Eric Peters: Secular Inflation and Digital Currency

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Erik: Joining me now is Eric Peters Chief Investment Officer for One River Asset Management. Now you know that part but Eric is now also the CIO for One River Digital and we'll be asking him about that, too. Eric, it's great to have you back on the show. I have been asking almost every guest that we have the same opening question, which is look, inflation. Janet says transitory, I say secular. I've been asking a lot of guests this but I really want to point something out. A rule of mine Eric, is you don't listen to the most well spoken, cool sounding pretty girl on CNBC. You listen to the people who actually saw stuff coming before they happened.

You told me I think two years ago that you guys had become convinced at One River that secular inflation was coming. And I think you were launching a fund just to focus on inflation as a trend. A thematic inflation fund, is that right? And I guess what I'm most interested in what were you thinking back then when nobody was talking about inflation? Why did you see it as an issue? I guess Hugh Hendry was telling me about inflation then but not too many people. You saw it before then. How is what you thought was going to happen then compared to what has happened. And what do you guys think is coming next, since you kind of got it right so far?

Eric Peters: Erik, it's great to chat again and thanks. Thanks for having me back. And I'm sure I'm not the most articulate person. So I guess I'd rather be a little early than articulate. But, you know, on the topic of inflation. It seemed to us inevitable, but to really to explain that, I think we kind of have to go back into what had caused disinflation, or at least very, very low and stable inflation, which is really the paradigm that we were in. And there are a few major macro drivers that have played out, honestly, over the course of my entire career and so I started in 1989. And, and so at various points in time, we've, and it's accelerated post 2000. But we've seen increased globalization, we've seen successive use of monetary policy to support the economy at every bout of economic weakness. We've seen this incredible proliferation of ever accelerating technology.

And so you know, all of those things together have created an environment where there's been a lot of leverage that's been built into the system. Wages have come down for the average worker, and a lot of jobs have been moved offshore. And yet, financial assets have done incredibly well because these dynamics are really, they really are beneficial to capital over labor. And the consequence of the kind of the complicated interaction between all these different forces. So globalization, the rise of faster technology, without which, incidentally globalization wouldn't really have been possible at this scale. The offshoring of jobs and just pressure on labor relative to capital with a central bank that was prepared and maybe even eager to step in and just support the economy at every wobble led us to a place where asset prices were very expensive financial asset price were very expensive.

The distribution between capital and labor was distorted heavily to capital over labor, at a level that we haven't really seen since the late 1920s. And in monetary policy had largely become impotent meaning that kind of lowering interest rates or doing more QE wasn't really supporting robust economic growth. It was becoming less and less effective over time, even as it was reasonably effective at pushing up asset prices. And so when you look at that overall setup. You go well, wow, we're really approaching this major pressure point where the dominant policy of the last few decades really my whole career no longer is really working very well. And we have this distortion in the division of this economic spoils between capital and labor. And so whenever we get the next recession, God forbid depression. We're going to have to enter a new policy paradigm, because monetary policy is simply not going to work. It's not going to be effective enough.

And so what will that policy paradigm be? It really could, it could be a couple things. One, we could really have a huge debt write off and just start all over again. All right, and yet, it was pretty obvious that the appetite for that politically is close to zero or zero, effectively zero. And so if that is not a possibility, then what else would happen and really, the only big scale answer is we'd need to have some kind of wild productivity boom, new technology, or we'd have to have a major fiscal stimulus. And so by default, it seemed to us that was obvious that it would go out, we'd hoped for a major technological breakthrough, but we certainly nothing like that was on the horizon at the time and so it seemed inevitable that we'd have a major fiscal stimulus. And if we had a major fiscal stimulus, that it would inevitably be supported by the Central Bank buying debt aggressively, because that's what they had been doing and the world seemed to have adjusted to that paradigm.

So in that environment where you see a large fiscal expansion supported by an aggressive central bank, with the intent to alleviate the debt burden for society overall. That definitionally you'd have to have higher inflation because the policy objective, actually would be to create inflation, meaning it would be to debase the enormous pile of debt that had come to burden the economy and do that through, you know, through just issuing more debt, stimulating the economy, creating deeply negative real interest rates, and ultimately debasing the currency. So those things just they seemed inevitable. And, you know, I don't wanna say thankful that's how it's played out. Certainly, thankfully for our portfolios. But, I think it's neither good nor bad. It's just was kind of an inevitability.

