why my friend Larry was putting his clients in a precarious position — and why you have a tremendous opportunity in front of you right now.

Bonds are known as "fixed income" investments — because there's a *fixed* amount you can expect to receive as an investor. Basically, a company (or the U.S. government) owes bondholders a specific lump sum when the bond matures — and sometimes specific interest payments along the way.

Suppose you had a bond that paid you $1,000 at the end of one year. If the interest rate for this bond is 2%, you should be willing to pay just over $980 for that bond today. Put differently, if you pay $980 and receive $1,000 in a year — your return will be 2%.

Now, suppose the interest rate for this bond changes to 5%. What would you be willing to pay for that bond today?

The answer is, roughly $950. Because if you invest $950 today and get $1,000 in a year, your rate of return will be roughly 5%. So, there is a mathematical relationship between current interest rates and what you should be willing to pay for a bond today.

2% Treasury Bond			5% Treasury Bond	
2023 Price	$ 672.97		2023 Price	$ 376.89
2024 Price	$ 686.43		2024 Price	$ 395.73
2025 Price	$ 700.16		2025 Price	$ 415.52
2026 Price	$ 714.16		2026 Price	$ 436.30
2027 Price	$ 728.45		2027 Price	$ 458.11
2028 Price	$ 743.01		2028 Price	$ 481.02
2029 Price	$ 757.88		2029 Price	$ 505.07
2030 Price	$ 773.03		2030 Price	$ 530.32
2031 Price	$ 788.49		2031 Price	$ 556.84
2032 Price	$ 804.26		2032 Price	$ 584.68
2033 Price	$ 820.35		2033 Price	$ 613.91
2034 Price	$ 836.76		2034 Price	$ 644.61
2035 Price	$ 853.49		2035 Price	$ 676.84
2036 Price	$ 870.56		2036 Price	$ 710.68
2037 Price	$ 887.97		2037 Price	$ 746.22
2038 Price	$ 905.73		2038 Price	$ 783.53
2039 Price	$ 923.85		2039 Price	$ 822.70
2040 Price	$ 942.32		2040 Price	$ 863.84
2041 Price	$ 961.17		2041 Price	$ 907.03
2042 Price	$ 980.39		2042 Price	$ 952.38
2043 Price	**$1,000.00**	**FIXED**	**2043 Price**	**$1,000.00**

Here's the thing... The longer until a bond matures, the more interest rates will affect its price. The table below shows how

a 20-year treasury zero coupon bond should be priced today based on a 2% interest rate — or a 5% interest rate.

Start at the bottom of the table and notice how the bond matures at $1,000. So that's what investors can count on receiving at the end of 20 years.

But depending on the interest rate, what you pay *today* for that bond can differ significantly. At a 2% interest rate, your 20-year bond will cost roughly $673. But when rates are at 5%, that very same bond is only worth $377. That's a HUGE difference for the very same ultimate payout!

Now do you see why changing interest rates affect long-term bonds so much?

My 2024 Prediction

Remember that "conventional wisdom" about the 60/40 allocation? Wall Street got it *completely* wrong in 2020 when interest rates were very low. And unfortunately, many investors who *thought* they were playing it safe were actually hurt very badly.

Fast forward to 2023, and conventional wisdom has completely reversed. I've read several research pieces this year explaining why the 60/40 portfolio is dead and a terrible approach. The articles cite the performance of this approach over the last three years — a time when bond prices and *stock prices* fell in tandem.

Once again, "Wall Street Wisdom" has it all wrong. The 60/40 portfolio wasn't the Bible in 2020. And it's not the devil incarnate in 2023. It's an approach that makes sense when investors are getting paid well for their bond and stock investments — and works *terribly* when bond prices are extremely high, and the stock market is inflated.

Today's high interest rates give you some great opportunities to invest in bonds.

Not only will you receive plenty of interest thanks to today's higher rates. But you also get the potential for some very big capital returns if interest rates pull back! (That's because bond prices RISE when interest rates fall.)

Here's my prediction for 2024.

The yield on a 20-year treasury bond will be cut in HALF by the end of next year.

The Federal Reserve intentionally drove interest rates higher in an effort to slow inflation.

