Brent Johnson: US Dollar Still Not Crashing

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Erik: Joining me now is Santiago Capital founder Brent Johnson. Brent prepared an excellent slide deck for today's interview and I strongly encourage you to download it as we will be referring to the charts and graphs that contains during today's interview. Registered users will find the download link in your research roundup email. If you don't have a research roundup email, it means you're not registered yet at macrovoices.com. Just go to our homepage, macrovoices.com, click the red button that says looking for the downloads. Brent, it has been way too long since we've had you on the show. It's great to have you back. Let's jump into your slide deck and talk about a favorite topic of mine when I talk to you, the US dollar. Everybody's asking me I can't decide.

Brent: Well, I had a feeling you might ask me about the dollar, Erik. So that was the first slide that I threw in here. But in any case, it's really great to be back. I always appreciate the opportunity to talk with you and your listeners. It's one of my favorite podcasts out there so happy to jump in. And, you know, the point I wanted to make with this first slide here is I was here talking with you about a year ago, Erik, and the dollar was around 93. You know, and since that time, I've had innumerable people tell me, remind me, try to convince me that the dollar is going to zero. And there's just nothing that can stop it.

However, you know, in the last year, despite printing over $1.4 trillion, despite having a democratic president get elected, despite having a totally democratic congress get elected, despite numerous stimulus plans, a contested elections, and social unrest. The dollar is at 92. So I guess I would say are you sure? Are you sure the dollar is go to zero? I'll tell you I'm not sure about anything, Erik. But, I think it's a very uncertain time. And I think a lot of people who are certain in their narratives may be proven wrong. And so we'll just have to see how it goes.

Erik: Brent, let's talk about some of those reasons that some people say the dollar is going to zero. You know, this is frankly baffled me because the usual argument I hear is, hey, look, governments are just debasing fiat currency. I mean, it's a huge trend. Well, I couldn't possibly agree more with that. But the dollar index is a relative measure of the dollar against other fiat currencies, where those other governments are doing the same stuff. So why don't we go ahead, looking at slide four here, I see you've got kind of the history of the various different programs of quantitative easing that everybody thought was going to crash the dollar. What is this chart telling us? And what should we make from it?

Brent: The point I wanted to get across was that I don't disagree when people tell me that governments are debasing the currencies, and it's a trick as old as time and you can't trust the governments and they're going to do everything they can to, you know, inflate away the debt, of course, they're going to try to do that. But are they going to be successful, they may be successful against things like land and gold and other real assets. But again, to your point, fiat currencies are relative, and think about all the different programs and everything they've tried over the last, you know, 12 or 13 years since the global financial crisis. Well, you know, the dollar is higher today than it was when they started in 2008.

So, despite QE one, despite QE two, despite Operation Twist, despite QE three, despite the repo crisis in 2019, and despite COVID over the last, you know, call it 12 to 15 months, the dollars higher than it was in 2008. So, you know, and then I'll hear people say, well, it doesn't really matter if fiat levels don't matter. And the point I would make is relative fiat levels absolutely do matter. Now, if you want to just put 100% of your money into gold, or Bitcoin, or one asset. Well, then just go that buy that one asset and go to the beach, you don't have any more work to do. But if you don't want to have all of your money in one asset, you very much need to understand how fiat currencies trade relative to each other because it has huge implications for markets.

Erik: Brent, talk me through the next few slides, why hasn't the dollar crashed the way so many people thought it would?

Brent: Well, again, I think, you know, it goes back to the relative level of currency. If this was a unique situation to the United States, if we were the only one that committed these egregious fiscal sins. And we were the only ones who were trying to inflate away our debts and having to provide stimulus programs and thinking about MMT policies and UBI. Then, of course, you know, I would expect the dollar to fall but but it's just not the case. You know, everybody likes to point out the Fed, this the Fed that and that the Fed is quote unquote, monetizing the debt, even though they're not calling it that. But you know, what about the ECB? I mean, last year, the ECB monetized 85% of the net Eurozone issuance, and they're on schedule to do over 100% this year. So again, how come people aren't laying it up, laying all the world's problems at the feet of the ECB? Why is it always the Fed? Again, the Fed is not alone.

