

**SANTIAGO
CAPITAL**



MACROVoices

August 23, 2022

The U.S. Dollar

When I was last on MacroVoices, the DXY was at 92.

Now...despite many saying the Fed could never stop QE, could never raise rates, could never do QT..



...they have stopped stimulus, raised rates, embarked on QT...and the DXY is at 109.

The U.S. Dollar

Not only is the USD still alive...



...it is at its highest level in 20 years.

The U.S. Dollar

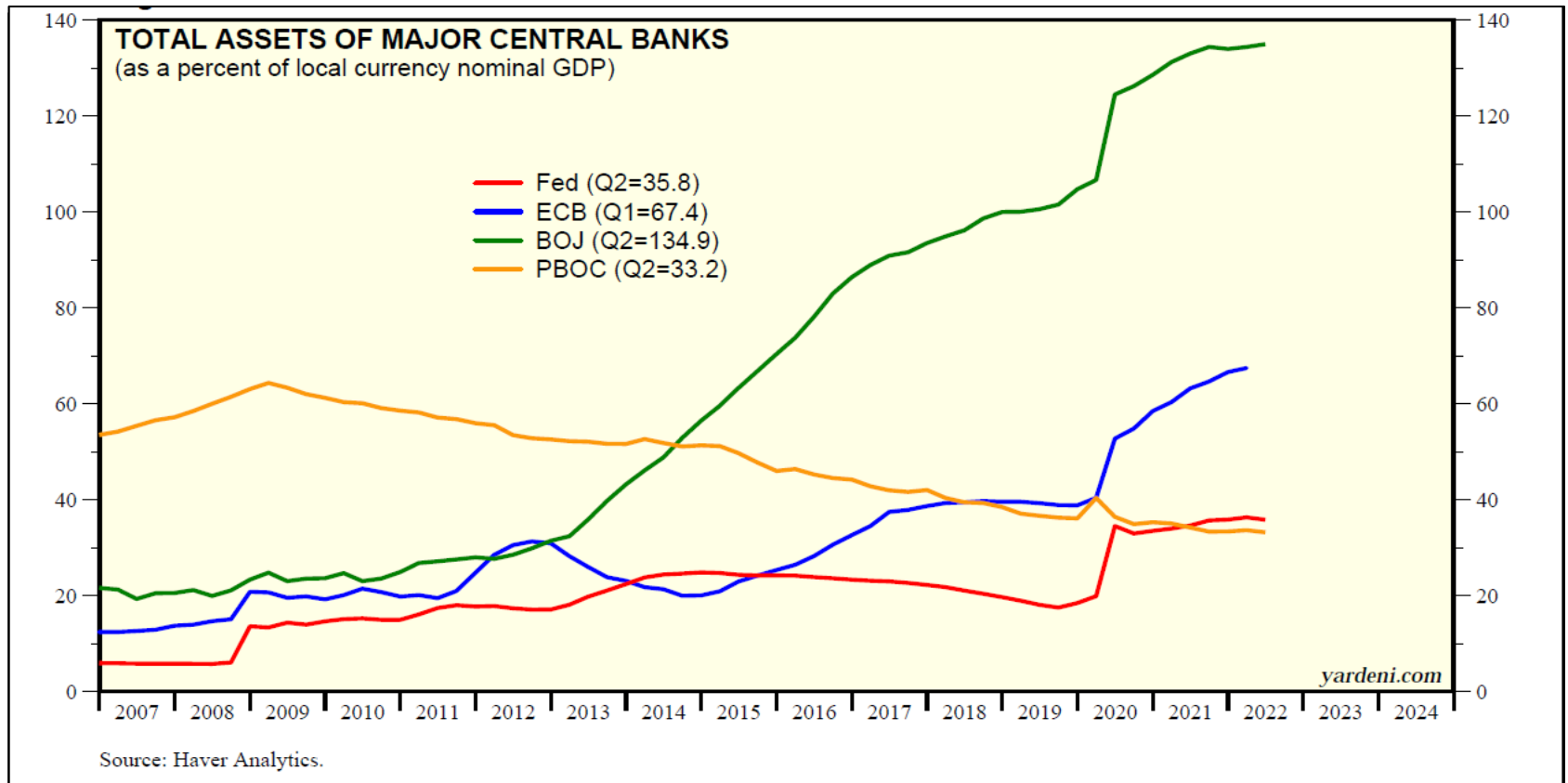
Despite 12 years of QE, multiple bailouts, stimulus programs and helicopter money...



...the DXY is 25% higher than it was in 2008.

The U.S. Dollar

The U.S. has committed many financial sins...



...but it is not alone.

