

The Final Crisis: This is Our Future

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*Turn out the lights, the party's over
They say that all good things must end
Call it a night, the party's over
And tomorrow starts the same old thing again*

- Willie Nelson

Willie Nelson is not, to my knowledge, a proponent of any economic cycle theories – though now at 92, he's seen more cycles than most of us. But he was singing back in the 1950s how good things eventually end... and then we quickly start them again.

Debt-driven growth definitely feels good. We all enjoy it immensely as long as it lasts. Then the lights go out and the party's over. Yes, it starts again, but not until we all stumble around in the dark for a while. Unfortunately, The Debt Super Cycle is typically at least 80 years so nobody remembers the pain and why we should avoid it. Perhaps in this coming crisis we can do better. We can't avoid it, but we can think about how to deal with it in advance rather than making decisions on the fly like we did during The Great Recession.

I've been reviewing Ray Dalio's latest book [How Countries Go Broke](#). He shows in exhaustive detail how our current party is quickly approaching its lights-out moment. I can't recommend this book highly enough. If you missed [Part 1](#) and [Part 2](#) of my review series, read them and then read the whole book. The quotes I'm sharing only scratch the surface.

Today we're going to zoom in on that light switch. Ray's historical research found a specific sequence of events usually defined the cycle-ending crisis. Given where we are now, it may be a good preview of our next few years.

Broken Promises

Before we talk about the final crisis, I want to review a critical distinction Ray found in his research. Debt crises unfold differently depending whether the monetary system is based on hard money or fiat money.

Note that a "hard" currency in this sense doesn't have to be gold, silver, etc. It can be a government-issued currency that's pegged to some other currency the issuing government can't control. This lack of control is the key. Here's Ray:

"In brief, the way the hard currency cases work is that the governments have made promises to deliver money that they can't print (e.g., gold, silver, or another currency that the parties view as relatively hard, like the dollar). Throughout history, when coming up with these hard currencies that they can't print to pay debts becomes tough, the governments almost always renege on their promises to pay in the currency that they can't print, and the value of their money and the debt payments denominated in it tumble at the moment the promise is broken.

"After governments break their promise by not going back to having a hard currency, they have what is called a fiat monetary system. In these cases, the currency's value is based on the faith and incentives that the central banks provide. The most recent shift of most currencies from being hard to being fiat started on August 15, 1971. I remember it well because I was clerking on the floor of the New York Stock Exchange at the time and was surprised by it; then I studied history and found that the exact same thing happened in April 1933, and I learned how they worked.

"In fiat monetary systems, central banks primarily use interest rates, their ability to monetize debt, and the tightness of money to provide the incentives for lender-creditors to lend and hold debt assets. And throughout history they, like central governments and central bankers operating in hard currency regimes, have created too much debt (which are claims that people believe they can turn in to get money, which they expect they can use to buy things), so there are the same types of debt/credit dynamics at work...

“Big Debt Cycles through history have typically included currency regimes going back and forth between being hard and fiat because they each led to extreme consequences and required movements to the opposite—the hard currency regimes broke down with big devaluations because the governments couldn’t maintain debt growth in line with their monetary constraints, and the fiat monetary systems broke down because of the loss of faith in the debt/money being a safe storehouse of wealth.”

One critical point here: debt cycles happen *even if you have a hard currency*. They look somewhat different but still occur. **This is because both regimes consist of humans who demand and extend unwise amounts of credit.**

Coincident Cycles

The Big Debt Cycles Ray Dalio describes generally last around 80 years. They are composed of smaller cycles which average around six years. The US has seen 12 of these short-term cycles since 1945 (80 years ago). We are presently almost six years into the short-term cycle that began in 2020. These timespans can vary a bit, but it certainly appears we are approaching the end of a short-term cycle which will likely also conclude a Big Debt Cycle.

