Apocalypse Now

By Editor Test *Wed, Jun 2, 2010*

Michael Pento, chief economist of Delta Global Advisors, looks out from the bow of the U.S.S. Economy and sees an iceberg the size of Mount Everest dead ahead. Big-time inflation is coming, he believes. It won't happen because of rapid economic growth, but because the Fed will be forced to "monetize the debt"—that is, print... Read more »

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"There's no doubt that the 30-year bull market in Treasuries is over," Pento told RIJ. "The question is how much and how quickly will rates rise. Since 1969, the average return on 10-year Treasury bonds was 7.31%, more than twice as high as we are today. Why is it like that? You're seeing a global flight to the dollar and to the bond market, as a result of the credit and sovereign debt crises. But does do prices deserve to be that low? Is it sustainable?

"You have a huge buildup in latent inflation in the monetary base and Fed balance sheet. Every time rates have been so low, it creates inflation. If bond traders are not completely brain dead, they will have to price in the risk of inflation and the Fed will have to move off its zero percent stance. They're ignoring the inflation that's in front of their eyes. Look at the Producer Price Index. It's up 6% in the past year, while the Consumer Price Index is up only 2.4%.

"We have $8.8 trillion in T-bonds that we had to auction off because of declining maturity durations. Instead of selling 30-year bonds, we're selling short-term notes, so we have to turn over the debt more frequently. Once we get into a rising rate environment—not to 20% like the early 80s,but it will have to rise—interest rate expenses will skyrocket. So the risk of sovereign default or a failed Treasury auction is rising."

So what should investors do? "You could short the long end of the Treasury curve," Pento said. "Some ETFs do that. You could buy an alternative currency, one that's not debased by fiat. Gold is still far below where it was in 1981, on an inflation-adjusted basis."

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