And then they'll say, you know, going forward, you know, the Fed is monetizing most of the debt, and it's all going to be sitting on the Fed's balance sheet. The US Treasuries are going to be sitting on the Fed's balance sheet. Again, I don't necessarily disagree, but again, why aren't they talking about the United Kingdom? Why aren't they talking about Australia? Why are they talking about Canada, Europe and Japan. All of those countries have dramatically higher percentages of their outstanding treasuries on their balance sheets. So again, this is a relative game, and we're not the only ones doing it. And as a result, I think people are going to be surprised at the dollars resilience. And I think we are still set up for the possibility for the dollar to go much higher. Now, that's not a guarantee. I don't know that that's going to happen. But I think all these people who are just sure of themselves that the dollar is headed to zero, maybe dramatically disappointed.

Erik: Brent, we've covered your *Dollar Milkshake* before on MacroVoices, but it's been quite a while. Let's do a quick refresher for any new listeners. What do you mean *Dollar Milkshake* here on page 10?

Brent: Yeah, so on 10 point that I've made is that, you know, that's the amount of debt that has been issued in the world is going to have consequences. And it's not just the US, you know, the whole world has issued massive amounts of debt. But the US is the global reserve currency. So a lot of that debt has taken place in dollars and that puts a lot of demand under the dollar. You know, so despite the fact that we've been printing a lot, other countries have been printing a lot, too. And so I've coined this term that they've created this milkshake of liquidity. However, I believe that all this debt is going to have consequences. Now it hasn't yet. But you know, and so I will hold up my ends up, I'm absolutely then wrong, as far as the timing of a global sovereign debt crisis or a currency crisis. But I still believe that's coming because I still believe the debt has as consequences.

And I believe when we enter this currency crisis and this debt crisis, I believe the dollar will, for many reasons be the last man standing. And I think as that happens, the dollar will suck up the global liquidity, hence the dollar milkshake. Now if we enter a global monetary crisis, and a global sovereign crisis, or a currency crisis, and the dollar falls rather than rises. Then I will hold up my hand again and say, you know what, the theory was wrong, I got it wrong. But until we get into that crisis, and see how that crisis plays out, we just don't really know. Again, this is, I always remind people, I call this the dollar milkshake theory, it's not called the dollar milkshake fact, it's not called the dollar milkshake guarantee. I don't know for sure how this is going to play out. But my suspicions tell me that when this happens when we get into this event, or when we get into this time period, where global debt actually does matter, I think you're gonna see a rapidly appreciating US dollar.

Erik: Let's move on to the topic I've been asking all of our guests recently, which is inflation versus deflation. Janet says it's transitory, don't worry about it. And President Biden says you don't have to worry about inflation, because we're gonna pump money into the economy, which will make the inflation go away. That's a macro view. I'm not really familiar. What do you make of this?

Brent: Well, I do think that this is kind of the debate of our time, for lack of a better word. You know, I would say this, I have been labeled a deflationist. And I don't necessarily mind that. Although I would say that I feel like I could flip to the other side pretty quickly, if I see a few things happen. Part of the reason that I've been, you know, put into the deflation camp is for my strong dollar views. And typically, a rising dollar is kind of associated with the deflationary pressures. I would say that over the last kind of 12 to 15 months, you know, after COVID broke out, and we've had the central bank reaction to it and the monetary authority reaction to it. I'm not gonna sit here and deny that prices haven't risen. You know, sometimes people will say to me, Brent, how can you not see the inflation? The short answer is, I can see it. It's pretty clear that prices have risen. The question I have is whether they continue to rise. And if they continue to rise at the same rate at which they've been rising. I am of the belief that, in addition to just what the central banks have done, a big reason for the rise in prices has been the supply chain disruption. And I think some of that will get worked out.

Now, it's not going to get worked out overnight. And I'm not so naive to think that it's all going to be perfect tomorrow. But I do think a lot of that will get eventually worked out. And I also think that a lot of the upside that we've seen for the last 15 months is starting to subside. And I think that the biggest near term worry is deflation rather than inflation. Again, I don't know this for sure. But I think there's a few things that we can look at to tell us whether inflation is sustainable, or whether it's transitory. And I've put a few charts up here that I know you've seen before, Erik. We've talked about it before and you know, some other of your guests have talked about it before. But on slide 12, I've laid out the the rate or the commercial industrial loans, and what you see is last year, once they rolled out the PPP loans and the loans that the banks gave, were guaranteed by the government. Well, then the banks were happy to lend. But as soon as those programs ended, you immediately saw commercial and industrial loans start to fall, and they've fallen with the exception of one or two months. They've fallen every month since then.

