Grant Williams: Inflation, Putin, Tesla & More

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Erik: Joining me now is *[Things That Make You Go Hmmm...]* founder and editor Grant Williams. Grant, it's great to have you back! First interview of the new year. I want to send the way back machine all the way back 13 years ago this week, it was 2008 coming into 2009. We hadn't gotten to the final bottom in the stock market yet. You and I and a lot of other people really thought that that financial crisis was about too much debt. And we thought that the proposed remedy, which seemed to be creating more debt was not going to be sustainable. And we made a lot of arguments back then saying look, you can't just have the central bank propping up asset markets indefinitely. That's not sustainable. At least that's what I said, I don't want to put words in your mouth. I know I said it wasn't sustainable.

Gosh, it's been a dozen years Grant and they're sustaining it so far. At least, that's the way I see it. How should we think about the fact that although I still don't think it's sustainable long term and I think that they're driving us into what could be a really big inflation trap. Definitely, they could sustain things longer than I thought back 10 or 12 years ago. And it seems like in the eyes of a lot of people, but all of us skeptics got it wrong. And central bankers have proven that there really is a perpetual motion machine of finance here in the form of central bank largesse. How does this go from here? What do you think is on the horizon?

Grant: Well first of all, Happy New Year to everybody listening.

Erik: What a way to say Happy New Year! Did I just give you a great introduction or what?

Grant: It's a great question. I mean, look, you're right, I think I would bracket myself with you as saying that. If you put a gun to my head 12 years ago and said paint me a picture of life at the end of 2021 and asked me whether that was realistic, I would have said hell no. But, you know, I think the piece of the puzzle that perhaps a lot of people missed was that the market just wouldn't care about anything but liquidity. They wouldn't care about valuations, they would come to mean nothing to people, and that they would be happy to pay crazy multiples for things with either no profits or no chance of making profits for the foreseeable future. And I think that's the part that it was really hard to foresee ahead of times, because you know, that stuff has always mattered. And let's face it, regardless of any kind of suspension of that belief for the time being, we all know that it does matter.

If you're buying the shares in a company, you're buying those future cash flows, and if they're negative, at some point, that is not going to work out. Now, while the vast majority of market participants have the belief that either the Fed has their back, or there's going to be ample liquidity, low rates forever, and a bunch of people forced into putting money into the market as a place to get any kind of return that they can't get the bond market, then, you know, look, it can be sustained, and it has been sustained. The problem with that, as you've pointed out, and numerous guests on your show have pointed out is that you're just creating a bigger and bigger problem that will have to be faced on the day when all of this suddenly matters again. And, you know, it could be rising rates that make it matter, which is why the return of inflation is such a big problem. It could be some kind of collective awakening that makes people realize that they've paid the wrong price for all kinds of different things. Who knows? It could be something that none of us have thought of and generally that's the way these things tend to work out. But I agree it's amazing where we've gotten to and if you look at how we closed 2021. You know, there's this idea that markets are closing on or around the highs, it's going to make new highs.

If you look at some of the data, which is pretty extraordinary, you take away the top performing stocks from these markets, the NASDAQ for example, the average distance from the 52-week high of all stocks in the NASDAQ is 40%. 40% below the 52-week high while the index is just three and a half percent below the 52-week high. You go through all of these, you go through the S&P and the average stock is almost 12% below its 52 week high, the market closed at or within half a percent of its high. You know these are strange divergences that have been covered up by a small group of stocks which have priced in the sensitive buyers because they've been shoved into just about every ETF you can possibly think of and you know, at some point, you sound like a broken record saying this because we don't know when that point will be but financial sanity and financial gravity will return at some point. It just will be that way you cannot suspend your disbelief forever. So you know, does it happen this year? I would say we have as much chance as we do it any other January, the first trying to predict that, but this is why it's so important to understand what the return of inflation does and why it's such a dangerous phenomenon at the best of times, given the setup right now, the return of inflation creates a whole different set of problems because of this inability by central banks to raise rates by any meaningful degree to combat it. So I think this year, there's going to be a moment when the central banks are going to stare down the barrel of a gun, and have to decide what to do. And, you know, we can talk about what their options are, they're getting fewer by the week. And at some point, I suspect there's going to have to be some extraordinary monetary policy of the non-QE kind, rather, of the capital control, credit control kind which nobody wants.

Erik: You know, I think that last point that you just made Grant was the most important thing really in all of finance, which is if you take inflation out of the equation, if you don't worry about inflation. If you somehow think that there's just never going to be any meaningful inflation. And those three Ds that David Rosenberg talked about are going to keep us out of the inflation camp, then it seems to me like it's time to concede that maybe Ben Bernanke really did invent the financial perpetual motion machine because clearly nothing's going wrong in terms of this being unsustainable as so many of us said it would be. Unless there's something that's going to come back and bite us.