We can have an argument about whether this course of action made sense in the post-pandemic economy. But traditionally, higher interest rates have been the Fed's single tool against inflation. And for this cycle, the Fed was extremely aggressive in boosting interest rates and putting the brakes on our economy.

Much has been said about the "long and variable lags" of rate policy on the economy. The bottom line is that we KNOW higher interest rates take a long time to work through the economy. So, it will still be a few months before the U.S. economy truly adjusts to these higher interest rates.

That means we can expect *more pressure* on the economy, and the probability of a recession in 2024 is very high.

What does that mean for interest rates?

Well, just like the Fed's single tool against inflation is to raise interest rates, the Fed also has one tool to try to support the economy. You guessed it... The Fed will have to cut interest rates next year to try to keep us from entering what could be a very challenging recession.

If we follow the ripple effect through the market, this means there is a very big opportunity for investors to profit from fixed income plays — because bond prices will automatically RISE when the Fed is forced to cut rates.

Three Fixed Income Opportunities to Buy Today!

While all bonds react to changes in interest rates, there are some key differences between different areas of the bond market.

My first recommendation to profit from higher interest rates is to **buy long-term treasury bonds** — or a fund that invests in these bonds. Remember, long-term bonds prices are much more sensitive to changes in interest rates. So, if you're playing for a pullback in rates, long-term bonds will give you the most bang for your buck.

Most brokerage accounts allow you to invest in individual treasury bonds. And if you're comfortable navigating your brokerage platform to find these bonds, I recommend buying individual treasury bonds that mature in 20 years or more.

But there's an easier way to invest in this asset class... You can also simply buy the **iShares 20+ Year Treasury Bond ETF (TLT)**. This fund invests in treasury bonds and trades just like a stock. So, it's very easy for you to buy and sell in your investment account.

A second way to play a drop in interest rates is to invest in high-quality corporate bonds. When you invest in corporate bonds, you're essentially lending money to companies. So, there's an additional risk of default that you need to be aware of.

Fortunately, investors are typically paid an extra premium for taking on this risk. So, if you buy corporate bonds, you'll

typically be paid more interest than you would receive from a similar treasury bond.

One of the best ways I've found to invest in this area of the market is to buy a *bond fund* instead of individual bonds. After all, you would need to do extensive research on the individual companies that offer bonds... And many corporate bonds are illiquid and difficult to trade.

The **iShares iBoxx Investment Grade Corporate Bond ETF (LQD)** is a good way to invest in this area and to have diversification. This fund invests in a wide assortment of highly rated corporate bonds. Corporations who issue these high-quality bonds are less likely to default. And by investing in a fund, there's less of a chance that any one default will negatively affect your overall investment.

Finally, a more speculative way to play the upcoming decline in interest rates is to invest in *high-yield bonds*. These bonds are also often referred to as "junk bonds" because there's a higher chance that companies will default on their debt.

Because of this risk, high yield bonds typically pay much more interest to investors. And at the same time, if interest rates fall in 2024, that factor will be a natural tailwind for high-yield bonds.

Now please note, this is certainly a more speculative area of the market. If the broad economy experiences a deeper and more challenging recession, many of these bonds may default. So don't risk money you can't afford to lose in this area of the market.

But remember, investors are paid higher yields to take on risk. So, over the long-term, this speculative area of the fixed income market could give you outsized returns. I've got my eye on the iShares iBoxx High Yield Corporate Bond ETF (HYG) as a good proxy for high yield bonds. Once again, you can buy this fund in your brokerage account just like you would buy and sell a simple stock.

As we head into the holiday season and prepare for next year, there are a lot of cross currents to watch carefully. Treasury bonds in particular should offer investors a level of safety and income, while still giving you a chance to grow your wealth significantly.

Make sure you set up your position before rates move any lower!

Here's to growing and protecting your wealth,



Zach Scheidt
Contributing Editor, *Rickards' Strategic Intelligence*

"Jim Rickards and Zach Scheidt are slot machines that are always tipped in their subscribers' favor. These men should be given medals of honor! " - Joe S.

2024: When Everything Gets Marked to Market

By Byron W. King, Senior Geologist

"How can 2024 be more challenging than 2023?" asks Jim Rickards in his article above. "Rest assured; it will be," he answers.