I think in order to get sustained inflation, again, I'm not going to argue about whether we've had inflation for the last 15 months. But to get sustained inflation going forward, we really need the banks to lend because that's where the money supply is really increased. And they are just currently they just aren't doing so. I also talked about on page 13, that in order to get again, sustained inflation going forward, we really need wages to rise. And again, they had a big jump last year. And now and since then they've just kind of crashed back down to the long term trend. And, you know, long story short, wages just are not yet doing so. Now, again, if this last chart that I showed, and then this chart, if we start to see some sustained changes. I'm happy to consider the fact that maybe inflation is here to stay. But so far, the data is telling me that that's not necessarily the case. You know, and that's why, you know, we still have such a low velocity of money. I kind of point this out on slide 14, here, Erik. It still sits at its all time lows, or at least near its all time lows. I struggle to understand how we're going to have sustainable runaway inflation, if money just doesn't move.

Erik: Now, you said the real issue was banks needed to start lending in order for inflation to be possible. It seems to me like boy, the political sentiment is really growing in favor of universal basic income, forgiveness of college debt, you know, a whole bunch of things. Isn't that enough to get inflation going or do you really think there has to be bank lending to create more M1 money supply?

Brent: Well, you can get some inflationary pressures from some of these programs that you're talking about. But to get to sustained high levels of inflation that we've seen for the last year, then I think you do need lending. Because you got to remember, all of these programs that are you know, whether it's UBI, or these PPP checks. They don't just come out of nowhere. At the same time they're created, debt is created. And the bigger the debt grows, the more deflationary pressure it puts on the economy. So you have to figure out a way to, you know, get more money coming in than the debt that's created along with it. And, you know, that's a big part of bank lending. When a company sells a bond, right? When a company or a country when they issue bonds, and you know, the people go out and buy those bonds, they're taking money out of the system that already exists in order to buy those bonds.

But when bank lending happens when bank loans are created, that's new money, that's new money that that's going into the system. It's not a recycling of the current system or the current supply. And so I think, you know, there's no doubt that when a government spends money, you do get a short term inflationary impact. The question is, is it enough to offset the additional debt that that country or company has incurred as well. And I think that without getting some lending, you know, it just doesn't happen. And again, you got to ask yourself, the banks probably understand the banking system better than most people, right? They're the ones closest to the money. You got to kind of ask yourself, if we have such this great opportunity of growth coming up? Why are the banks not lending to try to participate in it? Why are they instead buying treasury bonds and sitting on them? I think that that's a good place to look and see whether the banks really believe we're in an inflationary environment or a deflationary environment. And when I look at what they're doing, they're buying bonds, they're not making loans. So I struggle to see without a few things changing and again, I'm open to them changing but without a few things changing, I struggle to see this sustained inflation that so many are convinced here.

Erik: Tell me about your reaction on page 16 to the commodity prices, because, boy, you know, there's pretty strong confirmation of an inflation perspective, just from that.

Brent: Well, again, there's no doubt that commodities have had a huge run over the last year. They have made, you know, big moves. Many of them have broken out from long term, you know, bearish patterns, for lack of a better word. Some of them are moving towards either recent highs or all time highs. But again, you know, you're starting to see some of these economic forecasts fall short. Just the other day, you know, GDP was forecast to come in at like 8% and it came in at a little over 6%. So you're already starting to see some of these economic growth prospects to get pulled back. In addition to that, you know, you've seen a number of these commodities like copper had a huge move, lumber had a huge move, but you know, that those have pulled back anywhere from 5% to 20%. And so some of these really, really inflationary, you know, commodities, you're starting to see a pullback now. I think we have to kind of wait and see how the next six months ago. Again, I tend to believe that the biggest risk near term is deflation rather than inflation. But to your point, Erik, you can't ignore charts like this when they're going up that fast. So I don't think they can continue to go up at the same rate they've gone for the last year. But we'll just have to kind of wait and see how the data comes in.

Erik: Brent, one of the things I love about your work is you're really good at taking these macro views, and translating them to actionable advice in terms of portfolio construction. I see on page 18, looks like you've got a picture here of a guy who's trying to figure out inflation versus deflation.