And it seems to me that that something is as long as there's a disinflationary backdrop. The central bank can solve almost any problem by printing money, in order to spend it to make the problem go away at least in the short term. The question is, does doing that lead to secular inflation that eventually runs away and they can't fight it? And that would be the final moment of payback where you realize okay, there really is no free lunch. And that has to be how this ultimately gets reconciled. Seems to me like if there's never any inflation, then there really is never a problem. And central banks can get away with doing more of what they're doing. Is that right? And what do we do to start thinking about what I think is going to be a bigger than 1970 sized inflation that I think we're just seeing the beginnings of?

Grant: Well, it's a great question. And you know, if we think about this, logically, the big debate over 2020, and I've had it with just about everybody I've spoken to is it inflation or deflation? And there are mutual friends of ours Erik. Very bright guys, very credible guys on both sides of the argument who each make a fantastic case for why it's one or the other. Now, the answer, unfortunately, is always both right? It's never one or the other. It's periods of one and periods of the other. And we are going to get deflation and inflation. The question is trying to get the sequencing right, and we've had this it's called a disinflationary period for a while. It's hard to call it deflation given what we're seeing with prices have just about everything. But now that's starting to show up in headline numbers. And the reason that's problematic is it changes the mindset of consumers. And this is where we start to get into a problem where even if the Lacy Hunts and the Dave Rosenbergs of the world, who call for continued deflation are correct in the long term. If they're wrong in the short term, that's all it really takes. You know, we live in a deflationary, disinflationary world. Mankind's history of one is one of progress technological advancement that does generally bring the cost of things down. It makes men have to work less. That's what we've done as a species since we since we crawled out of the primordial ooze. We've tried to make things easier for ourselves, and we'll continue to do that.

But if Rosie and Lacey are wrong in the short term, and we get a meaningful inflationary pulse, which it looks like we're seeing, that's all it really takes to upset the applecart. And that's how fragile this thing is, you know, we could stand as the Fed would begging to get slightly above 2% inflation for a short period of time to try and even out things and get back to their average 2%. Over time, which they assured us was what was going to happen. But if you get, you know, three times your target rate for a year or maybe two years, that's when you start to get expectations changing. And expectations are everything in the inflation game. You have people. If people expect prices to continue to rise at 6%. Well, you know what, they are going to bring purchases forward and they're going to add fuel to that fire. You throw in supply chain issues and shortages everywhere, and it just incentivizes people all over again to spend money now not just spend money in the now rather than the future, but also pay higher prices for it because as another mutual friend of ours, Pippa Malmgren said to me recently, quite rightly, people have a very near term memory of being unable to buy certain goods at any price thanks to the pandemic in early 2020. You know, you couldn't buy cleaning products, you couldn't buy toilet paper, you couldn't buy a bunch of essential oils that we've taken for granted no matter what you're willing to pay for them.

So that kind of mindset gives producers the ability to pass on increasing input costs to consumers and that's what they're trying to do. And if you look across some of the producer of some of the input costs indices right across the US, across the UK, across Europe, some of them climbing by almost 30% year on year. And so, okay, companies have done well during the pandemic, their profit margins have been great. And maybe they can carry that for a little while in the hope that it is transitory. But they can't carry those kinds of squeeze margin squeezes forever. They're going to have to try and pass whatever of that on they can. And they will be able to pass more of it on this year than they would last year simply because of that mindset. Now you throw into the mixing bowl, wage increases, which are happening everywhere now, many of them driven by companies wanting to look like good corporate citizens, other driven by potential industrial action, but either way you cut it, we've seen wage inflation for the first time in almost 40 years now. And that, once it takes hold is the most entrenched inflation of all, because you're going to struggle to take away anything if you give people a 5-10% wage hike, good luck taking that back next year, you know, you can raise prices of your goods and lower them again, that's not too difficult to do. But try taking away the salary that someone's salary increase that someone's fought long and hard for, you're not going to be able to do that without major problems.

So I think we're in the eye of this perfect storm Erik where all the conditions are in place for meaningful inflation to take hold, and certainly maintain that hold enough of the foreseeable future to cause the kind of problems that we spoke about at the top of the show. How do they combat them? Can they raise interest rates? If so, how far can they raise them before the markets break? So while I think in the long term, Dave Rosenberg and Lacey are probably right, I think in the short term, they can be very very wrong and if they're wrong, it means the Fed are wrong. If the Fed are wrong, it means interest rates are wrong. And if interest rates are wrong, then you know everything is priced wrong. And that's something that we will have to try and figure out as and when that kind of rolling disaster starts going down the hill.