In this issue of *Strategic Intelligence*, Jim covers key issues that loom next year: an upcoming U.S. presidential election; continued full-spectrum competition with China; distinct possibilities of a global recession; ongoing war in Europe, the Middle East and perhaps elsewhere; and the specter of a large-scale banking crisis, with related effects on markets, cascading down towards the street where you live.

Yes, big events affect us all. And in this note, my companion theme to Jim's is that in 2024 many things in this world will get marked to market, not only good plays but many bad ones as well.

Begin with this point: for most of the past decade, the U.S. and global economy worked within a macro-environment of ultra-low interest rates, almost "free" money in some respects. And then in the past eighteen months, the Federal Reserve jacked up rates by a strong whack.

Many things that made sense (at least, sort of made sense) with super-cheap money are wildly crazy ideas now, at 5% and more. Because when interest rates rise — when the price of money increases, that is — bad ideas become far more expensive.

One critical prediction for 2024 is that, as events unfold, many economic dislocations and disjoints will come out in the wash, for better or worse.

To borrow a line from Charles Dickens, 2024 will be the best of times and the worst of times, depending on which side of the trade you happen to be. More than likely, items of true worth will rise in value while other elements of overpriced, overhyped junk will crash and burn. Not a moment too soon, some may say.

Mark to Market?

First, though, let's be clear; what does it mean to "mark to market?"

Well, it's an accounting principle, also known as fair value accounting. It means that you carry assets or liabilities on the books according to their current, fair market value.

For example, suppose you bought 1,000 shares of stock in XYZ Company for $1.00 each; the net value is $1,000, right? And a month later, the share price is $2.00 each, so your new fair market asset value is $2,000. And if you re-enter this on the books at the new level, it tells the world — and makes you feel good — that your asset value is increasing. Yay, right?

But now, suppose that XYZ Co. hits a rough patch and the share price drops to $0.50, or just half of what you paid. Your initial, $1,000 asset is now worth only $500. In other words, you're staring at a 50% loss in terms of marking things to original market value. Ugh. Sorry about that.

If you mark holdings to market, you tell the world (and maybe even admit to yourself) that the value of your assets declined. And what's the implication? Well, sometimes truth is painful, but also educational.

Perhaps you were imprudent to buy XYZ in the first place; you didn't do enough research. Or perhaps you failed to watch what was going on at the company. Or perhaps you saw issues but failed to sell and missed out on bailing earlier than others who exited ahead of you.

The point is not to beat yourself up over a bad investment; heck, we all make errors. It's to illustrate the usefulness of being honest about what things are really worth on a day-to-day basis. And tomorrow is another day, right? Live and learn.

Indeed, mark to market is a modern form of ancient Confucianism, along the lines of how important it is to call things by their proper name.

You can label items however you wish. Go ahead and live in fantasyland. But at the end of the day, reality is what it is. You can't fool the facts. In proper accounting, you should value things according to their true worth, to know where you stand.

Rates Up, Bonds Down

Let's expand on this idea with a point that Jim discussed above, namely the failure of several large banks earlier this year (Silicon Valley, First Republic, etc.). Let's distill what happened.

For the past decade, during a time of unprecedentedly low interest rates, many banks took in massive cash deposits and used the funds to buy supposedly safe, AAA-rated government bonds. As a result, they had seriously large exposure to bond positions, which translated into big value on their books.

But over the past year the Fed raised interest rates, and this drove down the present value of those bond portfolios. Uh-oh… (and by the way, it works the opposite when the Fed cuts rates, which is good for bonds, as my colleague Zach Scheidt explained above)

For example, let's say that "Bank A" had a bond position of $10 billion, based on what it paid to acquire the total portfolio. And after the Fed raised rates, the market value of those bonds was, say, $6 billion, representing a $4 billion loss.

If Bank A marks its bond portfolio to market, that $4 billion loss would instantly become a massive hit, and shareholders would bolt for the doors like the house was on fire.

Well, fortunately for Bank A, the U.S. government didn't require banks to mark their bonds to market, so the situation never became that dire. Banks never formally had to 'fess-up to the true worth of their bonds.

