



MACRO Voices
with hedge fund manager Erik Townsend

Izabella Kaminska: What Shape Will the COVID Recovery Take?

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Erik: Joining me now is Izabella Kaminska who many of you know as the Managing Director of Financial Times Alphaville blog. Izzy actually just left FT Alphaville and she is now heading up her own media enterprise, the-blindspot.com, that's the-blindspot.com which is Izzy's new media venture. Izzy, it's great to get you on the show as a first time guest, I haven't talked to you in years and years but I've loved following your work on FT Alphaville. Let's talk about where we stand in the recovery from this massive Coronavirus, COVID experience that we've had. My view is that although I'm not a virologist, and don't know these things, all the smartest people seem to be telling us that it's very likely that this Omicron strain is going to be what gets us from the pandemic phase to the endemic phase of this crisis, leading to reopening of the economy. First question is do you agree with that general view? And if so, what do you think this recovery is going to look like compared to others?

Izabella: Hi, thank you so much for having me on. Yes, I tend to agree with you that this is us moving into the endemic phase. Certainly, we can't go on suspending our lives as we have. We have to find different coping mechanisms and luckily Omicron has come along and proved itself a milder form of the disease. So that is great news for us. But at the same time, I think in Europe, we are still... they are many countries that are still very fearful and quite, you know, the Netherlands is one of the countries that has been very late to drop restrictions. Denmark has recently dropped restrictions, but compared to the UK, they were locking down even over Christmas, so we stayed open pretty much so there's still a very different approach like within Europe itself, different countries are still taking highly diverse approaches to dealing with Omicron. So yes, I agree generally that we are in the endemic phase, but I also think there is a risk that at any moment a new variant can come along and sort of bombard any intent to properly open up and if and when it does, my personal view is that we have to really consider whether lockdowns are the best way forward, given the fragility of the economy, given the scale of the hit we've already taken, it might not necessarily make sense to do what we've done before.

Erik: Izzy, I want to credit you because when the phrase transitory came into popular use to talk about inflation, you were one of the very first people to publicly call BS on that term and say, look in the right time frame World War II was transitory. So what does this word transitory

mean? It doesn't mean anything. Let's talk a little more about inflation. Clearly, you call a lot of our best guests called a coming inflation.

But I've got everything from a view from a few of our guests that says, look, the COVID crisis was the catalyst to bring about secular inflation that's going to last for 20 years. Other people are saying, look, it's completely wrong to think about it that way. What's going on here is we've had massive supply chain disruptions because of the COVID crisis. As soon as those supply chain disruptions are cured, the inflation is going to go away. And the disinflationary forces of demographics, debt and so forth are going to take over again. And this inflation really is going to have been transitory. So which is it? Are we embarking on a journey toward a new era of, you know, like the 1970s, a secular inflation or is this a blip that's about to end?

Izabella: So I tend to agree with the former perspective. I do think the term transitory itself is a massive misnomer. I think it misrepresents the whole concept of inflation, inflation can and always was transitory. I mean, that's the whole point, inflation is a signal from the markets that something is misaligned, and that we need to take different approaches to sorting out, you know whether it's the way the economy is run, the incentives or you know, access to different goods, and very, you know, or maybe even our political systems, right? So, whether the inflation lasts, you know, a year, whether it last seven years, doesn't really make a difference is still an inflation. I think that doesn't, you know, I'm of the opinion that this is just semantics, right.

So, in terms of how the inflation you know, how we treat the inflation and whether it's meaningful that it's a supply chain fueled inflation. Again, I'm kind of ambivalent to you know whether it's a supply chain issue or not, because fundamentally, inflation's can be demand lead or supply lead, right? So either way, the problem is not enough resources or goods or products on the ground and too much money circulating in relative amounts. So the fundamental problem in all inflation's is that there's a shortage of goods and people are chasing their money is chasing an ever smaller amount of goods or products or services and that's why the prices go up. And until the balance is restored, the inflation is going to be ongoing, whether it's a supply chain issue, I think, is an irrelevance. The point is that in an inflation, it's a market signal to make more stuff, we need more stuff relative to the amount of money that is circulating around.