Erik: Now, I want to run a few thoughts past you because ironically, I find myself inclined to argue kind of the opposite case of the one I most, you know, long term believe in, I still think that there is no free lunch. And I don't believe that there's a perpetual motion machine. And I think we are going to pay for all this largesse someday. But the thing is Grant, if I look at what's going on right now, politically, there's a lot of support for more transfer payments, for universal basic income for, you know, more handouts, basically, for more stimulus for the economy. There's lots of political support for that. The kinds of things that you and I think could go wrong in terms of a runaway inflation that gets out of hand and can't be controlled. Well, I think that's a very real risk, but it's not here. And now it's not in this moment, if anything, the Fed has been very frustrated that they've been trying to create more inflation, and they've been unable to do so. So they're just, you know, finally celebrating that they're getting a little bit of inflation. Finally, we're a long ways from the point where that inflation runs away, which is where I think you really, really, really have a big problem. Till then it seems to me like really, the dominoes are kind of lined up for the markets to continue to grind higher on more stimulus and the Fed continuing to have the market's back. I suppose the counter argument is the announcement of the taper but frankly, I don't take the whole taper too seriously. I think it only lasts until the they need to bail them out and mark it out for some reason. And then I think their policy story is going to change. And I think everybody already knows that and it's priced in.

Grant: Well, you know it's an interesting idea to kick around. And I think that's why I bring up those kind of numbers beneath the hood of where these markets are actually trading in terms of markets being at all time highs, because that's the narrative, right markets are at or near all time highs, a few percentage points off their all time highs and it just isn't the case, you know...

Erik: Because everybody knows a global pandemic is what really gooses the economy.

Grant: Yeah. I don't think anybody really has a problem understanding or believing that it is this liquidity that is the most important great ingredient low rates and ultimately, the liquidity supply by central banks is the most important ingredient if we are to keep markets buoyant. But that hasn't changed, right? What we've seen with markets and the majority of stocks being you know, between 12 and 40% on average below their 52-week highs is that there is distribution here and people who don't believe that this is going to be enough there are people exiting the stock market or shifting rotating out of equities into who knows what. So it was very difficult to get a real picture of what's happening. But this is consistent, you know that the NASDAQ Composite, the NASDAQ 100, the S&P, mid cap, small caps, all of those markets, the average stock is trading double digits below the 52-week high when the index is at all on its all time highs. And that just tells you that the people while I think everybody believes that the Fed will always do what they need to do to keep markets higher, I mean that belief has been hard won by the Fed over the best part of two decades now.

People are voting by moving money out of these markets, which tells you that while they believe that that's what the Fed are going to do, it says to me, they're not sure that what they're going to do is going to be enough this time around because of this changing dynamic with the return of inflation. So your point is well taken. And I think you're absolutely correct. But I hate to say this time is different. But clearly, there is a factor here that we haven't had to face in the last 20 years of this policy. And that is a meaningful inflationary pulse. And it really does change everything, if that is remotely sticky. And even if let's say the comps get better this year, and inflation year on year is only 3% or 4%. You know, that's just a difference year over year, it's still going up, prices are still going up, people are still going to be demanding more wages. And you know, there are so many pressure points here, whether it be for central banks, or whether it be for governments, in terms of people not wanting to go back to work, people preferring to stay home, people expecting elevated transfer payments, whatever it may be. There are pressure points all over this now. And so to try and steer and navigate your way through this perfectly without accidentally causing a problem somewhere, I think is going to be borderline impossible, I would never say it's impossible. You never know what a committed set of central bankers and a public willing and in fact, determined to believe them and have them protect them can do. But I would think this is going to be the hardest year to navigate that we've seen in the last 15.

Erik: Grant, I want to move on now and talk about what I think is going to be a big trend in the economy in the next year, which is I think that this pandemic is finally ending and specifically, I think that the Omicron strain is most likely going to be remembered as a blessing not as a problem. I think the Omicron strain is going to essentially crowd out to borrow a finance term, the previous strains, it's the most transmissive, it's going to be the one that becomes what they told us the first one was going to be which is just a bad cold, it's probably going to become endemic as one of the biggest causes of common colds in the future. But I think it's finally going to end this pandemic. And my prediction is everybody's behavior is going to change. I know that a lot of other people have predicted this, but I just look at myself and I say, I feel very differently about the world than I did two years ago. I feel like assuming that tomorrow can be taken for granted is a foolish assumption. And I want to go out and live my life and travel more and make a list of all the things I want to do before my life is over and get them done without assuming that tomorrow is going to be another day that I have the same ability to travel the world as I used to.

