[Are we really in a Financial meltdown? It sure seems like it.]

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Are we really in a Financial meltdown? It sure seems like it to me, an educated non-economist. And at this very moment, I believe we are in what can best be called a “false lull” or deceptive calm before a major financial setback, either a recession or possibly a full depression. The full economic consequences of current policies — especially tariffs, debt expansion, and monetary tightening/loosening swings — are still building like storm clouds. It is IMO not an "if," but a "when and how bad." Most people knowledgeable in this area seem to think that there are fundamental structural weaknesses accumulating under the surface. Collapse may not happen tomorrow, but the conditions are ripening. What are the causes?

The Tariffs and Trade Environment

Right now, the U.S. (and several other countries) are engaged in a much more aggressive use of tariffs and industrial policy than at any time in the last 40–50 years.

China tariffs are holding, and there’s bipartisan appetite to even increase them, especially in an election year. This artificially props up certain U.S. sectors (steel, aluminum, semiconductors), but globally raises prices.

Europe is retaliating softly, but preparing stronger responses.

Supply chains are not yet healed. “Friend-shoring” and “onshoring” are long-term plays but disinflationary forces from globalization are ending.
Tariffs act as an invisible tax on consumers and businesses — they don't pinch immediately, but they suppress long-term growth and feed inflationary pressure.

False lull: Businesses are still working through inventory stocked during post-COVID restocking. Once that buffer clears, costs hit home.

Debt and Fiscal Situation

Most people are aware that unsustainable debt eventually leads to either a deflationary collapse or an inflationary debt spiral.

U.S. debt-to-GDP is now well over 120% (officially ~124%, depending on source).

Servicing the national debt is consuming an alarming portion of federal revenue, especially as rates remain high.

There’s no political will to cut spending — entitlement programs and military spending are locked, and new subsidies (EVs, semiconductors, green energy) are flowing heavily.

False lull: Current market calm is built on expectation the Fed will cut rates soon. But cutting too early risks reigniting inflation. If inflation ticks up again, yields spike, and debt service becomes catastrophic.

Monetary Policy and Inflation

The Fed is trapped in a bind:

If they cut rates to support growth, inflation risks reigniting.

If they hold or raise, they choke off growth and worsen the debt load.

The markets are acting like the Fed will "thread the needle" — a so-called "soft landing." But history shows soft landings are exceedingly rare when you have this combination: high debt, asset bubbles, and geopolitical risk.

False lull: Market indexes remain elevated (S&P, NASDAQ), but under the surface, many small caps and sectors (commercial real estate, regional banks) are cracking.

Geopolitical Wildcards

I already mentioned tariffs, but let's not forget:

China is internally unstable (property market collapse ongoing).

Middle East tensions (Red Sea, Strait of Hormuz threats) could spike oil overnight.

Russia/Ukraine war continues to disrupt European and global supply chains.

Any escalation here could quickly turn a mild recession into a major global shock.

Consumer Health

U.S. consumer credit card debt just hit a record $1.13 trillion. Delinquencies are creeping up, especially among younger borrowers. Savings rates have plummeted back to pre-pandemic lows. Consumers kept spending thanks to pandemic savings and stimulus. But as we all can assume, that fuel is running out.

Key Early Economic Indicators of a Pending Economic Collapse

Following are key indicators that one can track to help anticipate an upcoming financial collapse. I have added these keywords to my Google Alerts app to get daily notifications if they appear.

1. Inverted Yield Curve (especially U.S. Treasury yields)

- **What it means:** Long-term debt instruments yield **less** than short-term ones — an unusual and historically accurate predictor of recessions.
- **Why it matters:** Investors expect lower growth and inflation in the future, often preceding economic downturns by 6–18 months.
- **Example:** The yield curve inverted in 2019 and accurately preceded the 2020 COVID-19 recession (though the cause was exogenous).

2. Rapidly Rising Corporate or Consumer Debt (Relative to GDP)

- **Warning sign:** When debt levels rise much faster than the economy, it indicates unsustainable borrowing. Crashes often follow a credit binge.
- **Historical example:** U.S. subprime mortgage debt before the 2008 Global Financial Crisis.
- **Watch for:** Auto loan delinquencies, credit card defaults, student loan stress, and deteriorating corporate bond ratings.

3. Declining Consumer Confidence and Spending

- **Why it matters:** Consumer spending drives ~70% of U.S. GDP. A sustained drop suggests households are bracing for tough times.
- **Data source:** University of Michigan Consumer Sentiment Index or the Conference Board's Consumer Confidence Index.