Erik: Eric, I'm gonna make the argument that maybe the easy work is behind you. And it gets hard from here, because I agree with you completely. I do think this is a secular inflation. But you know, we all have to think as professional investors about what if it turns out that we're wrong? And the thing is, I just think right now, oil and copper and all of these other inflation hedge trades really look fantastic. Unless Janet is right. If inflation is transitory. The reflation trade has already overshot and all of these things are screaming short, if we're wrong about this, but I don't think we are wrong about this. What do you do? Do you hedge these things with optionality in your portfolios? How do you handle that? What if actually, Janet got something right and this really is transitory inflation.

Eric Peters: Well, look Janet is a very smart person. And my guess is she'll be both right and wrong, meaning, it all depends on your time horizon. Inflation, if you look at the inflation of the past. Certainly in the beginning stages of them, but even kind of in the meat, or that even toward the end they're volatile periods. So the inflation rate doesn't climb a steady path, like the S&P did for all these years, really. Inflation as it rises is very volatile, and, you know, prone to people probably over hedging and then getting squeezed out of those positions. And so there clearly are aspects of this inflationary period that we've entered, that are going to be transitory. Used car prices are not going to go up 50% every year. It's just if they do, that'd be a real problem. They're obviously not going to, right?

And so there will be supply responses to these, you know, higher prices in various commodities. And so there will be periods where it will appear that inflation is moderating. But I think you have to stay focused on the policy objective, here. The policy objective is, I think, quite clearly to unburden the economy. And this is not just the US. This is more of a global, this is a global phenomena, really. Certainly some countries are more subject to it than others in various degrees. But the policy objective is to unburden economies from a multi-decade, extraordinary kind of a debt expansion. And the way you do that, is either through a massive deflationary event, which is a huge credit write down, or it is through a, either a short burst of hyperinflation or a longer period of controlled inflation. And I would define controlled by a period where governments attempt to and succeed at engineering, a rate of inflation, that's pretty meaningful, let's call that north of 3%. And at times, it could go up, right now it's higher than that, right? So, but a long period of material inflation, while also keeping interest rates artificially low and well below those rates of inflation. And if you do that for for 10, or 15, or 20 years. Then, you know before you know it, your whole economy becomes less burdened or even unburdened from these debts.

And if you're lucky, somewhere along that path, you get some type of real productivity burst that lifts the economy and then things get better out. So I think that's the objective and so when there's such a clear objective. I think to think that it's going to be transitory, it just doesn't makes sense to me. Now, I think if you believe that it's going to truly be transitory, what you're saying is that you think the policy will fail in its intent. And I think at this stage with a government that's been willing to run deficits of 15%, really for two years in a row fully funded more or less by the Fed, I think to think that these guys are going to fail and just succumb to the Japanese experience seems highly unlikely.

Erik: Eric, let's carry that forward and talk about how it might play out because I agree with you completely. Let's assume the government's intention is what some people call slowly inflating away the real purchasing value of the national debt of the public debt. That's what we're talking about here. If that's going to be the agenda, and it's going to lead to ongoing systemic and secular inflation. How long does it take? Do you think before there are potentially adverse consequences? And maybe that not going quite the way they planned it? And what are those consequences? What are the things that could go wrong with that plan?

Eric Peters: Well, that's where it gets interesting, right? And I say interesting, I'd say where it gets interesting to me just being a student of the history of money and markets. And it's interesting, because we live in, we live in a world of fiat currency, right? So there's nothing backing currency other than people's faith in it. And so we're running, we're running a major experiment. We're running an experiment, we say, well, we think I say we meaning policymakers, politicians. We think that we can attempt this experiment, meaning we can engineer inflation, that is at a much higher rate than the interest rates that we suppress and create this negative real interest rate, which is effectively a huge tax on capital, right? Because if you if you own these bonds, or if you unless you are investing in something that is creating return in excess of that inflation. Your capital is really being taxed.

And so they're running this experiment at scale, in a world of in a world of fear. And yet, we don't really understand, you know, for how long people will have faith in, you know, in this paper money system. We just don't know, I definitely don't know. And I think what happened post 08' was that they were an awful lot of smart people who thought that, once we entered this world of QE, that actually, we would have a huge inflation. And really, the reason for that was because they thought that people would lose faith in fiat and that ended up being wrong. And so what happened was, you know, the Fed did do QE, they bought a lot of bonds, and created a lot of money but that that money just, it had no velocity in the banking system.