I think a lot of people are going to have that attitude and to various different degrees they can afford to travel or they can't afford to travel. But there's going to be a lot of stimulus money and a lot of credit that's being made available. And I think a lot of people are going to want to spend and travel and do things as we reopen the economy in the next year. Do you agree and what does it mean? Because I mean, I can't normally when people do spending and traveling and you know, that's all really good. It's supposed to drive markets up. But considering the pandemic drove markets up, should we be considered that you know, should we consider that bad is the new good and good is the new bad?

Grant: Well, look, I preface this with the fact that I'm no virologist. So whenever I get involved in talking about COVID, I want to state that I can make observations on what I see and what I read. And you know, it's been interesting to me from day one, that the extremes of information that scientists are coming up with, you know, it's just to me, a massive indicators have polarized societies in general these days. But look, I can tell you anecdotally, I'm in the UK at the moment. And, you know, my daughter and her partner have both had Omicron. They both felt like they had a nasty cold for a couple of days. And they're both feeling much better. Now, I know three or four other people that have had the Omicron variant, same. You know, they were they were vaccinated, but it really didn't hamper them in any way shape or form apart from being forced to isolate due to regulations. They just felt like they had a head cold and that was it.

So I'm inclined to agree with you certainly on what I've seen so far, that Omicron could potentially be a very good thing and could lead to exactly the outcome you suggest where it becomes something that you don't have to be afraid of, for the most part. It helps build up antibodies and immunity and people are sick for a couple of days. And then and then go on. And I think that will liberate an awful lot of people into getting back out into the world. Now, does it change the way you suggest? I don't know. It's a very plausible suggestion that you've outlined, Erik. I can totally see how a lot of people will do that. One thing for certain if you are right, and that is the way things go, it is certainly not going to dampen inflationary pressure, it's going to add to that significantly, I would imagine. So that's one thing to be wary of.

Another thing though, on the other side of that is there are a lot of people who've been changed in the other direction, there are a lot of people who, for the last couple of years have realized they don't want to be working in an expensive city, they'd rather work from home, they'd rather live a quiet life, and they'd rather live peacefully away from a city and kind of turn inwards rather than turn outwards and stop traveling the world. So I think we're gonna see both ends of that particular spectrum. And it really is impossible at this point, to try and figure what that means because one outcome is you know, deflationary for real estate prices in major cities and inflationary for the suburbs, we've already seen a good deal of that. The other is going to increase discretionary spending dramatically and that'll feed through the economy very quickly. I think it's important for everybody to sit here at the beginning of this year and realize that we really don't know the answer to any of these questions. There are so many plausible possibilities on the table right now. All of which, given the fragility of the system in general, could pose outsized problems to the whole financial system. So people need to think that through.

And, you know, you can pick up a decent broadsheet newspaper in just about any Western democracy now and read on the same day, coverage and opinion in that same paper that says, you know, we should be locked down and Omicron is a killer. And people saying, this is great, let's open up a little get Omicron. So we just don't know. And the scientists, even the scientists, there's no broad consensus among them. You can find scientists at either end of the kind of scale of fear and safety. And so it's a very dangerous time for us, as kind of investors who are perhaps not as initiated in these subjects as we ought to be, to make sweeping judgments with an enormous amount of certainty about what is going to happen. Things are going to be very, very fluid this year, more so than I think we've seen, we've could have generally had this rising tide for a decade now. I don't think you're going to have that this year. I think you might see relief rallies, I think you might see, you know, markets surge on good news. But again, I come back to this this distribution we're seeing underneath the headline figures in equity markets, and there are smart money investors who have been selling out for months now looking at valuations looking at the elevated levels, rotating into countries which haven't done anywhere near as well as the United States. And that's just about every stock market in the world.

So I just don't think it's cut and dry and even if you get the direction, right, even if you figure out, okay, that's the way people are going to live their lives, even if you're at 100%, right, and the majority of people do that. What that means for asset prices is very difficult to determine. It's not just a simple if X then Y equation we have here. So I think this year is going to be extremely tricky to navigate, which is going to be problematic for people who have all their money invested in passive and as we know, passive has sucked in an inordinate amount of savings over the last 5 or 10 years, because of the loan costs, because of the simplicity, because the ease of it. And that, again has been perfectly adequate in markets that have generally trended in one direction. But I don't think we're going to see that this year, I don't think we're going to see a market that ends this year higher with a couple of small draw downs in between now and December 31. I think you're going to start to see some real serious swings in both directions this year, as the market tries to figure out if this is a top, and I think you have to be paying really close attention.

Erik: Well Grant, let's talk a little bit more than about asset allocation and what you do in a situation like this because I think we both agree that markets are at really extreme high valuations. There are some good reasons to suspect that policy will continue to drive things even higher. But someday, it seems like there's got to be some reckoning here. What do you buy in this environment value guys say you buy what's cheap. Well, I don't know what's cheap in this market and I don't think anything's cheap. What do you do in market situation like this?