Brent: Well, yeah, and I think, you know, I have a picture of a guy named Chris Moneymaker, and Chris Moneymaker kind of came onto the scene 15 or 20 years ago. He was one of the first guys to grow up playing online poker, who then you know, translated that skill into playing real poker. Real live pro poker and won the World Series of Poker. And I think that was good in many ways, because I think you can learn a lot from from studying poker players. But there was one thing that I think that was bad with this advent of online poker, and then you know, also having poker on TV and people knowing the names of, you know, these professional poker players, because one of the most famous lines for lack of a better word that goes along with poker is saying, I'm all in, right. And so you know, somebody thinks they have a good hand, they see their favorite poker player on TV, pushing all their chips into the middle of the table. That's kind of an exciting prospect, you know, we're gonna get rich, we got the, you know, we've got the hand here, and we're pushing it all in.

And on the one hand, while I'd like that, you know, I think it's dangerous as well. And I'll tell you why. Because, you know, I like playing poker Erik, and I'm an okay poker player. But the reason I'm not a great poker player is I like to play poker. And what I mean by that is, when I play poker, I tend to play more hands than I should, because I want to be involved. The reality is, as professional poker players. The really, really good poker players, they play less than 20% of the hands that are dealt, they just sit there and they wait and they wait and they wait. And they wait for the cards to come to them. And occasionally they will bluff. But usually, when you see a poker player start making big bets, he has the cards, and because he's waited, and he's been patient, and I think this is a big mistake that a lot of people make with portfolio construction these days. I think a lot of people go all in on a hunch, or they go all in when they have a pair of eights, right. Or maybe they have three of a kind, but I don't I think people are going all in, you should not be going all in unless you have at least a full house and maybe a straight flush, right.

But unfortunately, people get excited they want to play and they go all in on a pair of threes. And I just think that's the wrong thing to do. The other thing I should say is, I always try to remind people. When you hear somebody you know whether it's me coming on and talking on a podcast like this, or you're watching some other person on CNBC or you're reading a report. You have to put yourself in that person's shoes and understand what it is that they do. You know, I am not a day trader. I'm not somebody who comes in and I'm whipping positions around constantly. What I do is I create customized long term portfolios. And so what I mean by that is I develop a basket of assets for my clients that are customized to them. And then for the most part, we sit there and we wait for those assets to appreciate over time, because if you look at the arc of history, assets appreciate over time. And then when we see a really good opportunity, then we'll go in and be aggressive.

But we're not always trading, you know, and I think sometimes when you hear somebody say, or when I've come on before, and I've said, You know, I think Gold's gonna go down over the next year. That doesn't mean that I'm rushing out to sell my gold. It doesn't mean that I've got a huge gold short position. It just means that I would not be surprised if I think if gold pulls back. And so my point is I think when you're constructing a portfolio, it's important to figure out, you know, what you're trying to accomplish, and over what time period. I feel like there's a lot of certainty in the market right now. And I feel like this is a time of great uncertainty. And so I think, you know, when you're listening to somebody, or when you're looking at your own portfolio, figure out what it is you're trying to accomplish. You do not have to be a day trader. Now, if you are a day trader, that's fine. But make sure that if you listen to somebody's advice, you're listening to somebody who has kind of the same objective, or the same mindset, as you. I don't know if that's a good answer or not Erik. I kind of went on a little bit of a ramble there but I think that's kind of why I put these slides in here.

Erik:
So you're not going all in on silver which is guaranteed to go to 1000 according to *wallstreetbets*.

Brent: I think that when I saw that earlier this year in February, when everybody's piling into silver, because *wallstreetbets* was gonna take it higher. I was just, I knew that was not going to end well. And I still think that silver probably goes lower before it goes higher. But yeah, to your point, Erik, it's okay to have a silver position, but you don't need to go all in, right? Even if you think it's going up to 1000. If it goes up to 1000, you don't need to be all in you put 5% of your portfolio, and if it goes 1000, you're gonna be really happy. So again, I think it's about position sizing and understanding what it is you're trying to accomplish.

Erik: Well, Brent, we've got a slide coming up later in the deck on gold. So well wait till the slide for that one. But why don't we move on to page 22, where you start to talk about an allocation or a portfolio allocation.