And so I think what's happened post 08' is that the voices that were concerned about a major inflation were more or less silenced, just because they were wrong for a significant period of time. And that has given policymakers and politicians the courage to just say, well, we think that we can, we can do this experiment. We can actually, not only do QE, but also do it with massive government deficits. And it probably still won't create a runaway inflation or, and let's call what a runaway inflation is. A runaway inflation is really people losing faith in currency. So I think that the politicians and the policymakers having experienced this unique episode post 08', where they created a lot of money, and there was no velocity of that money. And it didn't create a real loss in faith in the currency. They feel that they can push that experiment, a step forward.

And I would argue that they've now done something that is just, it's so unorthodox, it's hard to even characterize it really and put it in a historical perspective what's happening right now from a policy perspective. But that's the bet that they're making. They're making the bet that they can do this without people losing faith in the currency. And if, if they're right, then I think it will be a reasonably. Then it's a smart policy, and we'll look back and say that was good. They unburdened the economy from all this debt, they taxed capital, meaning the people that have a lot of money that had saved in various forms. They've taxed that and so they've restored greater balance between the rich and the poor, and the economy is just healthier. You know, let's call it close your eyes and say that's where we are in a decade. That will have ended up working out really well. The risk is it's somewhere along that way people go, you know what I'm tired of being, my capital being taxed, and I'm going to, I'm going to move it out of bonds and move it out of this currency into other things. And that's where you get a real discontinuous market event and we don't know whether that will happen but that's the risk.

Erik: I'd like to run a couple of thoughts by you. Because a lot of people, myself included, have been a little bit skeptical of current policy because we feel that, you know, they really are trying to solve a lot of problems with a printing press that I don't think can be solved with the printing press. My peers and colleagues who hold this view are telling me. It's all going to blow up by next year, it's gonna be a mess. I don't think so Eric! I think that if you do this agenda that we've begun on already, it's not might happen. It's already clearly, the wheels are turning. I think what happens is it looks absolutely beautiful for the economy for several years before everything blows up. And I do think everything blows up eventually. But I think it could be lots of years before that happens. And I know how politicians think, which is, if it happens on the next guy's watch, I don't care. Would you agree with that? And the big question I try to get my head around is, how many years are we talking about before the good inflation turns into really bad inflation?

Eric Peters: Hmm.

Erik: Do you agree with the premise to start with?

Eric Peters: Well, let's start with the position of humility, which is that this is an experiment. It's at a scale that we, that we have never seen. And so we don't, we don't know how it'll play out and anyone who says they know exactly how it'll play out is either too confident or you know, just pretending. So look, we're throwing an incredible amount of money at the economy and it's a bit difficult for me to see how that in the end isn't good for the economy. There's a difference between what's good for the real economy and what's good for financial asset prices. And so that's one of the interesting things that we'll have to contend with. In other words, it could be the case that we end up with, with a reasonably strong economy or potentially an overheating economy, real economy. And that actually ends up being quite good at achieving one of the other objectives that politicians and policymakers have right now, which is to restore balance between how the economic spoils are divided between capital and labor.

And one of the ways you do that, if you think about it at the extreme. One of the ways you really do that is you get people who are workers paid a lot of money. And that, in effect, creates a form of tax on capital, right? Because, if everyone has to pay their workers lots of money and or has to somehow give them more benefits and in some kind of way, and if even if they don't do it directly. The corporation's do it because they're taxed, and then the government provides those services or those economic supports. If all that happens, you could easily imagine an environment where labor does well, and capital does not do well. Capital at the highest level, meaning maybe equities don't do well. Maybe, you know, imagine a world where bonds have deeply negative real rates, right?

So and that goes on for a long period of time means anyone who owns bonds ends up losing real purchasing power over time. And imagine equities don't do well because profit margins are perpetually shrinking, because either through taxation, or higher wages, or higher input costs.

They just, you know, they earn less money and then over time, those multiples decline because investors look at it as more or less, a more permanent feature. And then as the years roll on, they start worrying that not only is it more or less a permanent feature, but ultimately it leads to a bad inflation. And so why do we want to own stocks, which are a long duration asset in advance of something that we think is going to go wrong a few years hence. So those are all, those are not forecasts, those are just I think those are the inputs into how to think about the coming years.