Grant: Yeah, it's a tricky one right? You're absolutely right. I mean, well, if you look on a relative basis and bearing in mind, the money and less people go to cash, which is going to mean all kinds of assets just for the people are gonna be looking to rotate because they want to stay invested because they get nothing for their cash. In fact, they're losing money if inflation continues the way it is. So you have to look at the commodities complex, which is, while it's had some spikes as on a broad basis, it's definitely not had the kind of inflows that we've seen into technology. You know, I think there are parts of the biotech world, particularly in the UK that the UK biotech sector is trading actually remarkably cheaply. It's kind of an unloved and orphan sector. My great friend, Steve does a lot of work in this. And there are some companies in UK biotech, which, which are trading at vast discounts to how they are in the US because of those reasons.

You know, I think rotating out of the US equity market into some of them around loved ones, whether you go into emerging markets, which on a relative basis, the US look much cheaper, there are pockets of value across European equities. Still, if we do get this inflationary surge, then as crazy as it sounds, given the levels of leverage in the system, on an individual basis, leverage that you can afford to cover out of your cash flow makes an awful lot of sense. You know, if we are going to see debasement of the currency, then it makes sense to have leverage as long as you can actually cover it, and you're not going to be stopped out and you don't over give yourself. So there are definitely things you can do. But they're going to require a lot more than buying an ETF. And just and just remaining passive and opening the statement every month and seeing how much your passive ETFs have gone up, Erik.

It's the same issue with the passive versus active allocations, as it is growth versus value. I think, this market as well as swings in the actual general direction of indices, we are going to see swings, whereby the active managers start to see inflows, we're gonna start to see swings where value managers see inflows. And I think the age of the anonymous algorithmic custodian of your capital is, if not overnight, certainly reaching the end of its short term useful life. And I think you start to you're going to start to need to know who is managing your money, what their strategy is, how they assess risk, and how they mitigate risk. Because, as I say, going back to what we spoke a couple minutes earlier, I think this year is going to be one of the riskiest years that we've seen in quite some time.

Erik: Let's talk about another trend that you and I have both discussed quite a bit over the last decade and hadn't been proven right on quite yet, which is we look at a company like Tesla, and we just say, Look, you can get excited about where you think Elon Musk maybe is headed technology wise, but if you look at how many cars this company is realistically going to build, and what the future cash flows are realistically going to be. The valuation just doesn't make sense. But you and I have talked about the temptation to short Tesla for years and years now. Is it finally time? Seems like even Elon Musk maybe has the idea, though, he's claiming he has different reasons for selling some of his shares. Is it time for the crazy stocks like Tesla to finally roll over and break or is this just Elon taking a few bucks a profit off the table before it marches even higher? Despite the fundamentals that you and I have never believed in.

Grant: Well, it's a great question. And I think Tesla has become one of the poster boys for this, this whole mindset, Erik. And the difficult part is at no point in the last 10 years have any of the Tesla fundamentals justified its valuation. So what you're trying to figure out is, at what point does that matter to the people who are just rabid about the stock and again, you know, anecdotally here in the UK, I've been amazed these last couple of weeks, I've been driving around how many electric Audis. I'm seeing an electric Jaguars, I'm seeing and they're electric cars everywhere on the road and you notice them. They're Teslas here for sure. But it's interesting to see how many alternatives there are to Tesla's now on the road in the UK, particularly these last few weeks. And also you know, hearing people talk about electric cars and you know, oh, yeah, you know, I was thinking to get a Tesla but I went and test drove this new Audi E-Tron, it's amazing, blah, blah, blah. You know, suddenly, there again, catalysts in terms of the replacement cycle for Teslas is going to start ramping up now you know, as these cars are getting older, and people are gonna want to chop them in for a new car. Now, two years ago, the only car they could have chopped in for if they wanted another electric car they wanted another fast electric car was a Tesla. Well, now they've got options. And you know, I'm speaking for myself some people are sure love the Spartan design of the Model S, for example. But when I look at that, and I look at the interior of the Audi GT E-Tron, it's not even close for me which car I'd rather own. And I don't care if the Tesla is point two of a second faster, not to 60, it just doesn't just doesn't bother me.

So I think 2022 again is going to be a tough year for Tesla, which is, you know, the patent here is the stocks that have done well and had it pretty easy. The last few years are going to start to struggle this year. Tesla, I suspect is certainly one of them. You talked about the temptation to short Tesla, you know, I haven't been short Tesla for some years now. Not because I didn't think with every bone in my body that I wanted to short it. But because I realized that this became a narrative contest. And that's really one thing that Musk has done extraordinarily well is control the narrative, and sell the dream to people. And then you know, we go through the litany of broken promises, but to some people that doesn't matter.