The U.S. Dollar

The U.S. has committed many Fiscal sins...



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Periodic reminder that everything you are worried about one day happening to the Fed & Dollar is already happening with the ECB & Euro as well as with the BOJ & Yen.

10:34 AM · Jun 10, 2022 · Twitter Web App

...but it is not alone.

The Euro

The U.S. has committed many Fiscal sins...



...but it is not alone.

The Yen

The U.S. has committed many Fiscal sins...



...but it is not alone.

The Euro & The Yen

“The DXY is higher because the USD is only stronger against the Euro & the Yen.”



No...

Fiat Currency

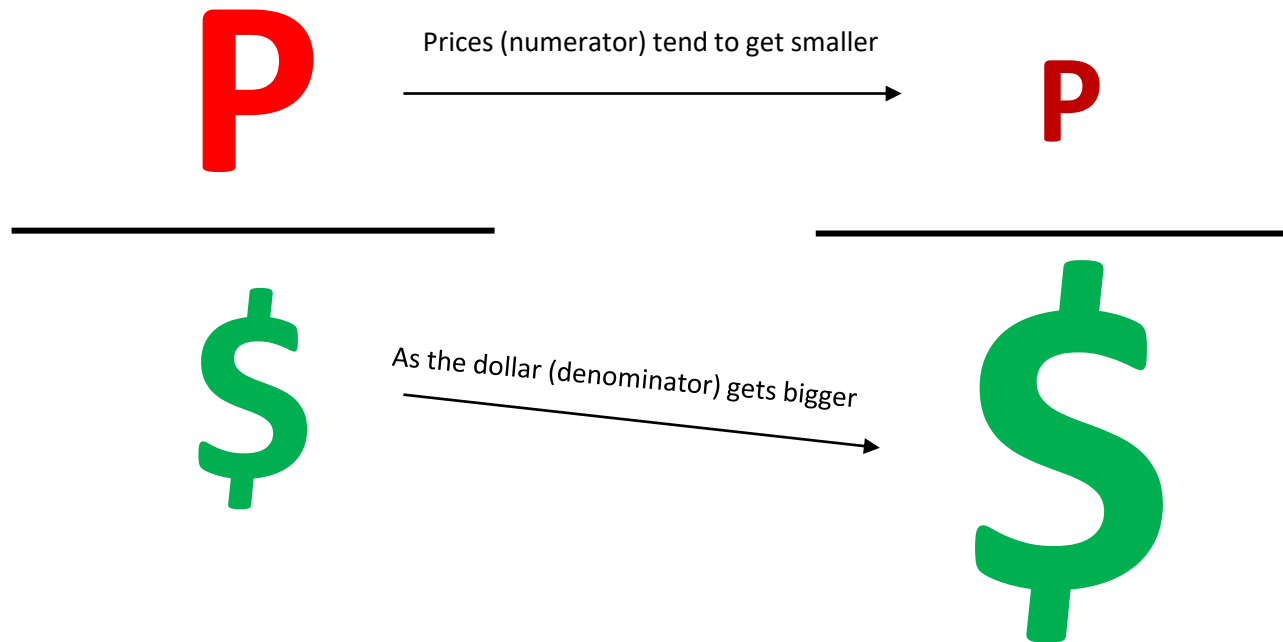
“Since they are all being devalued...I don’t need to worry about the relative strength of the USD.”



No...

Fiat Currency

“Since they are all being devalued...I don’t need to worry about the relative strength of the USD.”



In a debt based monetary system...this DOES matter.

The U.S. Dollar

The Dollar always rises when there is a global economic slowdown or crisis.
Many believe it will be “different this time”.



I do not.

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The U.S. Dollar

Does this mean the dollar is guaranteed to continue its rally here...?