Erik: Eric, I want to talk about where all this is headed, because as you said, what has to happen it seems. Is we're probably going to have secular inflation that debases the US dollar and other fiat currencies. Fiat currencies haven't gone away as the gold bugs predicted but I'll tell you, there's something that's very, very clear to me, which is the invention of the Secure Digital Bearer Asset. Originally invented by the Bitcoin crowd is a game changer. And it's a game changer, which I'm going to argue the finance industry hasn't even begun to figure out yet, because frankly, they're still fascinated with these cryptocurrencies that I think are a waste of time. I know you disagree. And I want to get your view on that in just a second.

But I think digital currency is going to really over the next 25-30 years, completely change the entire face of Finance. And it's going to redefine, not just, we're going to replace the paper money with digital money. But what money itself is. Its functionality is going to evolve and change at computer speed. If you think about how things in the real world change versus how quickly on websites change, I think how money works is going to start evolving. What I'm going to argue is maybe too fast, because the people who understand it are going to exploit that understanding, not to the benefit of the rest of society around them.

And quite frankly, I know I was a tech CEO, software CEO in the 90s. I thought it was impossible for finance guys to be more confused about technology than they were in the late 90s. I didn't think it was possible. But boy, crypto sure has confused him, hasn't it? Do you agree with me that digital and I don't want to get to crypto versus CBDC yet. But would you agree that digital currency, regardless of whether it's government or private minted, is likely to long term replace all fiat currency? That's my outlook. Would you agree and if so, why do you think it's true?

Eric Peters: I think it's inevitable. So I rarely or almost, yeah, rarely do I say something is 100% certain, but what you just said, I think is 100%? Certain…

Erik: They don't get much closer than this one, do they? I mean, in terms of those certainty.

Eric Peters: Look, the whole world is moving into a digital age. And we see it all around us, it's advancing, and it's advancing at a really swift pace. And, in fact, our kids are more and more living in and spending a decent amount of time in their lives living, like literally living in digital virtual worlds. And that's, you know, that's only going to increase. And so part of it is just the world is just moving in that direction. It's more efficient. But there's also the issue that you know, paper money for all of the concerns that people have, and that the media has around Bitcoin, for instance, paper money is really it's difficult to trace. And so governments like the ability to create money, it gives them the power of seniorage meaning they can just create money out of thin air and then use it and they do. You know every year, they do to a large degree or relatively small degree depending on the country. But they can still do that in a digital world, of course. In fact, it becomes easier.

And so, by transitioning to a digital world, they don't give up power. In fact, they gain power and one of the great powers that they gain is through being able to track and trace every transaction that happens. And so it's no surprise that, at least no surprise to me that in 2015-16-17, a bunch of really smart young Americans and Canadians traveled around the world talking to every government that was willing to listen about these new technologies and how they could be applied to finance and money. And of all the governments in the world that listened to them is the Chinese that took it most seriously and they more or less right out of the gate said. Alright, we need to start working on a digital currency. Why? Why would they do that?

And it wasn't because they wanted to save money on paper. It was because these, you know, by digitizing currencies. If you can control them in a centralized way, which is the choice that the Chinese have made, then you have enormous amounts of data and you can use that to dominate your people to, all the way to the end of the road. And so that's what the Chinese have done. So I think they answered the question for you. In other words, the reason that the Chinese want to do this is because it gives them power. And governments throughout history, rarely shed power, they accumulate it. And so these new technologies give governments more power. Now they can be governments can choose to limit their access to this data and things like that. And hopefully the US will not use this data, the way the Chinese are using it against their people.

Erik: Now the US has never used data against its own people. That's ridiculous talking about Americans.

Eric Peters: But okay, and I get it. Look, these are going to be some of the issues that we really have to contend with in the coming years and decades. But at least in the US, you still need a search warrant for certain things, right? It's not, I mean China doesn't need any of that at all. And so they truly can use these technologies to dominate their citizenry. And the US and every West, every country in the world will have similar or the same ability and hopefully in more democratic nations, there'll be healthy checks and balances. But this is going to give governments enormous new powers and so they're going to take it and that's the end of the day, that's why, right? Papers cheap, printing money is not super efficient, relative to just you know, clicking a button, but it won't be because of efficiency at the government level but it will be because of power I think.