So again, you know, can you justify the AMC price? Can you justify the Gamestop price? Can you just buy tested, but no, you can't, not on any kind of fundamental. But the fact that it's trading on nothing to do with fundamentals means that if you are looking to short it, you've got to try to figure out the mindset of the crowd. And generally speaking, that is not something that's easy to do. Once it changes, once you see that mindset change. And once you see an increase in articles critical mass, which, at the margin, you've been seeing these last four or five months, I wrote a piece last month about the thoroughness trial. And I think the Elizabeth Holmes verdict is going to be a seminal moment for a lot of these similar companies that make these lofty promises and have used the Silicon Valley idea of fake it till you make it. If Elizabeth Holmes is found guilty, then I think it changes an awful lot of things, it means that, you know, faking it till you make it is not okay, it's going to be called out as fraud, which let's face it, is what it is.

So if that happens, then, you know, Trevor Milton is the next cab off the rank the founder of Nikola, he's up on trial sometime this year. And as you move up that ladder, the boss standing at the top of that ladder is Elon Musk, and they're moving up towards him. And so we'll see Elizabeth Holmes may get found not guilty, in which case that may breathe more life into this idea that you can actually make up things as long as you sell a dream to people who are willing to invest in that dream. But again, I think we're seeing a shift, along with inflation coming back, we're seeing a shift change in all kinds of things. And one of those is the tolerance for people who promised but don't deliver. And if that is the case, we're right about that. Then nobody promises more and delivers less than Elon Musk.

Erik: Let's talk about how energy is going to affect this whole inflation equation. Because something I focus on a lot is, you know, I really can't tell you the timing. But I do know that if you stop investing in exploring for and finding new oil reserves, eventually that catches up with you, and you don't have enough oil. And what we're doing is we're very aggressively phasing out fossil fuels, but we're not phasing in their replacement at the same speed. And, you know, if you look at the whole ESG trend, and the way it's demonized investment in any kind of oil production assets, it sets up to me, it's just an immutable future, which I know is coming. I just don't know how long it takes before it's realized, where we get to the point where we realize, oh, shit, we really are going to move on to a green electrified economy. But we're not there yet. And we still need oil. And we stopped investing in finding it. And now we don't have enough and we're screwed, and the price is through the roof. And it's driving inflation, making everything even worse. I think that that's a near certainty that that happens someday. I just don't know if it's this year or three years from now. What do you think of that? And if I'm right, what are the consequences and knock-on effects?

Grant: Well, it's interesting. You say you don't know if it's right this year, in three years time, and that's something this was talking about in the broader sense is that people's time horizon. Think about it, the shift from 100 plus years of fossil fuels to green energy, and people are looking to invest in it and get it right in a year's time. You know, it's a much bigger shift then that. And while the world is definitely going to try and transition to cleaner energy, it could take 20 years Erik, you know, and so you're right. I think you're absolutely right. This idea that we should stop investing in fossil fuel exploration is going to come back to bite us in the same way that shutting down all the world's nuclear power stations, or a vast majority of them in the wake of Fukushima has done similar you know, the Germans are shutting off I think the rest of their nuclear power plants in the next week or two at a time when the price they're paying for natural gas is through the roof is causing some serious inflationary pressure. And they're having to beg of all people Vladimir Putin to send gas to them, you know, these decisions that get made in in the kind of pursuit of being seen to be green. And I insert the word seen there deliberately because a lot of this is, it's all about what policies will end up exposed. We all agree that the minimum amount of damage we can do to the Earth is the preferable amount.

But at the same time, we have lived in a society whose aim is to provide a more comfortable existence for more people every year. So how do you balance those two? How do you create a more comfortable existence for more people, at the same time, as being as careful a custodian as the earth of the Earth as you can, and it's not simply flicking a switch, it's balancing the needs of inhabitants of the earth, with the ability to provide those and to lift people out of poverty, in a means that does the least damage. Ultimately, it would be great to be solar, wind, and electric, hydroelectric energy dependent completely, wouldn't it be wonderful for everybody except the oil companies, but it's not now. It's not going to happen in the next year. And by penalizing the oil companies, before you've achieved that, ultimately, you're going to find yourself in the situation that Germany finds itself in now. And that Europe is finding itself now in Asia is finding itself in now where they're having to pay crazy prices for natural gas, as a cold winter comes through. And look someone like Putin who doesn't have to win re-election every four years. I mean, notionally, he does. But that doesn't seem to be a problem for him, is in the position where he doesn't have to do these things he can make decisions that aren't based on public opinion.

