Cullen Roche: Debt Ceiling, Interest Rates & Stagflation

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Erik: Joining me now is Cullen Roche, founder of [Discipline Funds]. Cullen, it's great to get you on the program. I know you've been on the [Market Huddle] before. I think this is your first [MacroVoices] appearance. I want to start with something that's actually been not so much in the financial press but the popular press. Now I know that you are an expert on monetary theory and currency systems. That's what you've studied. That's what you know about. Please help us understand why printing a trillion dollar coin out of Platinum somehow can be convoluted to be a solution to a country that lives beyond its means on borrowed money and doesn't pay back its debt. But seriously, let's try to understand the monetary theory of this because it's in the popular press and nobody's talking about why that would work or even if it would work.

Cullen: So the coin technically from a legal perspective, the Treasury would mint the coin and the Federal Reserve would be able to deposit that coin into the Treasury general account. The way to think of it really, it's like changing the credit limit on your credit card. So if you had a $20,000 monthly credit limit on your credit card, well, what happens with the debt ceiling is that basically Congress decides they're going to spend $21,000 this month, and then we get to the $20,000 limit and Congress is like, oh guys, look, we don't have the ability to actually do this thing that we want to do, because we have this self-imposed credit limit.

Well the coin basically takes that extra $1,000. It deposits it into the account and then all of a sudden, we magically found this money that literally the printing presses already have. And so to me, it's one of these, like legal sort of, you know, loopholes that exists and doesn't really solve anything that is the you know, the root cause of the problem that exists. The root cause of the problem is that the government decides to spend way too much before we actually get to that credit limit. So it's not irrational to have a credit limit, it's irrational to put in a credit limit, and then say, you know, we should only spend $20,000 this month, but we're going to pass a bunch of legislation that requires $21,000 of spending. It makes no sense the way we go about this. And so this should all be done in a more proactive way. If we want to be more, you know, fiscally prudent about the way we go through all of this, that should be done at the congressional level, before they actually appropriate all of this spending that necessarily needs to be funded either through debt issuance, or a coin after the fact.

Erik: Let's move on to the topic that is of hot interest in the finance community, which is stagflation. Let's start because so many people are talking about this, and frankly, it's only old farts like me that actually remember the 1970s. What does, stagflation means a stagnant economy with inflation. Now wait a minute, inflation normally means too much money chasing, you know, not enough goods and services. If the economy is stagnant, why would there be inflation? It doesn't seem to make sense.

Cullen: Yeah right, you nailed it. Stagflation is basically, it's when the rate of inflation is high, and economic growth is slowing. And typically, it coincides with a high rate of unemployment. So something like the misery index is very high during a period of stagflation. And, you know, the 70s were an interesting period because in some ways, they sort of have a corollary here where we're starting to see all the supply chain issues. And a lot of the 1970s inflation was in part due to supply chain issues, or at least in the energy sector in particular. The stagflation of the 70s was related to production problems. And so, you know today, the dynamic is a little different even though there are some similarities. The biggest difference that I would argue that's going on today is that the big ones are the reason that I've argued that we're probably not likely to see a stagflation that is anything like the double digit stagflation of the 1970s is that you have these big, overarching secular macro trends.

The big one is demographics. You have pretty much almost around the entire globe, you have really negative declining demographic trends that is an inherent inhibitor of economic growth. The other ones are globalization and the big technological trends. There is a certain amount of deflation in the way that a lot of goods and services are produced, because so much more of the economy is really tech and service based. That the economy is not as grounded in the real economy today as it was in the 1970s. And so the dynamics are similar but different. But the likelihood of seeing at least a modestly high rate of inflation going forward with a stagnant economy is a pretty likely outcome in at least the next couple of years in my view, and that puts the Fed in a really difficult spot because the thing that I'm starting to get slightly worried about with the Fed is they seem to be getting worried about the rate of inflation and their need to potentially raise rates. And I wonder, with a stagnant economy like this, I wonder whether or not the Fed is at risk of raising rates in a way that the economy is so weak that the underlying fragility of the economy is so deep that can the Fed raise rates without inverting the yield curve and causing the economy to actually in some sense, not necessarily crash, but in some sense, slow down much more quickly than they would expect.