Erik: Okay, Eric, I think that you and I agree very strongly that what's going on here. When you look back to the invention of Bitcoin years ago. The way I looked at it, and the way it sounds like you looked at it is very similar. Which is, hey, it's kind of cool that these libertarians invented this thing that's all about not having the government track all of your transactions. But in the process of doing so, they invented and published the instructions for how to use technology that governments are going to get their hands on. And they're going, it's very easy to predict. They're eventually going to do what's now called CBDC, central bank digital currencies, where the government is the issuer of the digital currency. Seeing that same view that you and I both have because you just expressed it three years ago, when I wrote my book. My take was, look, everybody is just super hyper focused on the first example of this, which is Bitcoin. But, really the likely trend is that governments are going to assert their power. They'll probably, you know, outlaw the cryptocurrencies at some point, of course, they won't go away. They'll still be used illegally even if they're outlawed.

But probably governments are going to kind of take over and say, now we got the monopoly on issuing money. Forget about all these cryptocurrencies, we're going to issue government-issued ones. Sounds like you and I both see that future as the most likely outcome. Yet my reaction to it was, therefore, everybody is overpaying for this Bitcoin stuff. It's not going to be nearly as popular as they think it's going to be in the future. So if anything, you know, you don't want to be really chasing Bitcoin. You took the same data, and you didn't just buy some Bitcoin for yourself, Eric, you made news becoming the mover of the market, who, at least according to Zero Hedge, was buying more Bitcoin in that last rally than anybody else. So you definitely got a view that Bitcoin is going to benefit, despite the fact that I think we see it the same way, which is eventually governments are going, I think, crowd out the cryptocurrencies and sovereign digital currency is going to be the big winner here. Why don't we see it differently? or What am I getting that's different from the way you see this?

Eric Peters: Well, there's a lot there. So okay, a few things. Central Bank Digital Currencies are likely in many countries, but they're not inevitable in every country. I think that there's a very material probability that the US does not issue a central bank digital currency. And that rather, the US allows for private sector equivalence that will be highly regulated by the US. But, that we don't actually implement a central bank digital currency itself. And if that's the direction that the US goes in. Functionally, from a consumer standpoint, or banking standpoint, there'll be pretty similar. Meaning that you'll just operate with digital currency as opposed to paper currency and the settlement process, and all these kinds of things will be much more efficient, much cheaper, and all that's great.

But if you have a central bank, digital currency, really, when you think through what that means. Inevitably, you end up having a banking relationship with the central bank. And I think the US, the Fed hopefully, well, I think the Fed doesn't really want to have a direct banking relationship with individuals. But it also creates a lot of complications in the whole banking system. Because if you have a big role, if you have a vibrant private banking system and you have a central bank digital currency. What will happen is anytime people get worried about the solvency of the banking system, they'll just plow their money into their central bank digital currency account. And the banking system will face a run on the bank. And so there, those are kind of more technical reasons why they're more complications with that structure than you might think.

Eric Peters: And why also think that the US probably ends up with a private sector solution. It doesn't mean that private companies are just creating money, and doing whatever, whatever they want to do. They're all, they'll all be heavily regulated, but I think it probably remains in the private sector. So that's what I see on the central bank digital currency side, but that's very fluid. And so who knows what decisions ultimately are made. There's not going to be a US Central Bank digital currency anytime in the next year or two, anything like that at scale. So if we go down that path that will be over many, many years.

In terms of how to think about something like Bitcoin next to that or replacing it. I don't, I really don't think that the US is going to make Bitcoin illegal. If I did, I wouldn't have invested. We wouldn't have made the investments that we did. And incidentally, you know, the investments that we made were in early November, just after the election with Bitcoin around 15,000. So anyhow, I like you saw the invention of Bitcoin, and kind of marveled at it to me, when I looked at it years ago, it was so obviously the future of money, that I thought it would be highly unlikely, not a zero probability, but highly unlikely that it would be allowed to coexist next to fiat currency just because it seems that Bitcoin in its full expression would be a viable competitor to the US dollar, or any other sovereign currency. And therefore, sovereigns just wouldn't want it to exist and would therefore try to stop it from existing.