And let's be honest, public opinion is terrible, right? I mean, it's swayed so easily, it shifts back and forth. If you're trying to make policy based on public opinion, then I think it's a very dangerous thing to do. You know these energy markets have been in chaos for some time. In fact, I don't know if you follow Doom Berg, but Doom Berg, who has kind of appeared in the last 3, 4, 5, 6 months on Twitter is a fantastic resource, they've written some really, really good stuff about not just natural gas, but the other assorted insanity going on in the energy markets. And just reading those pieces gives you a really good sense of some of that just crazy decisions are getting made with the best of intention, but for all the wrong reasons. And that to me right now, in a time of great political division, is one of the biggest dangers. That decisions are getting made based on the polls, the short term polls, and you cannot conduct your energy policy based on short term polls. It's a ludicrous thing to do. But it seems to be the way many countries in the West are choosing to do it. And then I'm afraid it's going to end in chaos and tears, not necessarily in that order.

Erik: Well, let's talk about one final exciting, positive energy upbeat topic to round out this lovely interview Grant, which is foreign affairs between US, Russia, and China. You know, I'm really getting concerned that the tensions in the world between the major nuclear capable superpowers are getting more tense, not less tense. How do you see this and what does it mean for financial markets?

Grant: Yeah, I think Erik that's going to be going to be one of the most important things to keep an eye on the shoe. I really do. I think we've known for a longest time that the Chinese have been angling for a higher chair at the table based on the size of the country and what they represent in the world. You could argue they deserve that. Meanwhile, America has been fighting desperately to kind of maintain his hegemonic status. And, again, completely understandable. And then in the background, you know, you have Russia and Vladimir Putin and Russia again, I made the distinction between being a rich country and being a wealthy country. And Russia is the richest country in the world. By far the resources that Russia owns, dwarfs, those of the other countries. They might not have the wealth, the material wealth that someone like America has. But they sit geographically, right in the in the middle of the world. When they are aligned with China and I just recorded a podcast with Simon Hunt talking about this, you know, this Halford MacKinder theory back from the early 1900s, about the Heartland. You know, he said that he who controls the heartland controls the world and the heartland being essentially Eurasia.

And, you know, we are seeing through a series of decisions made by the US particularly around sanctions. They've been pushing the Russians and the Chinese closer and closer together over the last 10 years. We're seeing pockets of the Middle East. Major Oil producing countries like Iran start to strike deals with both China and Russia. And what you have been built in plain sight is a bloc of countries with bilateral trade agreements, right in the heartland. At the same time as we have America retrenching and really taking its troops home withdrawing inwards and trying to lessen its footprint on the world stage. So everything is in place for some geopolitical upheaval, you know, add into the fact that you have someone like Putin, who is a master geo politician. And he is now competing against the likes of Boris Johnson, Joe Biden, Justin Trudeau, Scott Morrison, I mean, none of whom, I think it's fair to say, no matter what your political leanings, you could describe as a great leader in the true sense of the words. So, you know, we're looking at a situation in Ukraine now. And Putin is making demands on the west, and he's basically saying look, I don't want the US or NATO to have their missiles on my doorstep. Now, that's being framed in Western media is Putin's belligerence. He I'm sure would point to the fact that it's essentially the same thing that the US said to Russia, during the Cuban Missile Crisis. We don't want your missiles on our front doorstep or we are prepared to go to war.

Realistically, is there in a world of hypersonic intercontinental ballistic missiles. Is there a need for NATO to put missiles in the Ukraine, right on Russia's doorstep? There probably isn't. I mean, they could certainly make that concession and say, oh, okay, fine, we'll leave one country buffer between you and us. But unfortunately, they've now got themselves into a geopolitical debate about this. And it's going to be very difficult to back down without looking weak. I suspect they'll need to try and find a way to back down. Because as we've seen, America, particularly given that situation in Afghanistan is not looking to have so many foreign wars at the moment. I think Putin here realizes he has a pretty strong hand. There is plenty for Joe Biden to be concerned about home, there are plenty of divisions inside the European Union and NATO that have them all fighting amongst themselves. And he's just starting to put a little bit of political pressure on them with the Ukraine situation. He's starting to put a little bit of financial pressure on them with the gas and he's in a great position. Now, he could very well overstep the mark, and miscalculate this and make mistakes on how he handles it. And we could absolutely end up accidentally in a conflict. But right now, is he going to gamble that, you know, if I do go into Ukraine, are they going to stop me? You know, he probably is, it's a gamble he might want to take. I mean, he got away with Crimea and certainly the West is far more fractured now than it was when that happened. I don't think it'll happen imminently. I read an interesting piece by Neil Ferguson about it and talking about how Putin sees himself as Peter the Great.