And yes, you can also apply a monetary perspective and suck some of that extra cash out of the system with high interest rates, of course, but fundamentally, that doesn't necessarily address the velocity question in the money circulation side of the equation. And I you know I'm Polish so I'm massively influenced by the sort of inflation's of the Soviet Union, which were also supply chain, you know, catalyzed. You don't look at the Soviet Union and sell well, that's their inflation problem wasn't really an inflation problem, because it was a supply chain issue you do?

Erik: Let's talk more about supply chains, because it's a subject that you've written quite a bit about in this crisis. Help me understand, you know, the big thing that seems to be really screwing things up right now is the shortage of computer chips, semiconductors. Now hang on a second, semiconductors get manufactured in big, very carefully climate controlled factories. It's not like a meatpacking plant that has a huge infection risk for you know in the middle of a global

pandemic. So this is not about something about semiconductors being hard to manufacture when there's a virus there. It's actually about something else where those semiconductors are being manufactured, and how those supply chains are being effective. What's going on here? Why are we having these big supply chain disruptions in semiconductors?

Izabella: Well, I think I mean, first of all, I find it extraordinary that there wasn't some sort of, you know, I don't know someone in government in the sort of national security side of things or in the resilience planning side of I don't know how, you know, all sorts of weird departments exists that are supposed to be thinking about risk, right? I'm surprised that nobody saw this coming, I'm surprised that we allowed the market to get to a situation where a huge like percentage of the world's supply of semiconductors is made in one country by one company mainly and that's TSMC, that feels very much like a blind spot that manifested and I don't know why the market allowed that to happen, I still haven't read a convincing analysis other than, you know, competitive forces focused all the manufacturing in Taiwan and that was their competitive advantage and certainly, you know, division of labor, etc, that was their thing.

But this is where we are now and from my understanding one of the problems you know, people say, oh well, this is a great incentive to diversify and to encourage the production of semiconductors with you in the US or in Europe or elsewhere. But it takes a long time to bring a semiconductor plant online. And also, you have to have the intellectual property and the capacity and the skill. And certainly, it's not just about the manufacturing, it's also about having the talent to be able to deliver it and whether all those variables exist is the big question. I mean when this crisis hit, the first thing that came to my mind was the famous James Bond film of View to a Kill. I'm sure you have seen it, because the plotline in that is Zorin, the bad guy is trying to corner the world's semiconductor market, which at the time was in Silicon Valley. And he hatches an evil plot to wipe it out so that he can control and monopolize the market. Well, I kind of feel like we've literally lived through that and are still feeling the repercussions. But somehow we didn't have a nimble forward looking James Bond character to come and rescue us from that situation.

So yeah, it's extraordinary to me, what can I say? But it does look like the supply chain crunch is easing now. TSMC has committed to, I believe they've committed some kind of 44 billion to increase in capacity. I've seen it myself. The semiconductor shortages that were causing delays in the new car that I had ordered. They've seemed to have overcome the car is now on its way. So I'm hoping that this will ease in the next six months. And certainly, you know, one of the other issues is geopolitical kind of exposure now because if there is any you know, I mean, perhaps we can talk about this later. But the bigger risk now is not one of Coronavirus impacting the capacity for people to go to work but any sort of instability in the region.

Erik: Let's go ahead and talk about that instability. I assume that you're talking among other things about the developing situation in Ukraine. How do you read that situation? Does Russia really want to war with Ukraine or is it the United States that just likes talking about that scenario?

Izabella: It's very hard to unpack. I mean I think personally that the information space is now so polluted, that it's very hard to know what the agenda of any particular party is. And that includes the US, includes Europe, and includes Russia. Certainly, there is a lot of evidence to suggest that Russia is going to move ahead and make an aggressive move. There is a you know, from what I understand having looked at the reporting from the area, there is a lot of troops build up on the periphery and in Belarus, and there is a fear factor as a result of that.

