Brent Johnson: Why You Can't Ignore The US Dollar

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Erik: Joining me now is Brent Johnson, Founder and Chief Investment Officer for Santiago Capital. Brent prepared a slide deck to accompany today's interview. I strongly encourage you to download it is it contains quite a few graphs and charts that we'll be referencing throughout the interview. Listeners, you'll find the download link in your research roundup email. If you don't have a research roundup email, just go to our homepage, macrovoices.com, click the red button that says, looking for the downloads just above Brent's picture. Brent, it's been way too long since we had you on the show. I think it's been over a year now. It's great to have you back. Let's talk about one of our favorite subjects the US dollar.

Brent: Yeah, it's great to be back good and it would be kind of funny if we didn't talk about the dollar here, especially with what's been going on this year. So I'm happy to be back and happy to talk to you.

Erik: Maybe we should start with a refresher for people who are not familiar with your Dollar Milkshake theory. A lot of people have been kind of confused by the US dollar. They thought that the debasement of the currency by the Federal Reserve printing so much money in stimulus and so forth, was going to cause the dollar to lose value. But it seems to strengthen when a lot of people thought it was going to go the opposite way. Give us a little bit of a refresher course on Dollar Milkshake theory and how you think about things and how we should be thinking about them.

Brent: Sure. The best way to think about the Dollar Milkshake theory, because I think there is some misconception about it is it's not just the dollar going higher. I mean, that's kind of the effect of the theory, but the theory is that we are going to enter a sovereign debt and a sovereign currency crisis. And the Dollar Milkshake theory is the framework via which I kind of see that process playing out. A couple years ago, when the dollar was falling post COVID, when they were doing all different kinds of stimulus and monetary support, a number of people said, well, the theory has been invalidated. Now, over the last year, as the dollar has risen, a number of people have said, well, it is validated. And to be honest, what I would say Erik, is neither of those is the case yet, because as of now, we have not really entered a sovereign debt or currency crisis. I still think one is coming. But as of now, I don't think you could either say it has worked, or it hasn't worked. As far as the theory itself, I think we're gonna find out over the next couple years, whether or not is valid or not. But as it is now, we've got a very strong dollar. And we have the potential for some volatility in the crisis, but as of yet, it has not yet really arrived.

Erik: Let's talk a little bit more about sovereign debt crises in general and what they mean. I think that there's a real trap here, at least I know it's been a trap for me personally, earlier in my investing career. People who are prone to feeling frustrated by a lack of responsibility on the part of federal governments around the world, tend to get frustrated and think, boy, we're headed toward a sovereign debt crisis. I felt that way for more than a decade, I know you have a lot of people have. What I think it tends to do is it causes people to immediately focus on their own currency and their own government's lack of responsibility. And they say, boy, with the things the Federal Reserve is doing, it has to be negative for the US dollar in the long run. But what they fail to stop and consider Brent is, it's not just the Fed that's doing this, it's all of the central banks around the world. And because the US Dollar Index is relative to other currencies, it's not really a question of whether the dollar is going to lose absolute value, it's a question of whether it's going to lose relative value.

So how do you think about that? And how should people think about it? Because on one hand, I think you're right, that the dollar is going to appreciate against other currencies. But I don't think that means it's going to appreciate and absolute value, I think it's going to lose absolute value, but it's going to still probably be the cleanest, dirty shirt in the pile. Is that right? And how should we think about this in terms of investments?

Brent: Yeah, I think that is right, Erik. And I think that is where many people perhaps have misconstrued or misunderstood my theory. For a long time, I've said, we will get into a situation eventually, where I believe we will see the dollar gold and the Dow all rising together. And the reason for that is, and what I mean by that is against all are the currencies, right? And so, you know, it doesn't mean that just because the dollar is going higher doesn't mean that you can't still have inflation. Just because the dollar is going higher, doesn't mean that you can't still have asset prices rising.

Now, a lot of times that doesn't happen and I actually have some slides to kind of highlight that. But to your point, if all Fiat gets debased, but the dollar gets debased less than everything else, you can still see asset prices rising. But, I also want to highlight that just because all Fiat is being debased, and even though the dollar has been debased as well does not mean, and I caution investors here, it does not mean that you can just ignore the relative strength of the dollar. The relative strength of the dollar versus other fiat currencies, even if everything's being debased, has enormous impacts on global capital markets. And I would urge people to kind of understand this.

Erik: Brent, let's get into your slide deck. Starting on page two, you're showing the trend here over the last few years. And boy, at a time, when definitely we have been stimulating and printing money and doing all kinds of things that people predicted would result in a loss of value of the US dollar, it's been steadily appreciating. What's going on here?