Brent: So yeah, so I put this slide in here Erik, because this is not specific advice to anyone in particular. But as a general state of what I think is an appropriate portfolio for a long term investor, is to have a very diversified approach. You know, about 15 or 16 months ago, kind of in the middle of the COVID pandemic crisis someone was suggesting to me that they should have 50 to 100% of their portfolio in gold. And I just didn't think that's the right way to go. And I suggested this portfolio, as a good way to be prepared for anything should come down the pike. Now, I'm very, very bullish on gold long term. But I don't think that you should have 50 to 100% of your portfolio on gold. I just don't think that's the right way to do it. And so, you know, I think the point I'm trying to make here is if you have a portfolio, such as the one that I suggest on page 22, you're kind of ready for anything. Whether you get inflation, or deflation, whether you get a war, a revolution, a boom, a bust, you're going to be able to get through it.

And then if you have some kind of a macro or a volatility overlay that takes, you know, that can take advantage when you get these crises. Or if you can convert some of your short and medium term US Treasuries, into cash, and then go buy some equities that have been beat up in a crisis. You can actually, you know, you can take advantage when you see the real opportunity. But the point is to have a diversified portfolio, don't go all in on anything. And then when you see a really amazing opportunity, then that's when you go all in, or that's not when you go on but that's when you make a more aggressive bet.

And so, you know, I know, because I've been so outspoken on the dollar. A lot of people think that I only own dollar. And so because the dollar has gone down over the last year, all we've done is lose money. But you know, the dollar is just one piece of what we do. I mean, I have clients that have owned equities for 15 to 20 years. We've owned gold forever. They all own big chunks of real estate, we focused our equities on kind of big blue chip US equities. Those have been fantastic over the last year. And if you had this portfolio that I suggest here, and even if the global macro and the volatility got cut in half, or even went down by 60 or 70%, over the last year. This portfolio still would have made money. And so my point is that you don't need to go all in on everything. I know I've said that a few times. But I just can't emphasize that enough. I think people go all in way too much. I think this is a time of great uncertainty. And I think we have a bull market in certainty, despite the fact that it's a very uncertain time.

Erik: Brent, let's talk in detail about some of these asset classes that you're recommending allocation to. I see on page 24 you've got the 10 year US Treasury. Where are we headed in terms of treasury yields?

Brent: Well, so this kind of goes back to what I was saying earlier about to whether the next move is inflationary or deflationary. I'll tell you, Erik, the bond market certainly doesn't think that inflation is raging. You know, if you look at this chart, you can see that, you know, other than the pandemic, when we had a massive move lower in yields, you know, last year, and then a huge run up. We just now broke back through support that goes all the way back to 2012. So you know, when you're sitting here, and you're thinking how great this economy is, and that we've got all this growth and inflation is supposedly raging. Why is the 10 year Treasury setting just over 1%?

I think, you know, I have to laugh, because in April, kind of the March, April, May timeframe, when bonds were selling off, and I was saying that I still expected us to have some kind of a disinflationary move. I had several people say to me. Listen to the market, don't try to force anything the market is telling you that inflation is here. So I think I would turn that around and I would ask those same people who were saying that to me in the spring. Yyou know, what is the market telling you now? Are you listening to the market? Now again, I don't know for sure what's going to happen, Erik, but when I see yields doing something like this, on page 24, and then I look at the long term trend on page 25. You know, this can go significantly lower, and if the certainty of the inflationary trades starts to come off a little bit, it wouldn't shock me at all to see yields under 1% again.

Erik: Is there a lower bound at 0%, where it just doesn't make sense for the sovereign debt of the global reserve currency issuing nation to ever go negative or zero is just a number on the way to negative numbers.

Brent: So I kind of depart from a lot of my, I guess, quote unquote, friends in the deflationary camp on this, because I personally don't think that the US Treasury is going to go negative. Now it could, it will, if it happens, it will not shock me. But that's not my base case. Part of the reason is, I think, in a really deflationary environment, you know, the market might take the negative under a very short period of time. But then I think that would force some kind of a reset for lack of a better word. So I don't think that we would have a multi month or a multi year scenario where the global reserve currency is at a negative rate. Now, we've had negative rates on, you know, Swiss and other European and Japanese rates for years now. And that's a little different, because it's not the global reserve currency. I can't, I don't necessarily think that rates are going to go negative in the US. And if they do, I wouldn't expect them to stay there very long. But you know, it's a very uncertain world. I do think rates are going lower. We'll just kind of have to wait and see what happens when we get close.

Erik: Brent, let's come back to gold a subject that's near and dear to the hearts of many of our listeners. When you and I spoke last, I think we both thought that gold was probably due for some kind of a downside correction. I'm kind of feeling like the bottoms probably in. Didn't get as low as I thought it would but feels to me like it's over. What do you think?