On the ground in Ukraine, report suggests that there's a lot of Ukrainian perspective is that perhaps the West is hyping it up a little bit, that there is a some sort of agenda or incentive to talk things up, perhaps some war hawks wanting a new war to focus on after the end of Afghanistan? I mean, that sounds reasonable to me as well, I do think that there are certain forces or powers that be that benefit from an ongoing war scenario. And one has to consider the fact that this does follow in the footsteps of the US pulling out of Afghanistan. So the NATO fragility, I mean, I'm not personally a military strategist or in any shape or form a military expert, or tactical expert, right? But it does seem that the issue is very clearly about NATO and its expansion.

And Putin sees any expansion as a threat to his own power base and wants a guarantee that Ukraine will not join NATO. And I think that's the concession that increasingly looks like it will be made by the NATO forces and the US. So the question is, will the people of Ukraine feel vulnerable if and when that becomes explicit? What I found interesting is, in this world of like political diplomacy, it's really, when something implicit becomes explicit is usually the point where a flashpoint occurs. And that's why diplomacy is so subtle. That is why you can't say what you really mean, everyone knows it. But until it's said explicitly, it, you know, you can kind of ignore it. But once it's said, things can escalate very very quickly. And so my concern really is what happens when the NATO situation becomes explicit.

Erik: Izzy, let's talk about the role of media in government and the perceptions that are being presented to the general public about these various different geopolitical situations. And I would expand it beyond just the Ukraine situation to also consider, you know, the Chinese conflict with Taiwan and the question of sovereignty there and so forth. You know, if I go back to growing up in the 1970s, and 80s, it seemed like the role of both government and the mainstream media was to keep everyone constantly reminded of the risk. It seemed like, you know, we had to remember that those Russians still had nuclear weapons that could blow up the whole world. And if we didn't vote for Ronald Reagan Star Wars you know, thing with, we could all get blown up. Everybody be afraid! Let's all think about everything that could go wrong.

It seems to me like both the media and the government are if anything completely underplaying this, because, you know, I'm not a military expert either. But from what little I know of it, I think the development of hypersonic weapons that have the ability to completely evade the missile defenses of the United States by China and Russia, and I'm told that both of them have those capabilities, operational and functional today. They also apparently have carrier killers, specifically designed missiles, hypersonic missiles, whose purpose were designed for one thing and one thing only, which is to sink a US aircraft carrier, and people actually have those

missiles I'm told. Nobody's telling me that I am turned on the nightly news. Nobody tells me I should be worried about any of that stuff. If anything, it seems like just brush it under the carpet. Let somebody else worry about it. Let's not talk about it. Why is it that for some reason now, unlike the 70s and 80s nobody wants to tell me that there are risks in the world that could lead let's face it to World War III, this is you know, real stuff, hypersonic missiles that can sink US aircraft carriers. That's a really big development. Nobody talks about it.

Izabella: So I agree with you. And I think I think it's weird that we're not talking more about the World War III risk, as I call it, and I think it's a taboo. I think it's, I almost feel like...

Erik: You know, you and I are going to be labeled as sensationalist and alarmist for just bringing this hypothetical question, why is it that we don't talk about these things Izzy? I'm going to be labeled on Twitter as an alarmist nutcase who thinks the world's coming to an end.

Izabella: Right, and I agree with, and that's my concern. And I think this sort of fear factor of like, what will people think and not wanting to be labeled as x or y is actually now preventing sensible analysis in this space. Because as tensions escalate, I think it's very weird that we're not being more upfront about these risks. And certainly, I can see a very strong contingent online who is very vocal about the fact that anyone who worries about these risks is some sort of, you know, reds under the carpet person or that there is, you know, that we're bigging up a threat that doesn't exist, it's all in your head. I'm not a military expert, but I have read a little bit of Sun Tzu. And, you know, the whole point and I'm a classicist, I'm an ancient historian, from, you know, in terms of what I studied at university, and I wrote a piece not long ago about the concept of hybrid warfare. And I thought it was very interesting that in the last few months, that term has now become much more commonplace. Because the whole point of hybrid warfare is that if you are using that as a tactic, your enemy mustn't realize they're at war.