And so in many respects, I thought the beauty of the invention was so substantial that in it contained the seed of its failure. But what I think has happened over the years is that either through neglect, or let's call it neglect, and not incompetence. But, perhaps through neglect, governments just didn't stop it in time. And so now, it's actually, it's big enough that the cost to governments more or less of trying to make it illegal, because governments can't shut it down to your point, even if you made it illegal. The whole network would still operate, the price would be lower for sure. For a time anyway, but you can't stop it. So you have to look at what are the costs and the benefits to governments of making an illegal and the costs are that number one. There's something like 140 million people around the world who own Bitcoin right now and they're not all in the US of course, but there are an awful lot of people in the US, and they're institutions, and they're futures that trade on this. A lot of people would lose a lot of money and there are a lot of strong advocates in Washington DC for Bitcoin, and it forms the one of the core assets of this whole new asset class that contains tons of innovation that if embraced, I think will benefit the whole US financial system, the US economy, and our place in the world.

And so if you try to shut that down, you seed an advantage to your competitors internationally, and also your adversaries. So that's the cost is that you see that advantage. There's also a cost that if you see that advantage, and others start to overtake you that you then have to reverse that policy and that's deeply humiliating for a government. So, there's a significant cost to the government of shutting it down. So then how do they think about mitigating that? And if they feel like these assets, perhaps threaten their power. What would be the logical response? And I think what you're seeing in regulation now, is that logical response, what you then try to do is say, okay. If we could theoretically make it illegal, but we don't want to bear that cost, how can we mitigate it?

And what they do is, they go, well, let's make it transparent. So let's make sure that we understand who owns what. And once they do that than the government always holds the right to tax these assets at even exorbitant rates if they choose to. And so, ironically, it doesn't behoove the government to shut these assets down now that they've gotten past this point where they're widely adopted. What they do need to do, though, is figure out who has them, who owns them, how much do they own, and now they have this huge pool of capital gains that they can tax. And so we know governments like to have huge pools of capital gains tax. And so this is just another one of those.

Erik: Let's talk about where this is headed and our views, I think they're very similar. I talked in my book about what I call SVDCs Silicon Valley digital currencies. And what I mean by that I think is a little different than what you described. I think the way you were describing this was maybe the government would be in charge of things and would kind of say, okay, we're going to invite contractors to come give us a bid to do X, Y, and Z. I don't know if that's what you meant, but I don't see it going down that way. What I see is enterprising Silicon Valley entrepreneurs and certainly Facebook with the Libra project is an early example of this saying. Hey! the whole world is trying to figure out that clearly, the US dollar is the world's reserve currency. It's going to be replaced by a digital currency and nobody can figure out which one it is or how it works yet, let's make it us.

And I think it's a power grab, I think, you know, the folks that are in charge of social media already control too much influence on the world. I think they're about to get a whole lot more if they can do and I don't know if this is what you were thinking. But the way I see it going down is these things start out as a private payment system. And then as you get pressure on the US dollar, as more people are using digital, there's kind of a deal that gets made between Facebook or Google or whoever owns the digital currency system. The US government saying look, we'll make this the digital dollar, you'll license it and we'll operate it for you. Is that kind of what you were thinking? Do you see it going down differently?

Eric Peters: I think it's a bit differently. But I think the dynamic that you just described is partially what I see. So I see, like in any kind of quasi free market, I don't think we have a perfectly free market. But we still have a market that invites innovation and there will be various firms that come up with different ways to create a digital dollar. There are already those Tethers, the biggest one, but it operates offshore. And I think that the US government is becoming increasingly uncomfortable with that structure where there's, It's almost like a shadow banking system that is creating dollars that are used in the digital ecosystem. Now, right now, those dollars are not used, those digital dollars that are called Tether, they're not being used to go buy coffee or groceries, they're being used in crypto exchanges to exchange from they'll say Bitcoin into Tether and then tether into Etherium or Ether rather.

So they're being used in all kinds of ways in this digital currency system. But the government is, I think has looked and has been really surprised at how quickly these forms of private sector digital dollars have grown. And the velocity in these is just stunning meaning they're $60 or $70 billion worth of Tether out there. But the velocity is just wild. So you know, these things are changing hands multiple times a day. So the government is paying attention to this. What I'm saying is that they're not going to go out to private, I don't see them going into private companies and saying, listen, we want a digital dollar, you guys run this for us, and we'll bid it out, and we'll pay to do it.