And so in a weird way, today is actually also very similar to the Greenspan conundrum period and the era of the housing boom, where you have a lot of asset prices that are booming, and directly tied to interest rates, where we now have this coinciding worrisome rate of inflation, where the Federal Reserve is potentially at a point where they feel the need to try to control the inflation and in doing so they could kind of make to some degree, the same policy error that we saw leading up to the housing bubble, where they end up raising rates, raising rates, you know, a lot more than maybe they could or should. And it actually causes the economy to slow down a lot faster than they want and so, you know, it's one of the problems with monetary policy and trying to, you know, tinker with interest rates over time is that you end up a lot of the times you move the dial too much in one way or the other, and you end up constantly chasing your own tail trying to correct for past errors. And there seems to be a growing risk that we're in that sort of environment here.

Erik: Cullen, the last time that we went through stagflation, and I think a lot of people are looking back to the 1970s as an analogue of maybe what we should expect. It seems to me that the circumstances politically were completely and totally different. First of all, we had the Nixon administration, very conservative Republican administration. The US had just come off of the gold standard as Nixon had defaulted in 1971 on Bretton Woods, and you have an attitude where it's definitely not Stephanie Kelton writing in in a white horse with MMT to say, look, let's just print an unlimited amount of money. That kind of attitude toward monetary policy hadn't really blossomed yet or I suppose, actually MMT was conceived back around the 1970s. I don't know the full history of it's been around for a long time. It wasn't popular, then. Well, gosh, it's popular now.

So it doesn't seem to me like it makes any sense to say, let's look at what happened and what the outcome was in the 1970s. I'd rather say, wait a minute, what were the circumstances at the beginning in the 1970s? And how does that compare to today, where you've got a democrat controlled Congress and White House that enjoys spending money, and particularly the advent of a rapidly growing, I'll call it affinity among politicians for this collection of ideas called modern monetary theory. It seems to me that the circumstances are just completely different from the 1970s and we shouldn't expect the same outcome. Am I crazy to think that or should we be thinking that the 1970s is the reference case to look at?

Cullen: No, I think that I think that's a totally fair worry. And I've actually have had a number of huge arguments with MMT people specifically, because I've argued that they don't really have a viable theory of inflation. I would argue that they don't know what causes inflation, and that they don't really have a good policy approach to controlling inflation should it come and I think that we're to some degree, we're seeing that come to fruition now where we're seeing all of the effects of the fiscal stimulus from the COVID response. And, you know, my view going back was basically that I thought that the first stimulus was actually good and beneficial. I think nobody really knew how damaging this thing was going to be. There was a real chance of a Spanish Flu 2.0 where this thing wipes out 1% of the global population. And if that had happened, my view was that a strong fiscal policy approach up front was necessary to kind of fend off or at least, to try to help people navigate some of the health crisis. I think they ended up going too far in the subsequent policy responses. We ended up, you know, the moratoriums and the continued lock downs and things. I think a lot of it went too far. And I think now we're seeing the ramifications of that.

And I think, although MMT is definitely a growing popular economic trend, I'm not convinced that it will result in sustained fiscal responses. And I think we're starting to see some of that come to fruition now where the government yes, is still planning to spend a huge amount of money in the subsequent years or in the coming years. But I don't see this sort of perpetual spending as being at least a near term risk. So I think you're right that in the long run, there's this worrisome trend that the MMT movement, and the number of people who are sympathetic to this are increasing in numbers. I'm not convinced that we're there yet, though. I think that the COVID response was a microcosm of that. And in a nutshell, I think that we're seeing the ramifications of that. And I think that some of the pushback is actually fairly aggressive. And I think that kind of ties into the way the Fed is starting to respond that they're now very vocally considering tightening policy and a lot of different ways.