Still, a very important problem remained with those troubled assets, whether management reported it or not. It's that most investors know how to read. Indeed, sharp investors quickly figured out that more than a few banks were deep in the hole in terms of asset value declines.

Then came depositor runs, in which people asked for their money back. Whoops. Bank failures, and a mad scramble by the U.S. government to wallpaper things over with bailouts. And for all the Chinese influence inside the Beltway, Confucian levels of self-reflective honesty do not hold sway.

Opening the Aperture on Marking to Market

Okay, so you see how marking things to market works for financial assets. Now, apply it to other sectors, for example energy, and particularly fossil fuels like oil and natural gas.

Begin with the premise that the Biden administration is vehemently anti-carbon, and particularly anti-fossil fuel. C'mon man… you can't deny it. No joke.

Indeed, if you follow energy as much as I do, it's fair to say that, since Day One, nearly every administrative act of the Biden administration has been intended and designed to damage the country's fossil fuel extraction, refining and use systems. Here's a very short list:

The Biden regime has permitted essentially zero new offshore oil drilling; shut down major portions of Alaska oil exploration; imposed a wide array of tighter regulations on oil and gas production and transmission; placed draconian restrictions on fossil fuel use for electric power production; massively regulated the auto and other industries into

batteries, versus continuing to build internal combustion engines; and on and on, down to efforts to ban gas stoves in the kitchen and gas-fired furnaces in the basement. You get the idea, right?

At higher, geostrategic levels, just consider the Biden administration's open hostility towards an old U.S. energy partner, Saudi Arabia; and depleting well over 40% of the U.S. Strategic Petroleum Reserve (SPR). The point is, we see massive evidence of Biden's anti-oil jihad.

Taking their cue from top-down government policies, many investment funds have shunned oil or natural gas companies. This ranges from selling shares in superb oil companies like ExxonMobil and Chevron, to overt government pressure on banks not to make loans for oil or gas development.

There's a very long list of Biden administration anti-oil policies (over and above the gratuitous, anti-carbon rhetoric), and we could spend all day discussing just this. What it means to us, though, is that under Biden, much of the investable fossil energy complex became undervalued, definitely as compared to the true worth of the hydrocarbon molecules in the ground.

Meanwhile, a key flaw (one of many) in the Biden administration approach was that, for all the visceral hatred of carbon by anti-oil true believers currently in power, petroleum and gas are part of a global market. And guess what? Much of the rest of the world just plain loves fossil fuels.

Despite the constant bad-mouthing of carbon and fossil fuels by members of the Biden regime, and even despite the sell-down by U.S. investment firms and banks, the rest of the world values oil and gas as if it's actually worth something.

For example, for every barrel of oil the U.S. doesn't want, Chinese companies will buy it (including many tanker loads of SPR crude, sold off to Chinese firms by the Biden Energy Department).

And guess what? Despite the efforts of anti-oil zealots, it's a safe bet that petroleum will be around for a long time to come, making gobs of money for people who produce and refine it.

Thus currently, and contra Biden administration policymaking, we're in the midst of a serious revaluation of U.S. energy companies and resources towards levels far more reflective of the inherent worth, and future cash flows, of the fundamental substances. Fossil fuels are getting re-marked to market, and the eventual levels will be far higher than what we see now.

The investable point is that in 2024, fossil fuel energy will do well. Sure, a recession could dampen demand for oil, but not by too much. Right now, much of the world's oil supply is already tight. A recession might only restrain oil price increases from skyrocket levels, but the long-term price trend is upwards.

Let's Mark Other Things to Market

Aside from oil and gas, what else has been dislocated by higher interest rates and bizarre policymaking in Washington? Oh, it's a long list.

Off the top of my head, I'd take the trade against continuing with the so-called "renewable" energy fad. Because while sunshine and wind are free from the sky, the electromechanical systems that harvest that form of energy are expensive, and here's where higher interest rates come into play.

Already, the offshore wind sector is in crash-mode. Just Google "offshore wind in trouble" and you'll find tens of thousands of stories, both U.S. and foreign, of cost inflation, poor economics, difficult engineering, failed projects, and a massive slowdown in progress.