In fact, the later your enemy realizes they're at war, the better for you, because you will, you have already disempowered them, and by the time they realize they've been attacked, they can't rally the troops and they can't defend themselves they've already been massively demobilized right? So if anyone talking about that was seen as like we said an alarmist but with the recent escalations on the Belarus border with Poland, I don't know how much you know about that. But there was, I mean, they got very, I mean, watching the footage, it was incredible to watch, there were these large people, build ups of migrants, large migrant build ups on the border in the middle of winter and incredibly tough conditions. It looked like scenes from Game of Thrones, like in the old days when the different contingents gather on the battlefield. So you had the Belarus' side and then you had the Poles, the soldiers on the Polish front clashing, I mean, didn't it's not that they were shooting at each other, but it got hostile. They were raiding the border, the Polish troops are trying to, you know, they were using water cannons, and God knows what else to sort of keep the masses at bay. And the term that kept coming up over and over again, was hybrid warfare, but Lukashenko was using migrants as a cover for, you know his actual political aspirations to destabilize Poland and to flood Europe, the European Union with these migrants. And what was interesting is that that term then got normalized.

And once it became normalized, people started asking themselves, well, if that's hybrid warfare if that's the intention, if it's unconventional warfare, which is focused on like, using tactics that make you not, you know, delay, the recognition that war is going on at all. And then you have to see and consider the broader picture. And I think, having spoken to some experts in the field, one thing they say to me, which I find convincing, if alarming, is that there is a presumption very often that any war is going to look like the war you've just fought or the last war. But actually, every war has evolved, just like technology has evolved. So World War I was very different to World War II in terms of the technology that was deployed and how it was fought. And then the Gulf War was completely different to the Vietnam War, the Falkland war, etc. Different variables, different geographies, different technologies, and we are now in the digital age.

And I think it's very naive to assume that war is not going to go digital itself. And when you talk about, you know, what really is a flashpoint? What really is an escalation? It doesn't have to necessarily be a troop on troop confrontation. It can be happening in cyberspace, and it has been happening in cyberspace. We've seen the scale of conflict in terms of hacking in terms of disinformation and in terms of sort of obscuring the battlefield. Now if the new war is going to be fought online, then frankly, I don't think it's hyperbolic to say that the new soldiers of this sort of cyber war are going to be professionals in information communication. So that means people like us, like journalists, like anyone who is a, you know, a vocal presence online is going to be a member of that war. And some part of that is going to be people who perhaps don't realize they're in a war yet. And I think, okay I'm hoping, I truly hope this is not the case. But I think we have to, if you're practical minded, and you're focused in finance, you're focused on what matters and how asset classes are going to move in the geopolitics of everything. I think it is reckless to not consider that it is a possibility.

Erik: Well, Izzy it sounds like you and I are in very strong agreement that geopolitical tension between the United States, Russia, and also China is very real and likely to increase but as you just said, our job as much as the real big issue areas is a humanitarian issue, this particular podcast and our occupations is not humanitarian, we work in financial markets. How do we translate this view to what it means to investors and what it means to portfolio positioning? What wins and what losers in this environment?

Izabella: Well, what I think is interesting is that in any, you know, geopolitical or war situation, very often, the clue that you're at war comes from the movement of asset classes, and, you know, the price increases of certain commodities or whatever. I think it was, I mean, I'm gonna embarrass myself if any historians are listening. You know, I think that was one of the clues that Churchill had like that there was a big, you know, big problem coming up in Germany was the buildup of resources and weapons technology and military equipment in Germany, right? So, that is a market angle towards any war situation, right? You want to know who is buying what, what resources, what they intend to do with them, how they're going to utilize them, how they're going to ensure that their populations are safe, right? So I think from a markets point of view, if you call the right, if you can see how these geopolitical tensions are likely to evolve, if you can predict those movements, then I think you can help you yourself can benefit from calling the market right and realizing well, you know, gas prices are going to go up because it suits Putin's

agenda to squeeze the you know, the European markets at a time when he you know February's notoriously the best time to launch an invasion. I actually there's a mud issue. So just after February, but like, once the mud goes away, it's the ideal time to launch any sort of assault. Is springtime with me, you don't you don't necessarily go into war, it was, you know, ahead of the bitter winter, you do it just after but from a gas perspective, that's also when you're when any stocks have been entirely used up and when your enemies potentially at its weakest, because it is highly dependent on your gas supplies. I mean, it makes. I mean, it's really not that complicated, I think. And as far as an investor goes, well, you know, the price of oil price of gas influences almost every stock and every asset class out there, because energy is such a massive input into the global price of, well, everything.