Brent: Well, so by a year ago, you know, I think it's, is it tomorrow or the next day where we will be a year from the high. So I think it was the first week of august of 2020 when gold put in its high around $2100. I don't know if it quite hit $2100 or not, but it got pretty close. And, you know, at the time, you know, I thought that gold would come back and it has. Gold's down about 10% over the last year, down 5 or 6% year to date. You know, again, I would say if inflation is just absolutely raging. Why is gold, you know, why is it down over the last 12 months? Why is it down year to date? I put on the chart, we've kind of got this rising wedge for lack of a better word. It's kind of in the middle of that wedge, I think that it's more likely than not, that it won't go back down and at least touch the bottom of that wedge. If we get into some kind of a deflationary environment or disinflationary environment wouldn't shock me at all to see it, you know, cut below that, you know, $18100 level and then you know, maybe go down to the $1600 level or something like that. I think, you know, the chances of it going back to $1200 or $1000 are pretty low. I think that's quite unlikely at this point.

And part of the reason is that if we get kind of a big deflationary move, gold could certainly be seen as a source of funds over the very short term. But if that happens then all of a sudden we get negative rates again, right and actually negative rates are better for gold than rising rates. You know, part of the reason that gold has sold off year to date is that yields were going higher. You know, until the last month or so here yields were going higher but now as we've started to see we've started to see yields fall again. You've seen gold start to rise over the last month let's call it or over the last few months. And so it's kind of again right in the middle of this range. So I do not think that we're going to see gold breaking out to all time highs this year. Again, I can't rule it out. I still own it. If it does, that'll be fine. But that's not my base case. I would expect gold to I think we've seen the high in gold for the year. I think it got to 1950 last month or something like that. I think that may have been the high for this year and we may just kind of turn sideways or down to the rest of the year.

Erik: Now some people would say it's all over for gold because Bitcoin is the new currency debasement hedge. What do you think of that argument and what are your views on Bitcoin and where it's headed?

Brent: So I have been pretty what's the right way to say this, Erik? I actually like Bitcoin from a personal perspective, but for the last since about last Thanksgiving. I have been very cautious on Bitcoin. And as it ran up from you know, I've owned a Bitcoin for years, and when it hit $28,000 last fall, I sold a little bit. When it hit 38,000, I sold a little bit more at 48,000 I sold a little bit more. Then at 58,000 I sold a little bit more. I didn't quite sell any at 60. So I still own a little bit, but I thought it was going to come back and part of the reason I thought it was going to come back is I was convinced that we were going to start seeing increased measures by either countries or authorities, however, you want to describe that, to make moves not necessarily to make it illegal, but to curb its use or to regulate it, you know, maybe not let it be quiet in such a wild wild west. And so that's what we've seen that quite a bit over the last two or three months.

And, you know, Bitcoin had a big pullback from I think, 65,000 to 30,000. I think today, it's at around 38. I still think we're gonna see it go lower, I'm not buying any. I still own a tiny bit, I've sold most of it. I think it has a place in a portfolio. If somebody wants to own it in a portfolio, I think that's fine. But again, I don't think it's something that you should be all in on. And as far as it replacing gold, I just don't think that that's the case. And again, there's no reason you can't own both. A lot of people try to get into an either or all in scenario. And it's just totally unnecessary to do that. I think it's very likely that as they roll out these central bank digital currencies, which is you know, about a certain nothing is certain in this world, but central bank digital currencies coming down the road, that's about as certain as things get. And as those gets rolled out, I would expect, you know, countries they don't like competition, and I would so I would expect them to push back on crypto and Bitcoin, as that happens as well. So I think Bitcoin has a role in our portfolio if you understand the risks. I think Tether is a huge risk to Bitcoin. I will just say that I think that Tether is a fraud and I think if and when that that is exposed, I think that will be at least in the short term, very negative for the price of bitcoin. So that's probably why I'm cautious in the short term, but digital digital assets tokenization, Bitcoin, they're probably here to stay, it's just a matter of at what level they will be and what method they're allowed to be used.

Erik: Let's take a look at the stock market on page 27. Boy, what a compelling chart here, you know, and I can't help but observe all that huge action to the upside, the S&P really has been driven mostly by the FAANG stocks.