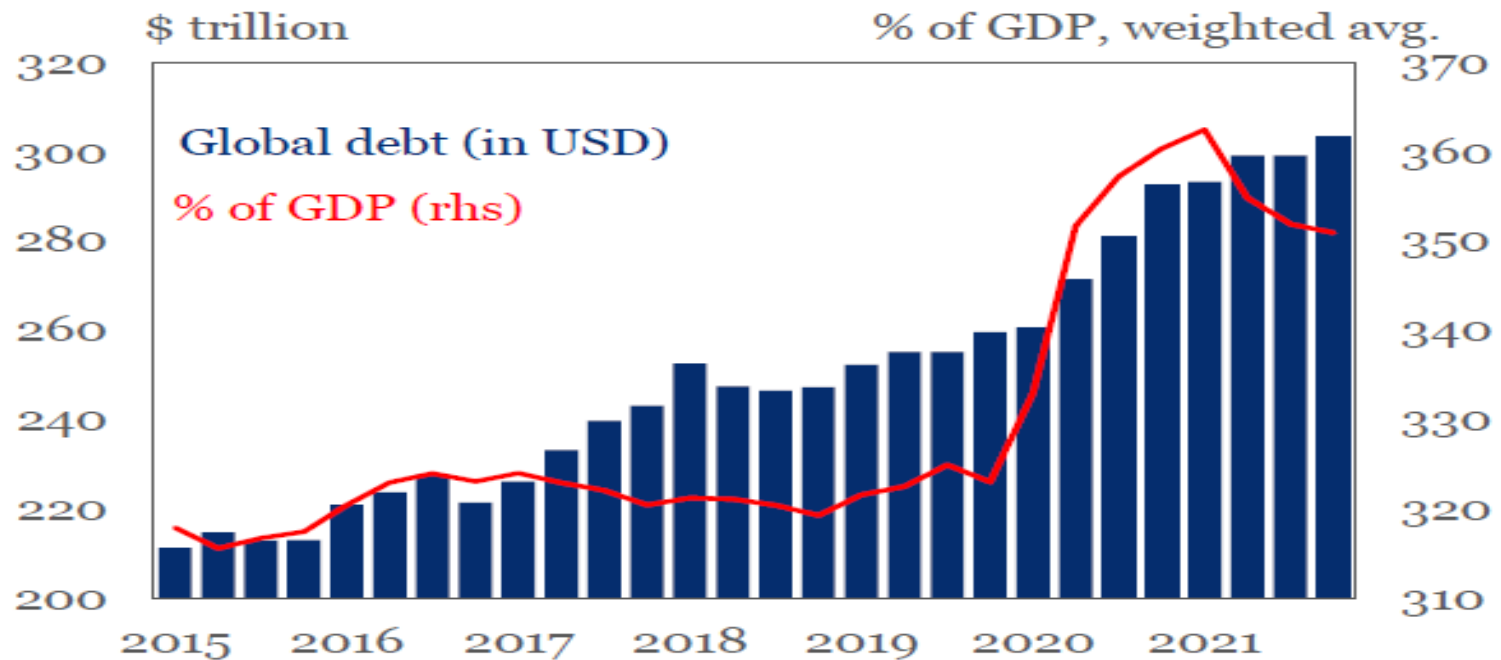
Of course not.

The Dollar Milkshake Theory

The DMT is an event driven thesis based on the consequences of too much Global Debt.

If the world goes into a Sovereign Debt and Currency crisis, and the US Dollar does not rise...

Chart 1: Total global debt surpassed \$300 trillion in 2021



Source: IIF, BIS, IMF, National sources, Haver

...the theory will be proven wrong. Until then...

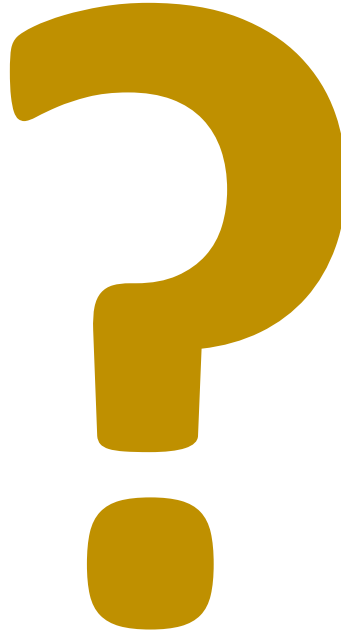
Inflation vs Deflation

There is little debate that prices have risen significantly over the last 2 years.
The debate is whether the rise in prices is sustainable...



...or if prices will roll over...again.

Portfolio Construction



Portfolio Construction

You control risk by diversifying, sizing trades appropriately...



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Replying to [@roysebag](#) [@amlivemon](#) and 8 others

I would start with this and then reallocate over time

20% Short/Medium Term UST

20% Gold/Precious Metals

20% Real Estate

30% US Blue Chip equities

10% Global Macro/Volatility

8:19 AM · Mar 3, 2020 · [Twitter Web App](#)

...and matching your investment time horizon to your idea time horizon.

Portfolio Construction

You control risk by being flexible...

Asset Class	Portfolio 0-18 Months	Portfolio 12-36 months	Portfolio 24 months +
Cash (US Dollars)	10%	5%	0%
Cash (Non US Dollars)	0%	0%	10%
ST Fixed Income (US Dollar)	20%	5%	
US Blue Chip Equities	35%	40%	0%
Developed Int'l Equities	0%	0%	20%
Emerging Market Equities	0%	0%	20%
Private Equity	10%	10%	10%
Strong Dollar / Volatility	10%	10%	0%
Commodities	0%	5%	10%
Gold Mining Equities	0%	5%	10%
Gold Bullion	15%	20%	20%
	100%	100%	100%

...and understanding that you may need to reallocate over time.