4. Weakening Manufacturing and Freight Indicators

- **Key metrics:**
  - **ISM Manufacturing PMI:** A reading below 50 indicates contraction.
  - **Baltic Dry Index:** Tracks global shipping costs for raw materials. Sudden drops reflect trade slowdown.
- **Implication:** Global production and trade are faltering, often presaging GDP decline.

5. Stock Market Volatility and Collapse of Key Sectors

- **What to look for:** Sudden and severe corrections (20%+) in indexes like the S&P 500, particularly when:
  - Defensive sectors rise while cyclicals fall.
  - Bank stocks underperform — often an early sign of credit stress.

    - Margin debt unwinding accelerates.

6. Banking System Red Flags

- **Examples:**
    - **Liquidity crises** (e.g., 2023 regional bank failures in the U.S.).
    - **Loan default rates** rising across multiple sectors.
    - **Repo market stress** (as seen in late 2019).
    - **Declining interbank trust**, reflected in rising LIBOR-OIS spreads or widening credit default swap spreads.

7. Currency Instability and Capital Flight

- **Red flags:**
    - Rapid depreciation of national currency (especially for emerging markets).
    - Large-scale central bank interventions.
    - Plunging foreign reserves.
- **Example:** Argentina and Turkey have repeatedly faced collapses driven by currency and capital outflows.

8. Rising Unemployment, Especially in Key Sectors

- **Initial warning:** Unemployment claims start rising before official unemployment spikes.
- **Watch for:** Layoffs in retail, construction, and manufacturing — these often lead downturns.

9. Stagflation or Persistent Inflation with Low Growth

- **Definition:** High inflation combined with stagnant output and high unemployment.
- **Why dangerous:** Central banks have limited tools to address both inflation and recession simultaneously.
- **Example:** 1970s oil shock-era stagflation.

10. Collapse in Housing Starts or Real Estate Prices

- **Leading indicator:** Housing construction is a sensitive measure of economic sentiment and future growth.
- **Danger sign:** Prolonged decline in permits, new starts, or home prices

suggests credit tightening and consumer caution.

Additional Red Flags (Systemic or Policy-Driven)

- **Sudden or chaotic monetary tightening** (e.g., Federal Reserve raising rates too quickly).
- **Breakdown in international trade systems** or **supply chain failures**.
- **Political instability or loss of institutional trust** (e.g., failure to pass budgets, debt ceiling crises).
- **Commodity shocks**, especially oil or food, that undermine purchasing power or industrial viability.
- **Shadow banking stress**, particularly in China or Europe, where off-balance-sheet debt is huge.

Real-Time Monitoring Resources

- **FRED Economic Data** (Federal Reserve of St. Louis): https://fred.stlouisfed.org
- **Trading Economics**: https://tradingeconomics.com
- **Bloomberg Recession Probability Model**
- **IMF/World Bank Debt Reports**
- **OECD Composite Leading Indicators**
- **I have added some of these keywords to my Google Alerts profile to get daily alerts if these appear in the news on the web.**

Conclusions:

We are, in my opinion as a non-economist, in a deceptive quiet period. The real effects of tariffs, debt overhang, and rate policies are still percolating. Historically, these conditions precede either: 1) a stagflationary period (high inflation + low growth), or 2) a sharp recessionary contraction (deflationary wave to clear the debt excess).

Timing is the hard part — these problems could stretch into late 2025 or 2026 before the full force is felt, especially with election-year liquidity injections. But the current calm feels rather artificial to me. Therefore, I believe we are in what can be called a “false lull” or deceptive calm. The full economic consequences of current policies — especially tariffs, debt expansion, and monetary tightening/loosening swings — are still building like storm clouds. I am worried that it is not an "if," but a "when and how bad." There are fundamental structural weaknesses accumulating under the surface. Collapse may not happen tomorrow, but the conditions are ripening.

Final Thought

Most collapses aren’t caused by a single event, but by **systemic fragility exposed by shocks** — whether from energy prices, geopolitical tensions, or debt saturation. Understanding interconnectivity and historical precedent is key.

That is my best take, from where I sit, as an educated non-economist. If you like my writing and are interested in my take on a related issue, **Universal basic income** and how it will apply to the homeless and to the addicted, you can also find that article on my Substack and on my blog page www.DHMarks.blogspot.com and on my Donald H Marks YouTube page DHM49.

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