All this, while solar panels face trouble due to supply chain issues rooted in the fundamentals of minerals and mines. That is, the very foundations of the sector are rooted in Chinese suppliers — and patents — for all manner of essential materials and components.

Meanwhile, renewable power in general is by definition intermittent (wind doesn't blow, sun goes down), and unstable at the source which requires extensive systems to rectify the power generation. And when this form of power exceeds about 15% of what goes into the transmission wires, you have high probabilities for instability in the grid.

In other words, when it comes to renewables, the "mark to market" moment is happening even now. Many renewable energy plays are simply not worth what people think, and those game-saving government subsidies come straight out of the public hide.

And along these electric lines (no pun), the massive government push on the auto sector for electric vehicles (EVs) is delivering huge losses to most of the players involved; numbers like a $50,000 loss per vehicle sold by Ford, with other makers in similar straits. It's time to mark this idea to market as well.

First adopters have already bought their EVs, usually a Tesla. And now comes the sales push by Tesla and other makers to park shiny new EVs in the garages of the car-buying masses.

But despite all the hype and marketing, stories are legion of customers who walk onto the lots and see high prices for a basic vehicle. Plus, that new set of wheels requires a relatively costly home-charging system, along with typically higher insurance payments because of batteries that catch fire way too often for comfort.



New Tesla electric vehicles fill the car lot.

Suffice to say that EVs are piling up on dealer lots in the face of slow sales. And sooner or later — 2024 comes to mind — we'll see it all get marked down.

At another level of mark to market magnitude, we confront the idea of massive indebtedness at every scale. Sure, it was fun to spend trillions of dollars during the COVID episode to subsidize everything and everyone who could fill out a government form. But now comes the next chapter.

Just look at the national debt, in the range of $34 trillion with interest payouts in the range of a trillion dollars per year; much larger than even the Defense budget. How much longer can that continue? Well, stay tuned; we'll find out more in 2024.

Add in cumulative indebtedness at state and local levels, again in the trillions. Plus housing debt, car loan debt, student loan debt, credit card debt, and more. To borrow from what a wise man once said, "A trillion here, a trillion there. Pretty soon it adds up to serious money."

The Ultimate Mark to Market: War

One final point concerns U.S. military power, and the country's long-term commitments and confrontations across the globe. We'll likely see big changes in 2024, so stand by.

First of all, there's an old axiom that military power is the first derivative of economic power, particularly industrial power. That is, no industry, no military.

Indeed, George Washington spent much of the Revolutionary War agonizing over supplies — or rather, lack of supplies — of gunpowder. Later, one of the first great U.S. fortunes went to a French immigrant named E.I. DuPont, who founded a gunpowder factory in Delaware in 1802, and sold much of his output to the U.S. Army.

And so it goes. Industry is the foundation of wealth creation, and by extension of military power. Repeat again: No industry, no military.

Sure, one country can purchase weapons from another country; Israel or Saudi Arabia come to mind, holding eclectic collections of weapons from many nations.

But the only way that any nation can truly be a major military power — let alone a superpower — is by rooting its force structure and combat power deeply into an organic, national industrial complex. And in the past three decades the U.S. has lost much of its capabilities along these lines, as has become evident in terms of recent events in Ukraine and now Israel.

We could discuss all day the nuances of the so-called "military industrial complex," a term often used pejoratively. And people write books on that, but this is no book.

The investable takeaway here is that right now the U.S. lacks sufficient industrial power and depth to back up its many commitments across the globe. The U.S. lacks sufficient capacity for pretty much everything that's important to warfighting: building ships and submarines, aircraft, missiles, all manner of weapons and ammunition. The industrial capacity and supply chains simply are not there.

In other words, that World War II tale of America as the so-called "Arsenal of Democracy" has long since passed into the mists of history. The mines and mills are gone. The factories, assembly yards and sheds are gone. The current workforce cannot begin to meet the needs, in terms of critical skills. All this and more.

Stated another way, this industrial-military shortfall is being marked to market on the battlefields of Ukraine. Over there, it's crystal clear that the production capacity of the U.S. and NATO allies cannot begin to match the military output of Russia.