Portfolio Construction

The 10 Year US Treasury yield has broken above its long-term channel.



I think it is likely it will ultimately go lower...but I don't currently have the trade on.

Commodities

Gold is down 5% over the last year...



...and IMO it is very important for this green support line to hold.

The S&P 500

Last August I was looking for a move back to the top of the green channel.
It took longer than expected...but finally happened in H1 '22.



I think it's very likely we move back to it again...maybe even to the red channel.

Commodities

Earlier this year they tested breaking out of a thirty-year...



...Head & Shoulders pattern.

Commodities

Copper had a major break-out...



...but is now back to where it was 15 years ago.

Commodities

Wheat had had a huge break-out...but has come all the way back and now sits at support.



I think it is likely to move higher.

Commodities

Soybeans had a big move higher but are now back at similar levels...



I think it is likely to...??? I just don't know...

Commodities

Corn had another large move higher but has also pulled back...

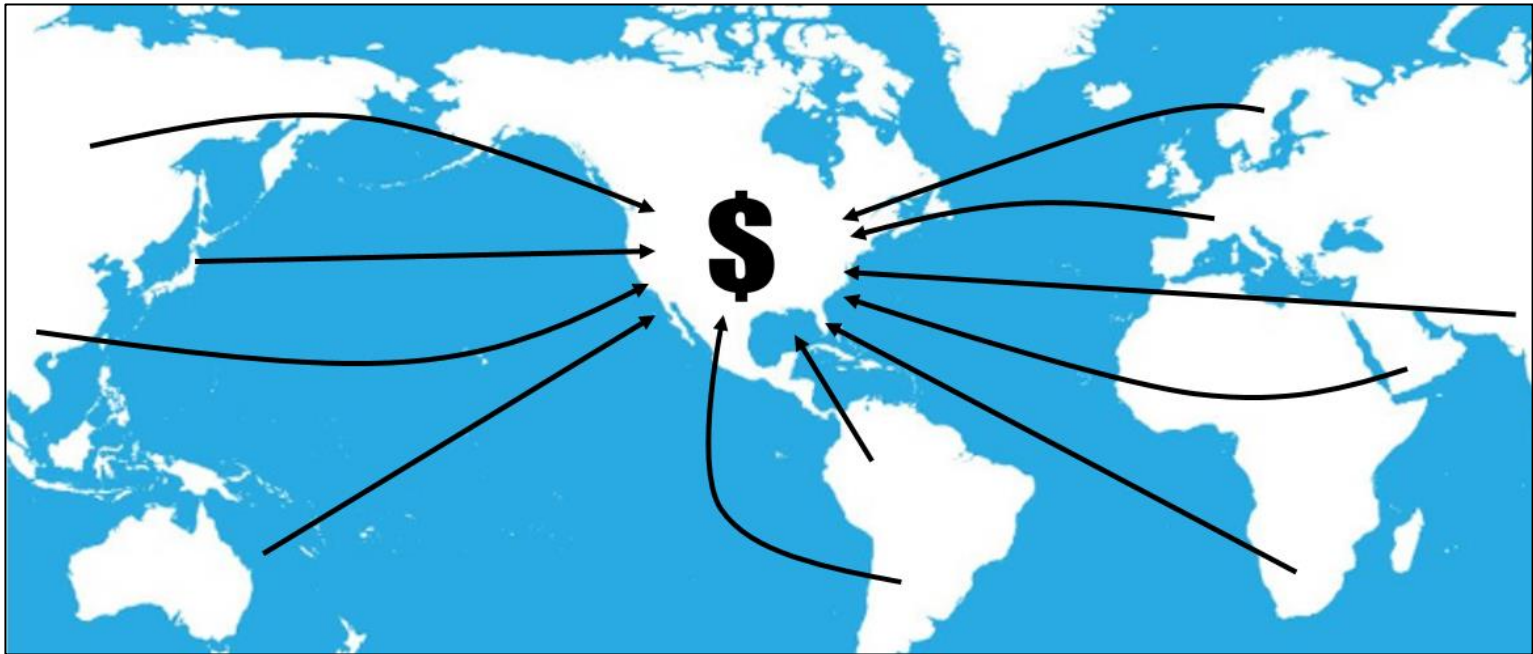


...and is now below support.

The U.S. Dollar

All financial roads go through the USD.

I focus on the USD because it is the single most important factor in getting the Macro picture right.



If you get the USD wrong...the odds of your portfolio doing well...are greatly diminished.

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