So they're talking about reducing the balance sheet, they're talking about potential interest rate hikes in the future. And we're finally seeing some pushback from moderates in Congress as well. So you're seeing some pushback from people like Manchin and, you know, some of the more moderate Democrats and Republicans who are saying. You know look, this inflation, yeah, maybe some of the spending made sense back when things were really dire back in, you know, the early days of COVID. But we're now seeing this inflation and the fact that it's hurting literally everybody in a pretty uniform way. And so I'm not there yet, where I'm super worried that we're going to have this continual fiscal response that will result in a perpetual sort of, you know, this is the kicker with MMT is that a lot of people argue that MMT is sort of traditional counter cyclical Keynesianism. And I would argue it's actually very different. I would argue that MMT is much more aggressive in that it is a much more procyclical perpetual type of foot on the gas type of approach to policy that they don't really, they're trying to control the car, basically only with the gas or with the gas pedal. They're not using a brake like John Maynard Keynes actually said we should do. I mean, John Maynard Keynes said, we should run surpluses during economic booms, which is, that's nothing like the type of environment that we're in now, or the type of environment that the Keynes actually would advocate for.

So MMT is potentially something much, much more aggressive. And I'm not convinced that we're fully there yet, especially because a full MMT regime would include a government job guarantee, and that's potentially there. Not even potentially, that is their most controversial, most dangerous idea in a lot of ways because you could potentially have this scenario where they advocate for literally the government to give everyone a job. And some of these jobs are, I mean, that some of the academics have written that these jobs are like, you know, being an artist and, you know, doing things that are, most people would not pay most other people to do, let's just leave it at that. But the government in the MMT world willing to pay people a living wage, to do these things that I think we kind of know, after COVID are potentially a lot more inflationary, then, you know, we may be assumed they might be or, you know, at least some of us didn't assume it would be that way. But we're kind of finding out that the evidence shows that a lot of this stuff is more inflationary than people assumed, and that the inflation is not necessarily going to be transitory and easy to control in the way that I think a lot of policymakers and politicians especially people in Congress, kind of assumed it would be.

Erik: Okay, so you think inflation is set to continue not transitory. Does it turn into stagflation? Are you convinced that's where we're headed or is it just a possibility or how do you see that turning out?

Cullen: Well, my view is that you know, I think that the Fed really got themselves in a bind with this, this term transitory because the term transitory it implies that we're going to see the same prices that we had in the past. And so if a beer cost $5, you know, at your local bar in 2020. Well, the term transitory implies to people that if that beer goes up to $21, that it will be transitory at some point in the future, and you'll see your $20 beer again or something like that. And that's not really what the Fed meant, even though I think the general public perceives it that way. And so you know, what the Fed really means is that the rate of inflation is going to be transitory that well, your $20 beer goes up to $21, it will probably be $21.25 in year two, and then $21.50 in year three, and so the rate of inflation is slowing, even though inflation is still rising, but they really got themselves in this sort of, you know, communication pickle, where I think now a lot of people are responding in a very negative way to policy because they're not communicating their concepts in a very effective way, because they're talking in this wonky sort of academic manner.

That's just not the way most people perceive inflation, they don't perceive inflation as the rate of inflation, they just know that things cost a certain amount. And they see that that cost goes up by, you know, 20-50%, or whatever. And when you start telling people that that price is going to be transitory. Well, I think most people know that when the price of your beer goes up $1, the likelihood of you ever seeing that old price again, is extremely low, or probably zero. So I think they kind of got themselves in this communication bind where I think they're likely to be somewhat right in the coming years in that I wouldn't be shocked if the rate of inflation does slow a little bit. We're starting to see that to some degree. But I think they've somewhat overestimated the degree to which that was going to be true. And we're starting to see that kind of come to fruition in the last the last few months, especially where you're seeing things like lumber prices are jumping again. And the Manheim Used Car Index is staying very elevated or spiking a little bit again. You're seeing the you know, the number of ships in off the coast of L.A. remain humungous. You're going to see this persist for longer than the Fed, I think expected and is comfortable with.