Erik: Usually, obviously, with the situation in Ukraine and tension with Russia, you know, we have to think that there's a risk of energy prices going through the roof. And so if you want to speculate on that long crude oil makes sense, although you're a little bit late to the party for that trade. Tell me a little bit more about this Taiwan Semiconductor situation. I mean, it sounds like if either Taiwan wanted, for some reason to hold the world hostage, it could basically cut off the supply of critical semiconductors and really screw up the global economy. And to whatever extent China really has the ability to force the hand of Taiwan, they would gain that power. Is that true? And if so, what are people doing to mitigate those risks? Doesn't sound like a good picture to me.

Izabella: Yeah, I think that is a risk. I don't think Taiwan would itself want to hold the world to ransom. I think it's been a very responsible market participant thus far and a very, you know, shown a lot of integrity. And there's no doubt in my mind that Taiwan would want to continue providing semiconductors to the world, right. The issue really is whether an encroachment by China would lead to a different balance like we've seen in Hong Kong, where obviously now there is a big exodus of Western firms from Hong Kong, due to the new not so friendly environment, would a similar tension arise in Taiwan, for foreign manufacturers, for foreigners, for anyone doing business with local manufacturers, I think probably yes. I think that is that is one of one of the risks that we have to consider. And that means reshoring a lot of the activity that's been going on there.

But the real question is what happens in the interim period where we have a shortage and can we can we diversify? Can we find other ways to manage or stockpile some of the semiconductors that we need? I think stockpiling is a problem in that field because technology moves so quickly, so by the you know, stockpiling only works in very stable commodities that don't change over time. That's not the case with things like semiconductors. I have to caveat that I believe I read that there is some stockpiling, like goes on with semiconductors, but it's not like of the level that you can have in in commodities.

That said, in terms of the bigger risks, I think what happens to the global economy if doing business with China becomes impossible in its own right. If the conflict really escalates. I mean, that is, I mean, it's a decoupling but it's more than a decoupling. I mean it would I mean China is dependent on resources from the West as well. So there is a symbiosis that I think will have to

continue no matter what. But if there is a cold, you know, obvious severing of the relationship between the West and China, it's not clear to me who could easily come in to cover the manufacturing and all the provision of goods that comes from China, it would be incredibly hard. And, I mean, I'm pausing because it's hard to articulate the scale of the problem, it is a very big problem, right?

That said, every problem is an opportunity. And over time, it pays to then invest. I mean, from a market investment, opportunity, investing in homegrown talent, and homegrown manufacturing, that is really the opportunity on the table. So like we've, I mean, I wasn't around during the Second World War, but it is that sort of opportunity to invest in your own resources, in your own people, in your own manufacturing hubs. And I think it's a question of whether you read it, right? Because if globalization is going to continue, that's going to be a wasted, sunk capital cost. But if you call it right, it'll be incredibly beneficial and you will do very well. So the risk is there but that's the nature of markets. So I hope some people are taking that risk, because it's good to hedge your bets, as they say.

Erik: Now, China has been a first mover in introducing a state-backed digital currency system, a central bank digital currency. And just more recently, the US Federal Reserve has at least published at least their first paper on the subject saying hey what would a digital dollar look like? What would it mean? So it seems that China is leading the way toward getting governments interested in this idea of coining their own digital currency? Where do you see this headed and is China's move to outlaw Bitcoin mining, likely to spread elsewhere as other governments embrace CBDCs?