In my view, it is not coincidence other cycles are similarly approaching critical phases: Neil Howe’s Fourth Turning, George Friedman’s institutional and social cycles, and Peter Turchin’s “elite overproduction” theory. We should pay attention when great minds independently agree on something like this. **Especially when significantly different theoretical foundations all point to the same end result.**

So where is this last phase going? Ray Dalio says the current short-term debt cycle revolves around the monetization of government deficits. The shortfalls were already giant before the pandemic. The policies governments developed to handle that problem made the debt problem far worse. Here’s how Ray describes it.

“The 2020-21 debt monetization was the fourth and the largest big debt monetization since the original big debt monetization/QE in 2008 (which was the first since 1933). From the start of the easing cycle of 2008, the nominal Treasury bond yield was pushed down from 3.7% to only 0.5%, the real Treasury bond yield was pushed from 1.4% to -1%, and the non-government nominal and real bond yields fell a lot more (because credit spreads narrowed). Money and credit became essentially free and plentiful, so the environment became great for borrower-debtors and terrible for lender-creditors and led to an orgy of borrowing and new bubbles forming.

“That debt/credit/money surge in 2020 produced a big increase in inflation, which was exacerbated by supply chain problems and external conflicts (the third of the five major forces that I will touch on at the end of this chapter). That big increase in inflation led to the short-term debt cycle tightening by the Fed and the contraction in the balance sheet by having maturing debt roll off rather than buying more of it. As a result of the Fed (and other central banks) changing their short-term debt cycle mode from easing to tightening, nominal and real interest rates went from levels that were overwhelmingly favorable to borrower-debtors and detrimental to lender-creditors to levels that were more normal (e.g., a 2% real bond yield).”

That last point is important. The Fed’s 2022-2023 rates hikes seemed aggressive mainly because they followed (belatedly) a period of unprecedented debt stimulus. It didn’t so much “tighten” policy as simply bring it back closer to normal. But it didn’t *feel* that way those who had been feasting on debt.

Chief among those debtors was (and is) the US government, of course. Which is why the Final Crisis is drawing near.

The Final Crisis: This Is Our Future

In *How Countries Go Broke*, Ray Dalio both describes individual cases and develops what he calls the “archetype” Big Debt Cycle. The archetype is a baseline that generally describes how the process goes, though individual cases all have their own twists.

Dalio’s archetypical “Final Crisis” has nine stages. He notes there can be big variations in what happens and when it happens. The nine stages are more like a list of the negative things that produce the crisis, and the steps that are usually taken to try and get out of it.

Here’s how Dalio describes the Final Crisis which, as I said above, is very near, if not already upon us. These are the unhealthy conditions that typify the last stages of the Big Debt Cycle. Note that Ray is describing what he (and to a great deal I) believes is going to happen. ***This is our future:***

“1. The private sector and government get deep in debt.

“2. The private sector suffers a debt crisis, and the central government gets deeper in debt to help the private sector.

“3. The central government experiences a debt squeeze in which the free-market demand for its debt falls short of the supply of it. That creates a debt problem. At that time, there is either a) a shift in monetary and fiscal policy that brings the supply and demand for money and credit back into balance or b) a self-reinforcing net selling of the debt, which creates a severe debt liquidation crisis that runs its course and reduces the size of debt and debt service levels relative to incomes. Big net selling of the debt is the big red flag.

“4. The selling of government debt leads to a simultaneous a) free-market-driven tightening of money and credit, which leads to b) a weakening of the economy, c) declining reserves, and d) downward pressure on the currency. Because this tightening is too harmful for the economy, the central bank typically also eases credit and experiences a devaluation of the currency. That stage is easy to see in the market action via interest rates rising, led by long-term rates (bond yields) rising faster than short rates and the currency weakening simultaneously.

“5. When there is a debt crisis and interest rates can’t be lowered (e.g., they hit 0% or long rates limit the decline of short rates), the central bank “prints” (creates) money and buys bonds to try to keep long rates down and to ease credit to make it easier to service debt. It doesn’t literally print money; it essentially borrows reserves from commercial banks that it pays a very short-term interest rate on. This creates problems for the central bank if this debt selling and rising interest rates continue.