Choose any combat system you wish: artillery shells, antitank missiles, armored vehicles, other guns, aircraft, helicopters, combat electronics, drones and much more… Russia has fine-tuned its national productive capacity to churn out everything it needs to fight Ukraine and bleed that country white. And don't kid yourself; the U.S. cannot match it.

Despite all the U.S. support — money, material, political cred — the fact is that Ukraine long ago lost its fight with Russia. And now, Ukrainian leadership has no operational plan with which to continue resistance against Russia, other than to draft young and old people, and then send them to the front lines to die.

In the U.S., our Beltway armchair Clausewitzes never developed a proper strategy to deal with Russia, other than to unleash the Ukrainian army and hope that Russia was inept on the battlefield. Then perhaps, Russia would fail in the field, we'd see an internal coup in Moscow, Mr. Putin would somehow go away, and something else would follow. (No, it doesn't make much sense because it never made much sense; it's just strategic imbecility on the U.S. side.)

The point, here, being that in 2024 the U.S. "Ukraine project" will fail spectacularly, in a way that makes Kabul 2021 look like a tailgate party at the Army-Navy football game.

And losing a war — another war, if you're keeping track — has a way of marking many things to market.

In 2024 Ukraine will fall apart, and the U.S. effort will be revealed as a total shamble. Blowback will be epic, and will affect the strength of the dollar, the price of energy, the price of gold, international trade patterns and much more.

Sad to say, and as mere civilians out here in investor-land, far from the seats of power inside the Beltway, it's all out of our hands.

Mark Your Own Investments to Market

As 2024 unfolds, stay on the safe side. And bias your investments towards ideas that will benefit from market resets.

Hold cash, of course. The American economy runs on dollars and will do so for quite some time to come. Cash gives you options, certainly when bargains appear.

Hold physical precious metals as well, namely gold and silver. At Paradigm, we recommend the Hard Assets Alliance, but of course there are many other firms that move metal.

If it's your style, you can trade various products that purport to represent metals. We like the Sprott "physical" series, covering gold, silver, uranium and more.

Hold large, integrated oil companies and refiners that pay dividends, like ExxonMobil, Chevron, Conoco, Marathon, Sinclair. For many years to come, they'll make serious money from their products, while buying back shares and sending out checks to shareholders.

Hold intermediate and large-size mining plays in the gold-silver space, like Barrick Gold, Newmont and Iam Gold.

And hold large base metal miners in the arena of copper-lead-zinc, plus related metals and alloys from deep in the heart of the periodic table of elements. Names like Rio Tinto, BHP, Glencore and Freeport McMoRan.

In 2024, the world will come at us fast and furious. We have many dislocations built into the system, and much work to unscrew the messes out there. It'll be a time for caution, but also your opportunity to get out ahead of the upside during a historic reset.

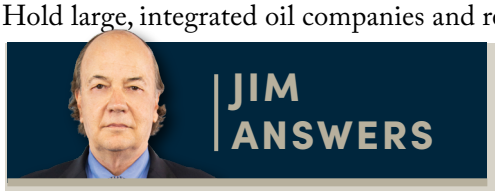
When assets once again start being marked to market, you have the opportunity to thrive and prosper along the way.

That's all for now. Thank you for subscribing and reading.

Best wishes in the year ahead…



Byron W. King
Senior Geologist, *Rickards' Strategic Intelligence*



Will the lagging effects of continued high interest rates into next year still cause a harder landing than markets anticipate?

Lisa P.

That's a great question, but it has several parts and built-in assumptions, so let's unpack those first and take them one at a time.

You mention the "lagging effects" of high interest rates. It's important to specify which interest rates we are discussing. Very short-term rates on instruments like 3-month Treasury bills and 6-month Treasury bills are affected by Federal Reserve policy.

The Fed is not the only influence on short-term rates. Treasury bills are very much in demand by major banks to post as collateral in derivatives transactions in the Eurodollar market. That demand is so strong that Treasury bills often trade at rates below the Fed funds target rate. But there's no question that the short end of the yield curve is where the Fed has the most sway.