I think there'll be digital, there'll be different types of digital dollars that spring up in the private sector. And the US government will say, listen, if you want to operate in dollars, then you're going to have to fall under our regulatory umbrella. And we're going to make sure that the way you operate is, you know, we're comfortable with the security of that, we're comfortable with the collateral that underpins that, and that all of those things are going to be built such that, you know, a dollar is worth $1 is worth $1, whether it's digital or paper and eventually it'll all become digital. But that's just different from a centralized, you know, kind of a centralized central bank digital currency like the Chinese are doing. That's just, it's not that it's decentralized. It's just, it's kind of operated by the private sector, as opposed to operated by the US government. It's just, in this case, it's just regulated by the US government.

Erik: Now, One River Digital is not just in this market. You're a big player in the crypto market for Bitcoin. Are you also investing in DeFi companies that are looking at using distributed ledger technology to do other things in finance? Is that part of it in your vision? Or do you see this as mostly a currency play?

Eric Peters: We are not investing in private companies at our firm. I think that, you know, there are other firms, obviously, that are doing a lot of that. And I think some of those firms will have enormous success because what's happening now, and what has happened with the invention of Bitcoin, I think should be viewed as a true Black Swan. Meaning, this is a new type of technology that allows for something that humans have not, to this date in our history been able to do, which is just decentralize these trust systems. So our entire society, and most of our economies are built on this notion that we need to have centralized control of some sort so that there can be a trusted central authority on whatever it is we're doing. And so imagine a stock exchange. Imagine the New York Stock Exchange is that central authority that allows all sorts of people to come together, and, you know, trade stocks, and they're sitting there in the middle of that. And a credit card company is some type of centralized company. Art Gallery is a centralized, centralized type of structure. So is government, right?

And so, they're all sorts of different organizations and structures throughout society that we have just, you know, as a species have come together and said, well, this is the right way of organizing our activities is to have the central control or authority on something and now these technologies have come along and said those are, we actually don't need to do it that way. And we have the technology that allows us to do it in a different way. And I don't know what that will all lead to. But it's fair to say that when we look back in a few decades from now. We'll look at this as being an absolutely earth shattering kind of moment where a lot of the assumptions we've made over hundreds or even 1000s of years around how we have to organize ourselves and build these trust systems was changed to these new technologies.

And so what that will lead to? I don't know, I don't. But, I think a lot of these DeFi apps or DeFi protocols. A lot of them will end up being worthless, but some of them will end up being incredibly valuable. And I think the digital assets that we're investing in, right now, we're an institutional asset manager. So we're not trafficking in really obscure little protocols. And you know, that's more for venture capital type investors. We're focused on the the bigger assets in this space and we think that they'll be worth a lot more money as the things that I just described become to be more apparent to people. I think that process is only just beginning, there's a ton of skepticism. There's still this regulatory uncertainty. They're way more questions and answers but like anything those things start getting answered and uncertainty starts lifting. And as that happens, I think these assets will become much, much more valuable.

Erik: Well, Eric, I can't thank you enough, as always, for a terrific interview. But before I let you go, I want to talk a little bit more because it's changed. Last time we talked, it was just One River Asset Management. One River Digital is just a brand name, or it's a separate company and what else is going on? Tell us is the inflation fund happening? Give us the rundown.

Eric Peters: Yeah, so we started One River Digital Asset Management is a subsidiary of One River Asset Management. And so we're still one, you know, cohesive firm. We thought that some of our clients might just due to the uncertainty around digital assets. They might value us separating that part of the business out into a different entity. But I think ultimately, where all this leads is Asset Management becomes fully digital in time. So I started that, thinking that we would be the leading, or we would certainly aspire to be the leading asset manager in digital assets. And what I've, I think, increasingly come to realize is that all really successful asset managers in the future will be digital asset managers, even if they operate across all asset classes. And we are a firm that operates across every asset class.

So, you know, we're growing quite quickly. And it's a lot of fun. It's just so interesting to be involved in new things. And you know this new asset class, while it is a new asset class, it feeds into this whole macro story. So I really don't think that you can understand fully and well no one can understand fully. I don't think you can understand properly what's happening in macro markets without really understanding what's happening in digital assets and these new technologies. And then on the inflation strategy. It took time, but we we've gotten it off the ground. So really excited about that. Like anything, it's harder to raise money and get backing for a strategy, if not that many people, you know, see that risk as manifesting, but now that it's becoming more apparent, we have gotten that off the ground which is terrific and we're seeing a lot of interest in that.

Erik: Eric, I look forward to getting you back on the show in a few months for another update. Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.