“6. If the selling continues and interest rates continue to rise, the central bank loses money because the interest rate that it has to pay on its liabilities is greater than the interest rate it receives on the debt assets it bought. When that happens, that is notable but not a big red flag until the central bank has a significant negative net worth and is forced to print more money to cover the negative cash flow that it experiences due to less money coming in on its assets than it has to go out to service its debt liabilities. That is a big red flag because it signals the central bank’s death spiral (i.e., the dynamic in which the rising interest rates cause problems that creditors see, which lead them not to hold the debt assets, which leads to higher interest rates or the need to print more money, which devalues the money, which leads to more selling of the debt assets and the currency, and so on). That is what I mean when I say the central bank goes broke. I call this “going broke” because the central bank can’t make its debt service payments, though it doesn’t default on its debts because it prints money. When done in large amounts, that devalues the money and creates inflationary recessions or depressions.

“7. Debts are restructured and devalued. When managed in the best possible way, the government controllers of fiscal and monetary policy execute what I call a “beautiful deleveraging,” in which the deflationary ways of reducing debt burdens (e.g., through debt restructurings) are balanced with the inflationary ways of reducing debt burdens (e.g., by monetizing them) so that the deleveraging occurs without having unacceptable amounts of either deflation or inflation.

“8. At such times, extraordinary policies like extraordinary taxes and capital controls are commonly imposed. (Read this twice! - JM)

“9. The deleveraging process inevitably reduces the debt burdens and creates the return to equilibrium. One way or another, the debt and debt service levels are brought back in line with the incomes that exist to service the debts. Quite often, there are inflationary depressions, so the debt is devalued at the end of the cycle, government reserves are raised through asset sales, and a strictly enforced transition from a rapidly declining currency to a relatively stable currency is simultaneously achieved by the central bank linking the currency to a hard currency or a hard asset (e.g., gold) and central government and private sector finances being brought back in line to a sustainable level.

“At the early stage of this phase, it is imperative that the rewards of holding the currency and the debt denominated in it, and the penalties of owing money, are great in order to re-establish the creditability of the money and credit by rewarding the lender-creditors and penalizing the borrower-debtors. In this phase of the cycle, there is very tight money and a very high real interest rate, which is very painful but required for a while. If it persists, the supply and demand for money, credit, debt, spending, and savings will inevitably fall back into line.

“How exactly this happens largely depends on whether the debt is denominated in a currency that the central bank can create and whether the debtors and creditors are primarily domestic so that the central government and the central bank have more flexibility and control over the process. If so, that makes the process less painful, and, if not, it is inevitably much more painful. **Also, whether the currency is a widely used reserve currency matters a lot because when it is there will be greater marginal inclinations to buy it and the debt that it is stored in.**”

Our current situation, as I see it:

- Stages 1, 2, 3 and 4 have already happened.
- Stage 5 is underway as the Fed tries to see how low it can push rates without raising inflation, while Congress and the President seek ways to salvage politically popular spending programs and tax policies.
- Stage 7 may be starting as some of the riskiest private borrowers (First Brands, Tricolor) start hitting the wall.
- Stages 6, 8 and 9 are still over the horizon.

If I'm right, we still have some time to prepare, but it's running out. Dalio holds out hope this could end in one of his “Beautiful Deleveraging” scenarios I described last week. I have a hard time thinking we will be so lucky. We're definitely not doing the things needed to keep that possibility open.

What we know is that the economy *will* be deleveraged, beautifully or not. Nothing about the process will be fun. But we know it's coming. Prepare while you can.

Next week we'll wrap up this series with a look at the Big Debt Cycle in other times and places.

Longevity is Here: Lifespan Edge and Hope for Alzheimer's!

For some time now I have been telling you that Dr. Mike Roizen and I will soon be opening a new concept in longevity clinics. We can finally(!) announce that our clinic in Dallas (Frisco) has been open for over a month, with other clinics planned in the near future.