But again, going back to, I think there's a middle ground here where, although we're unlikely to see a 2% rate of inflation anytime soon, I also don't think that we're going to jump up to this, you know, like double digit type of inflationary stagflation that we saw in the 1970s. But here's the kicker. The economy and this is one thing that a lot of people sometimes don't talk about. There were some underlying currents of actual real growth in the 1970s. I mean, we had, in a lot of ways, a lot more vibrant economy than we do now. And so when the rate of inflation is as high as it is with the level of growth that we have today. It feels in a lot of ways, it feels just as bad as it does when you have higher growth and a double digit rate of inflation. And so while we're not likely to experience a double digit inflation. The inflation that we're feeling and seeing is in a lot of ways, it feels as damaging, and it's especially as damaging to the the poor and middle class, because that growth doesn't filter to them in the same way that it does to say the upper class and the especially the wealthiest people in the country. So that's why I think a lot of the tension that we feel in the country these days is that even though inflation by historical measures is not, you know, double digit stagflation. It feels like an entrenched stagflation, because the underlying rate of growth is relatively low.

Erik: Let's imagine that scenario that you're building up to where we get to some stagflation. And we've got a kind of a problem on our hands. Wait a minute, stagflation, if the economy is stagnant, normally monetary policy response to that would be to reduce interest rates in order to stimulate the economy. But the standard monetary policy response to fight inflation is to increase interest rates. So let's imagine we have stagflation, we have a combination of inflation, and at the same time, a stagnant, weak economy. What do you think the Fed is going to do in terms of monetary policy under those circumstances. Are they going to fight the inflation, are they going to support the economy or are they going to be naive and try to do both?

Cullen: It's starting to look like they're going to at least, I think they're going to move somewhat cautiously. So it looks like they're going to start unwinding the balance sheet to some degree. And you know, they've become so hyper focused and hypersensitive to the financial markets that I don't know how much they really can move because let's say for instance, that they, let's say they start to really aggressively unwind the balance sheet. And let's say the stock market falls by 25%. What do you think the Fed's gonna do? Does anyone believe that they're going to start aggressively raising interest rates then if we have even a three or four percent inflation at that point. I'm really skeptical of that. And so they've become so hypersensitive to boosting or trying to sustain these financial market booms that we've seen that I don't know how much flexibility they really have to be able to do anything. So if you held a gun to my head, and you asked me what I think they're gonna do. I think they're gonna start unwinding the balance sheet, I think that the financial markets are going to start getting a little more fragile. You're going to start seeing a slowing in house price appreciation. You're going to start seeing a slowdown in the stock price gains. And I think the Fed will be responsive to that probably start communicating that they want to slow asset purchase or their balance sheet unwind.

And, you know, honestly, they have so little wiggle room with the 30-Year Treasury at 2%, they have so little wiggle room to be able to even increase rates in the first place. I mean, I'm not convinced that the 30-Year is going to move that much if they actually start to raise rates here. I would be willing to bet that the curve flattening is the more likely outcome and then the Fed gets itself in a situation where if they did start to really aggressively raise rates, well, then they invert the yield curve. And we know from history that typically, inverted yield curves are consistent with further economic stagnation, oftentimes recessions. And so I don't know they do not have a lot of wiggle room to be able to maneuver here. And so I'm not convinced that we're going to see any really substantive huge change from the Fed policy side in the coming few years just because I think they have so little wiggle room and they're so hypersensitive to everything that happens in the financial markets these days.