Brent: That's right, it really has, it really has.. The reason I put this in here, because you and I spoke in either January or February of 2020. And at the time, you know, we were at point one. I've put a yellow circle with a one next to it. And at the time, I was saying that I expected the pullback in equities and I thought that we could go down to the bottom of that red channel. Now, I'm not going to sit here, Erik and say that I thought that was going to happen immediately and happen over a period of three weeks, right? I was just saying I could see it pull back down towards the bottom of that channel and that did happen. And so we actually, we were pretty lucky we bought at the bottom of that red channel. It was a scary few days as I went a little lower than that.

My mistake was that, you know, once it bounced kind of back up into the middle of that channel and started getting into that green area, I thought we would probably see a retest back down to the bottom of that channel again, but you know what, it just never came. It just continued to run higher. And to your point, a lot of it has been driven by the FAANG stocks and the technology stocks. And so the reason I've put number three on here is I think people have heard me talk before, I think equities are going much higher in the years ahead. But I do think before that happens, we are likely to pull back, maybe retest the top of that channel. Now that would be a 15% or 20% pullback from here Erik. I don't know that it will come. But I'm certainly not allocating new money to equities right here. And I'm waiting for any cash that we have or to add to equities, I would be waiting for a retracement at least back to that top of that channel before committing in any new funds.

Erik: Now let's talk about where we go from there. Because it seems to me if I just look at this chart, from a technical analysis standpoint, you've got this channel that has been operative here since the beginning of 2009. That's you know, more than a decade, you've got a very clear upside breakout, what technical analysis tells me is to expect a pullback back to test the top of the channel now not as resistance but support. That's exactly what you've got for number three. And if that support holds, that would be a confirmation of that breakout and suggest that you're headed much higher from there. Is that your view?

Brent: That is my view, as of right now, that is my view. Now, again, this doesn't mean that I'm going to go all in on equities at number three, right? I will keep my exposure to equities. And I admit, and I'll probably add to it at those levels. But if that channel were to break, and it goes lower than maybe we go back down to the bottom of that red channel again, I don't know for sure. But my base case is that we will go back down, test the top of that channel around number three. And then I think in the years ahead that we're going to go much higher in both the S&P and the Dow. Again, you've heard me talk about this before Erik. I think that we're going to enter a period of sovereign debt crisis.

And I think when sovereign debt starts to get sold, those funds are going to look for a home. And I think one of the biggest and most liquid markets on the planet is US equities. And I think that will get fund flows. And I think that equities have the potential to go much higher than anybody believes possible. Now, again, I just want to caution, that doesn't mean you need to go out and go all in on equities right now, here today. I think we're going to get a pullback, but for anyone who thinks that we're going to go down to 200 on the S&P and stay there for 10 years, that's not my base case. I don't think that's going to happen. Can't rule it out but that's not what I'm planning on. I think we're gonna see much higher levels in equities in the years ahead.

Erik: I don't think I've ever seen a chart with a 30-year long head and shoulders pattern on it until we get to slide 28 here.

Brent: Hahahah isn't that crazy. So you know, I've shown this to a few people. And I really, really like long term charts. I don't know if it's just a visual thing or what but this is about as symmetrical of a long term chart, as you're going to get. Now the interesting thing, Erik is when I was here last year, we were actually sitting at the bottom of that kind of shaded channel. And so and I thought that that might actually act as resistance. Now it broke through there. Now it's kind of come up to kind of the top of this shaded area and again, that this is not necessarily technical analysis on this right here. I just kind of highlighted kind of the long term level here. I again, because I believe that, you know, we're going to move into kind of a disinflationary environment and potentially even a deflationary environment. I am not participating fully or aggressively, for lack of a better word in the commodities. I think a lot of people are just convinced inflation is here, and are going all in, quote unquote on the commodity trade, and I'm just not there yet.

That said, the one area of commodities where I am extremely interested and in going and looking to add positions on pullbacks aggressively is the soft commodities. And I think I've put a number of charts here over the next pages. I think from like, you know, slide 29, through 32, or 33, of a number of different soft commodities. And the reason I put these in here, Erik is, you know, soft commodities, for lack of a better word been not necessarily in a bear market, but just kind of a sideways market for a long time. They had some big runs, you know, coming out of the global crisis in 2008-09 but then it kind of slipped back and they haven't really done anything for a long time. But I am of the belief that even if we don't get this runaway inflation in overall commodities that a lot of other people are predicting. And even though I think it's very possible that some of the industrial commodities pull back, and maybe even stay down for a while. I'm not sure that that's the case with the soft commodities.