Izabella: So I think that is already happening. I think this year has shown I mean, we're only in January. Well, it's February 1st today, but only at the start of the year. And I think there's really been a very obvious declaration from the powers that be in the authorities and central banks that this is the year they're going to come for quick crypto, whether it's in the UK on the regulatory front on advertising or how you promote cryptocurrency or whether it's a more concrete sort of ban, as per China are throwing out the miners. It's clear the sort of party days of crypto are over. Things are going to be cleaned up and the regulatory space is going to become clearer as a result. In some ways that is a good thing because the crypto industry has long been saying that uncertainty is one of the biggest problems. You know if you're going to clamp down just tell us now because the bigger risk is over investing into a field that you are not sure how the regulatory environment is gonna end up looking.

On the other side, like crypto has the money. It's they've invested a lot in public lobbying and there are a lot of political representatives who are fighting the cause the crypto cause here in the UK, we've had a number of high level politicians sort of openly applying about the need for the UK to be front and center of the new crypto FinTech scene. But what's going on in the sort of crypto and distributed decentralized situation is naturally going to be I guess, in conflict with what the central banks are doing. The central banks want to move ahead with a CBDC they see it as their duty to create a sort of public good, a digital public good, that can be used to compete with, like sites, private sector challenges, like Libra or DMS, as they became known, so that

their motivation or like, you know, when you question them, what they say is the reason we're moving ahead with this. This is because the digital currency space shouldn't be dominated just by private organizations, there needs to be a public option on the table. And I think that is a fair and noble kind of justification for bringing CBDCs. But it's not really foolproof, because the real reason to bring this to bring about a CBDC is efficiency and whether or not it'll actually be less costly than say the pre-existing system. And where we've seen, central bankers bring these things to in there hasn't been that many pilots, but where there have been pilots, there's not really been a massive improvement in terms of financial inclusion or in terms of, you know, privacy, or in terms of efficiency or cost.

And that's my big fear is that this is a bit of a smokescreen for the fact that actually, governments are very keen to integrate all the data that comes along with CBDCs and use it to better sort of enforce their tax take and such matters, which, you know, if you, it depends where you are, I'm not in any shape, or form, defending those who cheat their taxes. But I personally feel that I don't want to live in a surveillance state. And I don't like that sort of slow creep towards a system, which is all encompassing, and where the state knows every single one of your purchases that I find quite just like, you know, we live in a democracy, it's fine at the moment. But you never know, if things go authoritarian. And I think, you know, you never know is my point. If things go for authoritarian, that is a huge power to give to an authoritarian state that you cannot control right?

So the Nazis, I hate to invoke the Nazis, we should never vote the Nazis but I think from a market structure perspective, what is interesting with the Weimar Republic is that they centralized all their communications systems. And that was super efficient and great under Weimar, but it also handed a massive power to the Nazis when they took over. And that is the risk of a CBDC. Yes, it's great if you trust your government, and you don't mind sharing your data, but there is no way the government can maintain a CBDC and protect your privacy. It is just not going to happen. Because the two it's a paradox, you cannot have a CBDC that is AML KYC compliant, which is what it would have to be and private at the same time. The way they've tried to manage that risk is by sort of saying, well, we'll allow privacy for small transactions. So we will only take your details if it's like a transaction that is more than 1000 pounds or dollars right? And that's the way the Chinese have approached the quandary as well. But overall, I'm still not convinced even on this. I'm still not convinced that's a good thing, necessarily. But that's my own personal subjective take.

Erik: Well, Izzy, we were in total agreement until you said we don't know if it's gonna go authoritarian. I think we do know. And if you don't want to live in an authoritarian society, I think you better hope Elon gets those rocket ships to Mars working because this planet's headed in authoritarian direction. I think that's pretty darn clear, unfortunately. And I sure hope that I'm wrong about that. Let's move on...

Izabella: I'd love to mean, I was trying to be guarded. But I tend to agree with you, I think there's been a massive move towards the authoritarian side of the equation. And, you know, I do want to be careful with what one says these days as a result.