Erik: I'd like to throw an outrageous prediction at you and get your reaction. Imagine that we've gotten into this stagflation. The Fed, I predict will be unable to aggressively raise interest rates because they just can't afford to. They would bankrupt the federal government and increase the cost of borrowing. There's just too many reasons they can't do that. So I think they have to let inflation run which means prices run away. And there's a lot of political discontentment, and the economy is stagnant. And I predict that what happens is politicians come riding to the rescue and say, wait a minute, we're going to use these theories of modern monetary theory to bail out hardworking people from this mysterious nobody knows what the causes of these rising prices. It seems to be a mysterious thing, the fact that we caused it, we don't get that. What we need to do is we need to use more MMT to print up more money in order to increase universal basic income and guaranteed jobs and so forth to help the good people of the country cope with this inflation, which seems to come out of nowhere. Nobody knows where it came from, well, actually you and I do, but they don't.

Here's what I think happens. At that point, Warren Mosler and Stephanie Kelton, and all of the other smart MMTers, who actually know what they're talking about. And I definitely think Warren and Stephanie know what they're talking about. They have a an ideology about the role of government that that disagrees with mine. That's the only reason we can't see eye to eye is because we think about things differently. But they understand the inflation risk. They raise their hands and say, hey, politicians, wait a minute we invented this stuff, the whole thing! You can't try to fight inflation with MMT. That's where I think the politicians say, well, thank you for your assistance, we're done with you now. Goodbye Warren, goodbye Stephanie. We're going to take this MMT thing and run with it in Washington in, you know, in the Congress. And we're going to pass a bunch of stuff, we're going to print more money in order to fight the inflation by giving more money out so people have more money to help contribute to the inflation. And there's a few lone economists on the sidelines saying, guys, there's a whole lot of theory and books that says that you're going to make it worse by doing this. And then politicians go on TV and say: Don't you deserve to have universal basic income? Ignore those stupid academics, they don't know anything. I think that that's coming in the next 10 years. I really do.

Cullen: God. I mean, I hope you're wrong.

Erik: I do too! Let's get you back in 10 years to ridicule me for being wrong. I would love that.

Cullen: I don't know maybe I tend to be sort of a naive optimist about the world. In fact, a lot of my underlying worldview is just based on this general view that that things are generally better than a lot of us appreciate them for being but I won't get into that because that'll piss. I'll get a whole bunch of hate mail from your audience if I get too deep in the weeds on that stuff. But I'm not convinced that you know, the big thing with an MMT policy response is this job guarantee because that's their big procyclical mover from the policy side. That's the thing that the government basically stands by, and is they make a market in employment, and they're just a willing supplier of labor to anyone and everyone who wants it.

And I'm not really convinced that the world is really that close to that position. I do agree with you. I think that the, I think there is a real significant risk that we've sort of convinced ourselves that we can paper over any recession going forward, and so that any downturn will respond to with more and more policy. But I'm not convinced yet that in these times of like, things look pretty good right now. And I'm convinced that the majority of practical thinkers if there are such things in Congress. I'm convinced still, that the policymakers will defer towards this approach of at least some balance where we're not, we're not just in this position yet where we're only stepping on the gas all the time, every time we see a problem in the economy. And at least during the good times, I mean, where this would become really a problematic really pro cyclical thing where you were stepping on the pedal, even when things were really good.

And so I feel like there is there's some easing of fiscal policy at this point. I'm confident that some sort of counter cyclical measures will continue to be in place at least in the near term. But yeah, I mean, you're definitely right, that the political winds seem to be changing somewhat going forward in that we've definitely convinced ourselves, it seems like that recessions going forward are things that we can just, you know, paper over and, you know, fiscal policy ourselves out of going forward. And whether that transforms into a situation where we have this really hyper procyclical policy response in place all the time, where you just have, you know, huge government programs all the time, like a universal basic income and or a job guarantee combined with like, a perpetual, you know, green New Deal type of program, you know, something like that. I don't think we're there yet and I hope again, I hope you're wrong about us potentially going there.