And part of the reason is, regardless of what's going on the economy, you still got to eat, people still have to eat. So I think the demand for food is going to be there. And I think we could continue to have some supply shortages in food. And so I think that could be a recipe for higher prices. And so if you know, page 29, I have, this is the chart of coffee. Coffee had a huge breakout, you know, went all the way up to almost like 220-225 and now it's pulled back to the, you know, the high I think 170s. You know if that gets back to the 150 range or the 140 range. I would probably start adding to something like coffee. You get a similar chart on slide 31 with soybeans. Soybeans had a huge breakout as well. I mean, it went up 60 or 70%, almost 100% from its lows last summer. But now it's pulled back a little bit and again, I'm not chasing these commodities higher, Erik. But I've highlighted these channels where I think it gets pretty interesting to own them. And I think to to the extent that people are looking to add some additional diversification to their portfolio or another way to play, perhaps the devaluation of fiat currencies, I think the agricultural commodities might be a better way to do it than just the general industrial commodities.

Erik: Now, Brent, some people would say look, you're misinterpreting the COVID crisis. What happened here was we had supply chain disruptions. Obviously, those soft commodities get hard, you know, you can't go out and pick the coffee beans and so forth. You know, it must be that. This is a one-off thing. It's an anomaly. Don't read anything more into it, especially if you're not in the secular inflation camp. What would you say to that argument?

Brent: Well, I think there's some truth to that and I think that's why I'm not chasing them higher right now. And that's why when you look at kind of the charts of soybean or coffee or some of these other ones that have had these massive moves. I think a lot of that was due to supply chain side so I don't necessarily disagree. And so I think you know, when some of that supply chain issue gets worked out we have the possibility to you know, to pull back and in some cases, maybe pullback aggressively. But, what I would say is that I also am of the belief that demand for these food products is going to stay high. I don't think that supply chains while they will get better, I don't think they're going to go back to be as efficient and as functional as they were, you know, over the last 20 to 30 years of globalization.

I also think what's kind of interesting is that, you know, we've had a number of, there's been a number of issues over the last couple years regarding different agriculture. You know, China has had a number of problems, whether it's the army worm attacking their crops, or the swine flu attacking their livestock. You know, we've also had some problems with the can't remember the name of this, there's this type of beetle that's been attacking plants in the Midwest now. And that's been affecting crops. And then I also think that we could have I know global warming is like this very popular thing, and you know, all the green initiatives. But, you know, there's also the possibility that, you know, with these grand solar maximums and minimums that we're going to get into a cycle of cooling temperatures. And if that's the case, maybe harvests aren't quite as robust as they've been for the last 10 or 15 years. So, you know, again, I'm not going to go all in on the agricultures, but I'll just say that they're pretty interesting to me. And if we do get a pullback on some of these, I'm looking to add positions.

Erik: Brent, I can't thank you enough for a terrific interview. But before I let you go, please give our listeners just a quick overview of what you do at Santiago Capital and how they can follow your work.

Brent: Yeah, sure thanks, Erik. Well, again, what my job is a wealth management professional. I have a group of clients where I do customized long term portfolios for them and it's kind of a holistic scenario where we take into account their, you know, their tax situation, their trust, and estate plans, You know, they're business owners, and how does that play into things. And so what we try to do is create customized long term portfolios. And then in addition to that, we not only come up with the overall allocation, but then we actually go out and we implement those portfolios, and we manage those portfolios for them. In addition to that, as part of a diversified portfolio, we have a private fund that we manage that does some more high risk, high reward asymmetric type trades. And that's kind of a hedge against the more traditional portfolios.

I'm pretty active on Twitter, you can just type in Santiago Capital in the search function and probably find me. My Twitter handle is @SantiagoAuFund. I would also encourage people to, you know, continue to listen to MacroVoices. I've been on here a number of times, you can actually search for some of my prior interviews on here. And there were slide decks there so you can... I gotta say Erik, the great thing about coming on your show is you do a good job of keeping the prior interviews up there, and the transcripts, and the slide decks. So you know, all the stuff that we talked about, it's there in black and white, and you can see where you got things right and see where you got things wrong. And I think it's a great way to kind of get a feel for what somebody is all about. So I would encourage people to check out your website to find out more as well.

Erik: Thanks so much for that Brent! Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.