Things are different when you get out to 2-year, 5-year and 10-year notes. Those yields are driven by market forces and not by the Fed. Analysts agree that inflation is one of the main drivers of yields on Treasury notes. If you expect inflation to be 3% over the next 2 years, then you'll want to get at least 3% on your 2-year note just to stay even.

Today, the 2-year Treasury note yields about 4.8%. Inflation is about 3.2%. What about the 1.6% difference between those two rates? If you're covered for inflation, why do investors need an "extra" 1.6% yield? There really is no credit risk in Treasury notes. What explains the premium?

The Fed has concocted a nutty theory called "term premium" that describes the yield over inflation expectations. They can't define what that means (except for the simple math) and they can't explain what causes it, but somehow the term premium idea is supposed to explain why rates are higher than inflation.

The real explanation is market supply and demand. Some investors think inflation may be worse than the current rate. That

could push rates higher. Other investors have a liquidity preference for short-term securities. That could also push rates higher in the longer maturities. Other investors are not so sure about U.S. credit risk, especially in view of frequent government shutdown threats and debt ceiling battles. All these forces and others come together in the marketplace and produce the yields we see on our trading screens. There's no mystery to it and no need to make up concepts. It's just the market.

That said, we'll assume for purposes of this analysis that the question refers to the 10-year Treasury note yield to maturity when bringing up interest rates. The 10-year note rate is a market rate, not a Fed rate. It's also a good proxy for mortgage interest rates and commercial real estate financing. That makes it a good reflection of the economy as a whole.

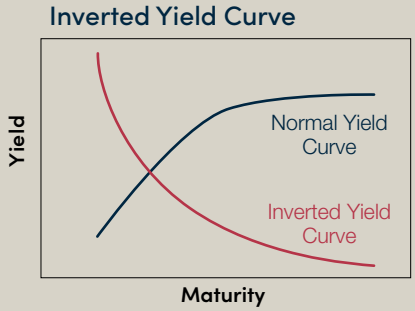
Right now, the 10-year note rate yield to maturity is 4.4%. The question refers to that as a "high" interest rate. Maybe. I was in the markets in 1980 when interest rates were 15% and mortgages were 13%. Those were the days.

Still, the right way to think about interest rates is the real rate rather than the *nominal* rate. In my 1980 example, the real rate was *negative 2%*: (13 – 15 = -2). Today, the real rate is *positive 1.2%*; (4.4 – 3.2 = 1.2). So, yes, rates are higher today than they were in 1980 once inflation is taken into account.

The next point to make is that interest rates are *not* a leading indicator with lagging effects. They are a lagging indicator. Rates go up at the start of a recession because businesses have weaker cash flow and turn to borrowing to maintain working capital. Then the recession gets even worse, and banks turn off new lending because they are worried about credit losses. At that point, rates start to go down. But the decline in rates happens *after* the recession has already started.

That may be the situation we are in today. It's important to look not only at rates on a given day, but at the trend. Yes, rates are 4.4% now, but they peaked at 5.0% on October 19, 2023. Since then, rates have dropped sharply. They were 4.93% on October 31, 4.52% on November 3, 4.49% on November 8, and 4.45% on November 14 before hitting today's new interim low. That trend is not your friend. It suggests that rates are dropping sharply because the market believes a recession has already started or is coming soon.

The other sign of a recession from interest rates is an inverted yield curve. A normal yield curve is upward sloping with higher rates for longer maturities to account for market risks, including inflation. Today, the yield-curve is inverted, which means that longer maturities have lower yields than shorter maturities.



For example, the 6-month Treasury bill yields 5.39%, the 1-year bill yields 5.23%, and 5-year note yields 4.42%. That steep inversion (a negative spread of 97 basis points between the 6-month bill and the 5-year note) is a sign that the market expects a recession. Rates will drop sharply over the coming year if a recession emerges.

The bottom line is we do *not* expect higher interest rates in the year ahead. We expect interest rates will come down in line with the inverted yield curve. But we do expect a hard landing. This will not happen because of interest rates. It will happen because of excess debt, shrinking consumer demand, rising unemployment, contracting world trade and other business cycle conditions. Interest rates will be a symptom, not a cause. And interest rates today are telling us to get ready for a recession.

Gold is on the move again as we close out the year...

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