So in a weird way, you know, I go back to Keynes in a lot of ways. I think that people misunderstood who Keynes really was and what he really stood for because he was a true countercyclical policy advocate. In that he really, in the good times, he wanted us to run true counter cyclical policies. And we've never really adhered to that sort of a policy, even though, you know, a lot of people claim that Keynes is the cause of all of the fiscal policy problems in the world. And I think if Keynes were alive today, he would be considered a sort of a moderate Republican in a lot of his views, because he'd probably be advocating right now for like a much lower budget deficit, potentially a budget surplus, and true countercyclical policies. And I think a lot of people have forgotten the value of that sort of thinking and that sort of countercyclical thinking. And it's resulting in the risk that you mentioned, where we have this risk of a very hyper procyclical sort of policy response that does, you know, create this risk of high inflation in perpetuity?

Erik: Yeah personally, I think of Keynesian countercyclical policy as something that is theoretical and has never been attempted or tried. And the reason I say that, give me an example. What Keynes prescribed is that when times are bad, the government should borrow money and use it to stimulate the economy. And as soon as times get good, Keynes said the government should pay it back, all of it! Tell me. You're an expert in monetary history. Cullen tell me. Please enumerate the examples from history where government's borrowed a bunch of money following Keynes' prescription in bad times and then followed the rest of his prescription and paid it all back as soon as they could.

Cullen: Yeah, wait, I'll count them off right for you right now. Just sit tight. There's none! No I mean, you're right. It's never really, I mean, that's one of the interesting things about the history of Keynes and his ideas is that, you know, even though he's broadly considered as this great economist. Nobody really actually tried his ideas in a realistic sense. And, obviously, you know, a big part of that is that, you know, you see the way Washington works now is that, you know, politicians get sort of drunk on power and drunk on the ability to, you know, send checks to people and do things for their constituents that they think will make them better, even though you know, they might not be. And so it's very hard to get people to understand the philosophy that, you know, sometimes it's okay for the government to step back and let the private sector take the reins during a boom. And that, you know, we don't necessarily need to always have this fire engine standing by ready to, you know, spray an entire truckload of water on a match that goes off in the economy. And so I'm not a big advocate of letting the economy burn in a period where things are really bad. But I also sympathize increasingly with this view that we have become just so hyper reactive to every single downturn.

I mean, I operate in the stock market every day. And it's crazy to me that a 20% downturn in the stock market used to be just that that's just the way things work. And that's the business we're in. And you get used to that. And, you know, you learn to live with it, and you learn to navigate it. And that's the business we're in. And that became, you know, I was shocked at the number of, for instance, investment advisors and investment firms that took PPP loans. I mean, the business we're in is the business of risk management and this acceptance that sometimes the economy booms and sometimes it busts, and you have to manage your portfolios and your asset allocations in a prudent manner that, you know, yeah, you want to capture some of the upside risk, but you have to understand that the the flip side of that is that you're potentially going to have some negative volatility there. And it seems like we've become so hypersensitive to any sort of downturn that, you know, in a lot of ways, it seems like we all need a little bit of hand holding during these downturns. And I worry increasingly, about the sensitivity of the economy to the financial markets in particular, because we've become so increasingly dependent on these financial asset booms that it's forced policymakers in a lot of ways to become hyper responsive to them.

And, you know, like I said, it worries me that we don't seem to be able to stomach a little bit of pain that in the long term, can actually, you know, in a sort of Nassim Taleb methodology, you know, make us more anti-fragile in the long run. And so, you know, again, I'm not a big advocate of, like, I understand the need for the government. And I understand the argument that the government can do certain things that the private sector is not good at. But at the same time, you can have these environments where it feels like we are veering in some ways toward that world that you're talking about where we all need hand holding all the time, and I just don't know. Maybe I grew up too influenced by my marine father that that's not necessarily the best way to live life. But yeah, I think it's a legitimate worry, I don't think we're there yet. I hope we're not going in that direction.

Erik: Cullen, I want to take all of these fascinating views that you've shared with us and translate it into what our listeners like the most, which is actionable trading ideas. You've talked about a lot of really high level ideas here: monetary policy, MMT, stagflation, future of the economy. How do I translate all this into portfolio construction ideas? Why don't we go through the various macro asset classes starting with equities. What's your outlook? A lot of people think that maybe the top is in and you know, it seems to me like every time somebody says that, they print some more money and it's back to the races again, but we've gone without a new high in the S&P for all my gosh, more than a month now. I think that might be a record. Where's this all headed?