Erik: Well, and certainly, you know, there are plenty of people who think that these times warrant having authoritarian governments and that's better. And of course, that's, you know, when we say there's takes two views to make a market, I suppose it takes lots of different views to make up a society. Let's keep this podcast focused on the markets and go back to these technology developments. You've also written a fair amount, about a different trend. A lot of people think that these automated business models where you get something like Uber where basically, the whole thing kind of runs on the computer and makes lots of money for the owners and doesn't require a lot of labor other than the Uber drivers who are independent contractors don't get paid very much. And Uber itself was supposed to just be this incredible profit child. You were one of the first people to kind of call that out and say, wait a minute, I'm not so persuaded about their business model. You said both Airbnb and Uber probably are not what they're cracked up to be back when everybody thought they were both great. So it looks like your view has kind of been proven out on Uber, Airbnb I'm not sure how's it doing?

Izabella: On Airbnb, I think anecdotally I've been proven right. I think a lot of Airbnb hosts have pulled out the market and especially when they've had let's that were focused on tourism or international tourism that hasn't done very well for them, of course because of Coronavirus. On the flip side, we've had a boom in state stay at home type properties. So in the UK, the Airbnb sectors benefited massively from the staycation with you know, in the country, the people who have like lets in the countryside. On a share price, they went public on NASDAQ in December 2020. Share price have been volatile, but mainly plateaued. And they reported very strong Q3 numbers in the last quarter with profit surging about 280%, so it does look like they're profitable. So I guess what I would say is that was right on a sort of anecdotal/personal level, it's, you know, it's incredibly sensitive to the macro conditions and Coronavirus has in many ways helped to support what Airbnb is. But in terms of, you know, I was perhaps a little bit too gloomy about their profit potential, they are making profits. And I think the difference there is the rent a part of the of the model is just much easier to get a profit out of a renter renting a base system than say, a labor intensive one like Uber or Deliveroo, or any of the other kind of gig economy acts.

Erik: Let's talk about what happens next in this recovery, specifically with regard to international travel and the attitude of consumers because something I've read, a view that I've seen by quite a few different people in quite a few different places goes like this: look, personal savings have been drawn down, a lot of people got laid off during the pandemic, they're tapped for savings, nobody's got any money, what you can expect is that as stimulus starts to get withdrawn, everybody's going to be out of money, nobody's gonna be spending money on anything. You know, it's gonna be really kind of tough times for the economy. I have the exact opposite view Izzy, I think that what's happening here is, the whole world has been cooped up for two freakin' years in a pandemic that it's got everybody at the kind of the end of their emotional rope. And whether they have savings or not, if they have access to credit, my prediction is people are going to go party and travel and vacation and make their first international trip if they've never had one before. And really really travelled like they've never traveled before. That's a complete gut feeling on my part, I'm not backing it up with any real

analysis. What do you think? I mean, where are we headed in terms of how this recovery goes? Is this a consumer that is ready to spend?

Izabella: I think the key word to bear in mind is segmentation. So I think I'm instinctively in your camp. I think there's been a repression the last two years, and when restrictions are lifted, those who can and those who are not fearful are gonna go crazy and really compensate for the repressed times. And I think, you know, we always talked about Chinese repression and the repressed markets over there. And certainly, the logic for many years was like if you release the restrictions, you know, the Chinese consumer will go and investor will go nuts. Right. And they kind of did.

So I think that is likely to follow in a similar vein on this front. That said, my caveat is that I think there's still a lot of fear out there, I think there's gonna be a sizable component of the population that is never going to travel the way they used to and is still not just fearful of catching Coronavirus, but the burden of all the forms, the documentation, the bureaucracy, even if some of that is lifted, unfortunately, I think a lot of that is here to stay for the long term. I think masks on aeroplanes are gonna stay for a long time, there's gonna be a lot of conventions that are going to be very hard to get rid of. And for me, as a mother of a four year old, I'm not going to do a transatlantic journey with a four year old wearing a mask, because for me, that is important. You don't know my four year old, its just not going to happen.

So those are the sort of considerations that I think will continue to repress some of the recovery and until it might take a generation before that sort of thinking is reversed, frankly. So I really do want to be hopeful. And I think the younger generations are going to make up for it. But the younger generations don't have the access to credit and the income of the older generations do and that's really where the big spending especially in the tourist and leisure economies was coming from pre-COVID. Right.