We are initially focused on a single procedure called Therapeutic Plasma Exchange (TPE), which more and more longevity experts believe should be the start of your longevity journey. Think of it as an oil change for your body. Essentially, while you sit in a comfortable chair, we take your blood from one arm, running it through a machine and filter out the plasma, and then give you back your red cells and replace the proteins in blood and plasma volume with saline solution and albumin. This forces you to make new proteins. As we get older, the plasma holds junk that we don't want: mis-folded proteins, misfolded by the things we eat (like sugar) and micro-plastics and environmental garbage and more.

They are a cause of serious inflammation and other health issues. TPE has been shown in animal studies and human studies to help you reduce inflammation, and one of its consequences, sarcopenia (muscle loss as we get older!) which will make your workouts more effective, helps many people sleep better and so much more. Recent animal and human research indicates it may actually reverse aging.

Most profoundly, it is the only serious therapy that in randomized studies (see the AMBAR trials in our study link below) that reverses cognitive dysfunction (reverses not slows loss!) for early-stage Alzheimer's dementia. In that recent large double-blind study, 70% of early-stage Alzheimer's patients not only saw their memory stop retreating but 15 months later actually had significant improvement in their overall cognitive functioning. Anecdotal follow up saw their cognitive functioning still improving 30 months after the treatments (it takes time for the misfolded proteins to come out of the cells and interstitial spaces).

There are now blood tests which tell you if you have a genetic predisposition for the proteins to have Alzheimer's. If you have Alzheimer's in your family background or just worry about it, you should consider taking these tests. They predict a predisposition to dementia 20 years prior to clinical cognitive dysfunction according to data presented to the FDA. When you review the study (links to our review below), you will probably, like Dr Roizen and his team, and most neurologists realize that the earlier you can start preventive treatment the more likely you or a family member are to avoid coming down with full-blown Alzheimer's. If you or a friend or family have Alzheimer's, you should absolutely review the data in our research paper with your medical advisors. I can't overemphasize that.

Now, in the interest of time, here are a few links: the first one is a well done research paper on TPE by old friend Pat Cox: [Therapeutic Plasma Exchange - Lifespan Edge](#).

And of course, our website. You can ask for more information and schedule to talk to our doctors here: [Home - Lifespan Edge](#). If for some reason, you want to talk to me, then just leave a note with your phone number and I will get back to you.

Dallas is easy to fly to. Typically, you would want to get two procedures the first week, and then others later. There is a fabulous hotel right across from our clinic. Read the research paper and consult with your health advisors, then decide if and when you should schedule a visit.

New York, Tulsa, Dallas, and Cleveland

I will be in NYC mid-November for the inaugural Inner Circle meeting. Then nothing else is *scheduled* until Thanksgiving when Shane and I will be in Tulsa where all the family will gather at my daughter Amanda and her husband Allen's house. It would be nice if my 10th grandchild is born a few days early while I am still in the region. The father is Shane's son, Dakota, so Shane is likely to hang around. I am told they will name him Stetson. Shane is going to stay in Dallas until the baby is born. If I stayed with her the baby would be two weeks late. If I go back to Puerto Rico, the baby will be two weeks early requiring me to turn around and fly back to Dallas. But since all pregnant mothers want the baby early, I do what I can to help.

Sometime in December I will have to go to the Cleveland Clinic for 3–4 days for what is called a minor procedure. Of course, when someone is messing with your private parts it never seems particularly minor, at least to me.

It is likely I will be making short trips to West Palm Beach and the DC area before the end of the year as well, assuming we can get clinics open there. And you really do want to check out that white paper on TPE.

With that, I will hit the send button and wish you a great week! And please, just because I'm talking about the future crisis doesn't mean it's the end of the world. It's another cycle phase and we will get through it, but you can get through it better by proper preparation. I'm here to help you!

Your seeing through a glass darkly analyst,



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