Cullen: Yeah, I've, if you know the answer, give me a call afterwards, let me know. But um, no, I mean to me, I think that the current environment. I don't pretend to know. I like to think of the stock market as a super long duration instrument. So I don't I don't pretend or allocate assets in a way that tries to capture, you know, near term alpha or anything like that. So I'm looking at the stock market as sort of a long term instrument and I would argue that yeah, I mean, today, everything or at least a lot of the evidence is consistent with an environment where the stock market is likely to generate lower future returns going forward. And so we have very high valuations. Typically, what happens is I mean from a macro economic sense. When you have a really strong underlying economy to some degree and primarily a falling unemployment rate that's falling as fast as it is. Typically, corporations become overleveraged to labor and so if the economy were to, you know. For instance, become a little weaker, they would delever labor and that would actually exacerbate the weakness in the economy to some degree.

So we're in this really weird equity environment where the economy. I think you can make an argument that the stock market boom is not done yet, but that the likelihood of lower expected returns in the future is higher. And more importantly, the likelihood of increased instability. My view is not just that not necessarily that the stock market is going to generate negative returns for long periods of time, but that it will generate lower and more volatile returns going forward. So you'll see events like March 2020, having this really big impact on these markets that are becoming increasingly fragile, because everyone has become so dependent to a large degree on the underlying policy response. And so you know, whether or not you actually end up getting those policy responses is still questionable to some degree. And I think that the fragility in the markets that we're likely to see will reflect that. So I would position equity allocations to expect that they will not necessarily look as exuberant as they did for instance in the last 10 years.

Erik: Let's talk about the US dollar. A lot of people think the dollar is doomed because of all the money printing. I kind of think, wait a minute, the dollar index is a relative measure mostly against the euro and a basket of other currencies. Do these guys think the ECB is like the the beacon of fiscal responsibility or like why is the dollar on a relative basis going to crash relative to the Euro if both central banks are doing the same stuff,

Cullen: I'm with you on that one, it's, you know, at the end of the day, as as bad as the policy response is. The politicians have not watered down or destroyed the fact that the US is still comprised of the largest, most productive, most innovative corporations in the world. And that's the thing that really gives the dollar and our currency its reserve status and its value in the world. It is the ultimate thing that gives the government all the power that it has to. The fact that our economy, the underlying entities are so dynamic, it's so strong, I mean, that's where the government derives its ability to do all the things that it does in the first place. And so, you know, my view is that that's not changing today, or tomorrow, or in the next 10 years.

And so, I think that a lot of people exaggerate this idea that the US dollar is going to lose its reserve currency status. And, sure, it might change some in a relative basis, but like you allude to, you know, who's going to topple it? The Europeans aren't doing anything that is superior in any great way. The Chinese I mean, you've seen all of the the measures in China. I mean, they're not really opening their markets that much, or at least, you know, it kind of looked like, they were becoming a lot more, you know, sympathetic to capitalism in the last 10 years. And in the last sort of 18 to 24 months, we've sort of seen this big, you know, 180, in the way that they're kind of handling a lot of their domestic corporations and the freedoms there. So I don't know who or what economy is going to topple it. You know, I'm not fully convinced that US politicians are going to be able to, you know, completely erode and devalue the, you know, the great corporations that we have in the United States, especially on a relative basis. So, yeah, I mean, ultimately, currency trading is a zero sum game. So I don't do a lot of business in that market. But I'm not convinced that the dollar crashing is some sort of great risk going forward.

Erik: Let's talk about interest rates and bond yields then because this seems to me. I mean, normally I think if what fixed income guys do is they analyze the economy and they think about fundamental drivers that all affect interest rates. It seems to me like we kind of gave up on that whole system and replaced it with one where policy is basically the determinant of interest rates more than anything else. More than natural economic factors and furthermore, the policies themselves are so politically contentious that they change very quickly. So how the heck do you make sense and trade a market like that?