So with a more muted sort of retired section of society, especially as their demographics become more and more dominant on that side, I think the balance will be kind of meh.. it'll, I'm not sure. I mean that's really the argument against inflation as well for sustained inflation is that even if we have to, even if supply chain crunches continue on, there might still be a muted demand from the west. But on a global level, I think we still have to, you know, remember that the demand from the emerging economies is still growing. It was growing all the way through Coronavirus, and even in the midst of lockdown. Yes, there was a localized cut in in consumption. But on a global level, consumption of energy was still good, you know, don't get me wrong demand did fall but it bounced back pretty quickly. So yeah, I think we have to look at the big picture. And the big picture is that demand is going to be forthcoming I agree with you. But the exit of the old, older generations might be a problem.

Erik: Izzy I want to commend you because you know, I follow a lot of different writers on the Internet, whether it be the mainstream or the blogs and what have you. The work you've done for Financial Times Alphaville blog is some of the best writing that I've seen anywhere on the internet. You and I met back in 2012 or 13 when you wrote a piece about collateral mining. The

practice that banks were engaging in of taking advantage of extreme contango in the futures market in order to replace Treasury collateral because of the extremely low yields that existed on T-bills at the time. And I just thought that was a really insightful piece of work. And I've been following you ever since something must change because you're leaving Financial Times Alphaville which has a terrific reputation to do your own thing. Why are you doing your own thing? What is the impetus for the-blindspot.com? And what are your plans?

Izabella: Thank you so much for those kind words, I really appreciate them. So I guess the most diplomatic way to say things is that sometimes when it comes to innovation and experimentation, you can't do it within a large organization like, this isn't specific to the FT, I think there are sort of bureaucratic forces that are very risk averse and all over the place right at the moment. And this tendency to be incredibly cautious when it comes to innovation, prevents experimentation, especially online and especially in sort of trying to approach things in a more, I don't want to say whimsical, because I think we you know, on alpha we knew how to have a laugh, but we were also very serious when it mattered. But I think it's important to be able to I think it's important that to be...

Erik: Would it be fair to say that you want to break free of being afraid to tell our listeners that you think the world is turning authoritarian, like happened just a little bit earlier on this broadcast?

Izabella: So yeah, I think there is this, unfortunately, I do think there are forces that are beyond the control of any one journalist or editor that are edging the world towards authoritarianism. And I think it's important for disruptors to be able to challenge those forces. And I don't think, it's like the Brexit debate. Many people said, well you have to stay in the... if you don't like the sort of centralization bureaucracy, you still have to stay in the club to be able to influence it, right? But then at some point, you know, a big faction of society said, no, it's gone. We can't influence it anymore. We've got to go outside and do our own thing and lead by example right? So it's a bit like that. I'm not saying Brexiting FT.

Erik: But sounds to me, like you're the Joe Rogan of the FT. You're ready to break away from the mainstream and tell people how it really is.

Izabella: Well, it's more than I think, to really be creative and innovative and to push the boundaries, I think you have to be independent now and you know, what does independence even mean in media? It's really hard. It's really hard to remain independent because at the end of the day, you're always going to be under the thumb of your paymaster, whether that's your readers, or whether it's a sponsor, or whether it's in you know, a corporation or some billionaire, right? So I think you have to be on your toes, and I think you have to move around and, and thankfully, the structure of the internet has never been a better time to go off as an individual and try to create your own brand. So I'm going to give it a stab because I think that's the future and I think, you know, I might massively fail but we need to continue innovating and we have to sometimes things have to happen off balance sheet basically, is what I'm trying to say.

Erik: Got it! Well Izzy, that was extremely democratic. And I'm sure that the Financial Times lawyers will be satisfied. Now, since my job on [MacroVoices](#) is to summarize what the guest says for our listeners, folks, what she really thinks is to hell with the FT editors and their bureaucracy.com because well, the Brits are a little bit prone to understatement, so you gotta go to the-blind spot.com for that same content. Patrick Ceresna and I will be back as [MacroVoices](#) continues right here at macrovoices.com