Now, him invading Ukraine is inevitable. I don't necessarily think that's the case, I think he would be much happier if he could get NATO to back down and even commit to talks that postpone the placement of missiles in Ukraine and deescalate that situation of trying to get Ukraine to join NATO. But there is a real chance of a miscalculation here amongst a group of leaders. On the one hand with Putin who needs to look strong, she is in the same position. There is all kinds of anecdotal evidence to suggest that there is an agreement between the two of them that should either of them be attacked, the other one will come to their aid, that can be problematic. So you know, if you look at the situation that Joe Biden is fighting. I look at the situation Boris Johnson is fighting here in the UK. And it's pretty clear if you look at what's happening with any degree of interest that Boris is being set up to be pushed out by the Tory party, and I would suspect lose trust based on all the interviews I'm seeing in the headlines and very grand pictures of her I'm seeing staged in newspapers like the telegraph and the times that she will soon be the leader in waiting.

There are any number of ways in which a miscalculation could be made here. I just happen to think that right now, the West does not really have anybody who can compete with Putin when it comes to playing geopolitics. And that I suspect, might give him the upper hand that he needs to kind of push through some really serious moves here. Which look, I mean, in the fullness of time, if the West backs down over Ukraine, would that be looked up upon badly? I doubt it. If in the fullness of time, like don't back down and Russia invades Ukraine, that might end up looking like a very poor decision by the West. So I think Putin has a really good hand here. And I suspect if anyone's going to play it, well, it's going to be him. So I'm watching that situation very very closely. Because I think we'll be able to tell a lot about what's going to happen between the US, China and Russia by how the West handles Putin's demands.

Erik: Well, Grant, I can't thank you enough for a terrific interview. But before I let you go, I want to cover one final topic, which is a transition that we've seen in financial journalism. You were involved in the launch of a television network a few years ago. You've actually moved on now to where you're really focusing on not so much having a big audience but having a high quality audience. Tell us a little bit more about what's going on at Grant-Williams.com. It's not just the *Things That Make You Go Hmmm…* newsletter, which you're very well known for. But your new podcast, I gotta admit, is just as good as MacroVoices. I don't say that about anybody else. So what's going on there? Tell us a little more about your motives and who your listeners are and how people who are interested can follow your work.

Grant: High praise indeed, Erik, thank you! Yeah, look, I've been putting written content out for a decade now this will be the 10th year of me doing it. It's been a fantastic exercise for me in terms of trying to get my own thinking straight. And if I can write my thoughts in a way that other people understand then it helps me understand that I've kind of framed the debate correctly. I added the podcast last year during lockdown, it was really a means to kind of stay in touch with the world and get the opinions of a group of people. And that's become popular, which I'm delighted about. And I've had some phenomenal guests on there and also, my co-host and some other podcasts that are part of the kind of platform Bill Fleckenstein, Stephanie Pomboy, and Ben Hunt have been huge additions to that in terms of broadening the conversation. And then about five months ago, I launched a video to which, you know, it's nothing fancy. It's just one video a month. But for me, these are important conversations, they're the big picture conversations, not necessarily about what the markets going to do in the next week or month or three months. But really, it's an attempt to get in to people's brains, experience practitioners, whether they be investors, or economists or I just finished publishing an interview with Don Yaeger, who was an associate editor of Sports Illustrated for many many years and a best selling author. And just digging into people's brains to talk about their experiences.

You know, I find yields information that is valuable far longer than anything, when you're talking about markets, you know, that stuff has enormous immediate value. But there's not really much point in listening to market based predictions a few months hence. Whereas if you actually dig into someone's life and experiences and kind of pull out the lessons they've learned from what's happened to them along the way, good and bad. You know, that kind of conversation stands up to repeated viewing over many many years You know, there are lessons you can learn every time you listen to that. So, I know that's not the kind of thing that is huge in terms of audience size, but I'm not doing it to try and build myself a massive audience, I'm trying to do it to fulfill what I think is a need some people have to try and get better at what they do, rather than figure out what's going on. And, you know, it's something that the response, I've been overwhelmed by the response to, which is, which has been great. And it's something that I'm looking forward to through this year expanding and broadening out and having some conversations, which I think will over time, prove immensely valuable.

You know, there's a growing community there. We all communicate via a dedicated Slack channel. And I've learned far more than I've taught from that community over the last five months, it's been it's been remarkable. The kinds of resources available and the expertise that people have in different areas that you can tap into. And so I think, you know, community is going to be very important in 2022. And it doesn't have to be an enormous community for the sake of having a big community, it needs to be a community that have shared values and shared desires in terms of the outcomes they want, and a willingness to exchange ideas. And I think by building something like that, you create something that is tremendously powerful and has great sustainability. So I'm really excited about it. I've loved doing all of it so far, and I'm really looking forward to 2022 Erik.

Erik: And I definitely want to add my own personal endorsement Grant. I really enjoy listening to your interviews. It's what I do in the treadmill and I strongly encourage our listeners to check it out. You can do that at Grant-Williams.com Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.