Cullen: Yeah, it's hard I mean the short term you know I like to use the analogy of the bond market or the you know, the interest rate curve is a lot like a like someone walking a dog and the you know, the Fed is the dog walker basically in that the they let the 30 year kind of do what it's going to do it you know, it wanders from side to side of the sidewalk and, you know, it poops where it wants to and pisses where it wants to, but at the short end, the Fed has ultimate control, obviously, and so they can, they can explicitly control exactly what that rate is and so well, the short rate is exactly a function of whatever the overnight market is pegged at. The long end is still at least somewhat a determinant of what future economic outlooks appear to be and I think the bond market is sending the Fed a pretty, a pretty strong signal. And that what I think what they're saying, and I kind of alluded to this earlier that the 30 year treasury bond, for instance, is telling the Fed, you know, hey, you don't have a lot of wiggle room here. You know, we're not gonna if you guys, you know, if you tighten up your leash, you know, we might come back and bite you on the hand. And so the Fed does not have a lot of wiggle room.

And like I said, earlier, I think that the risk of a curve flattener and sort of a repeat of this sort of Greenspan conundrum scenario. That becomes a real risk if the Fed starts really talking about raising rates. And so, you know, on the long end, you know, counter to a lot of people, I actually would argue that a lot of the risk is on the short end, because the Fed might raise rates there and jam short term bondholders. Whereas on the long end, I'm not convinced that the long end is going to spike in the way that some people have expected it to. And that in fact, if policymakers and the Fed continue to Jawbone about reducing the balance sheet and potentially raising interest rates, I wouldn't be shocked if we saw a big curve flattening. And, you know, we could be potentially talking about an inverted yield curve again here in the next, you know, not in the near term. But who knows in the next, you know, three or four years potentially.

Erik: Cullen, I can't thank you enough for a terrific interview. But before I let you go, I want to ask you about the Discipline Fund ETF. Why did you launch an ETF at this particular point in your career and what specifically is the Discipline Fund ETF?

Cullen: Yeah, thanks, Erik. So Well, I mean, in a world where like we've been talking about. I mean, it seems feels like so many things are undisciplined and, you know, I find that it over the course of my career. To me, so much of portfolio management is about trying to help people manage behavior and the fund, the new ETF that we started the discipline fund is, it's essentially just a very simple market cap weighted fund-of-fund. You own six underlying stock and bond ETFs. So it's 10,000 underlying holdings, super diversified. But what the fund does is it builds a core holding for investors that will hopefully help them maintain and sort of stay the course through thick and thin over time. And the kicker with this fund is that unlike a traditional Index Fund, which always rebalances back to a static weighting. This fund actually rebalances counter-cyclically. So kind of talking about the way that you know, I think the economy should be run, this thing sets a benchmark rate, which is approximately a 50-50 stock-bond allocation, and it rebalances dynamically to actually try to account for the underlying risks. The relative risks of the stock versus the bond market.

And so like right now, the fund is about a 45-55 stock-bond allocation, which is consistent with an environment where the fund is essentially telling you that the risks in the equity market are elevated. So we're a little bit underweight stocks. And so if the if the stock market were to go through a big bust here, the fund would countercyclically rebalance in the opposite direction. So it's it's an index fund in essence that rebalances more dynamically than something like a 60-40, which kind of always assumes that your equity exposure, especially in the 60% piece is sort of always static, and that you're always exposed to the same amount of risk when we kind of know historically speaking, the 60% piece exposes you to a lot more risk at certain times than it does at other times and so this fund rebalances countercyclically to try to better adjust for potential future expected returns and hopefully instill literally a sense of discipline and better behavior in people so that they can better navigate the uncertainties of the financial market returns in the future.

Erik: Well Cullen I can't thank you enough and we look forward to getting you back for an update soon. Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.