Brent: Well, essentially, this is kind of what I've tried to get people to kind of think about over the last couple of years. And I've even said on several occasions, the more the Fed prints, the higher the dollar is ultimately going to go. And again, the reason is, because we're, you know, the dollar here, the DXY index currencies trade relative to each other. To your point a minute ago, I think part of the reason that many people in the US have a hard time focusing on relative currency levels is because they've never had to do it. And the reason they've never had to do it is they have grown up in a country that had the global reserve currency, in which case, global markets use the dollar. So we've never had to really think in two different currency terms. If you talk to many people outside the United States, they are very used to thinking in two different currency terms. They're used to thinking in their local currency. And then they're used to thinking in dollar terms. And what I'm showing here is, you know, when I was here, last the dollar was at 92. And last year, I felt like there was a bull market uncertainty, and everybody was just absolutely certain that the Fed could never stop QE, they could never raise rates. And they could never, you know, do any tightening of monetary policy.

Brent: And yet, here we are a year later, and they've stopped stimulus, they've raised rates, they've sort of embarked on QT, we'll see if they actually follow through or not, but the dollar is at 109. And just many people just thought this was not possible. And I think, I would just use this as an opportunity to say, listen, don't ever be certain about anything. The world is kind of a crazy place. And very, very strange things going to happen. And, and you need to start thinking in a couple of different currency terms, rather than just in dollar terms. In fact, if you look at the next slide, Erik, the dollar has not only survived the massive stimulus, money printing, helicopter money, however you want to describe the programs of the last 10,12 years, the dollar is actually at the same level it was 20 years ago now. And by all accounts, it's very possible that it continues to go higher. Now, whether it will or not, you know, that's to be determined. But the point is, is not only has the dollar not collapsed, but it's at its strongest point in two decades.

Erik: Let's talk about where it is headed. Is this trend going to continue? And if so, what would change it? Or what do we need to worry about that potentially changes the equation?

Brent: Well, so you know, about a month ago, we hit 109 level, we pulled back a little bit. And now you know, over the last day or two, we've kind of been right back up at this, 109 level again, and I've seen a bunch of people say, here's the double top and that's it. Well, maybe it is Erik, I don't know for sure, maybe Powell will be dovish in his speech on Friday, and maybe the Fed will back off a little bit on their monetary policy, and the dollar will pull back for a month or so. But the point I would make is think of all the things that they have done not just over the last two years, but over the last 12 years. And despite all of those attempts to keep the dollar under control and keep it down, here we are at 20 year highs. So, I don't know the exact timing of the dollar going higher, I tend to think that it's going to be higher at the end of the year than it is now. None of this is for certain.

But the point is, if everything they did over the last two years didn't keep it down, what are they going to do with the very high inflationary prints that we're getting now? You know, to get it down over the next six months? And I think it's not an easy answer. And part of the reason is because, we are not the only ones and when I say we, I'm referring to the United States. The United States is not the only one that are committing these financial sins, right? You've got the

ECB and the BOJ, who are just in really, really tough spots. And I put a couple of slides together on this. If you look at slide five, Erik, it shows the massive increase of the balance sheet of the Fed over the last couple of years. But when you look at it compared to the ECB, and when you look at it compared to the Bank of Japan, you just realize that we're not alone in this madness, right? And these other two countries are having a very, very hard time right now. And the thing I would say is, a lot of the people that I speak to and to your point from earlier, the think that we're going to have the sovereign debt crisis, we're going to have a currency crisis, the dollar is finally going to lose value because we've been fiscally profligate and we're just printing money. All of those are valid concerns. But what I would say is everything that everybody is worried that will one day happen to the dollar is already happening right now, today to the euro and the yen. And it's reflected in their charts. If you look at the charts on page seven and eight, these are very long term charts, and they are very ugly. These are the charts that everybody thinks that eventually is going to happen to the dollar. And perhaps it will happen to the dollar.

But again, it is already happening to the euro and the yen. And I'm not sure how Japan or Europe comes back from this. So I don't...sure, can they get a dead cat bounce? Sure. Can they get a you know, temporary few months of some strength? Of course, that's possible. But what are they going to do to solve their problems? And again, it's a really tough situation. And it's because of everybody's kind of in the same situation now that I think we're going to finally have this crisis.

Erik: Well, let's talk about the crisis that we're going to have and how it differs from the crisis that so many people have assumed we were going to have. Because, lots and lots of people have seen the reckless profligate spending behavior of governments and said, Okay, this is crazy, we're eventually going to get to some kind of sovereign debt crisis where governments just spend beyond their means for too long, and everything blows up. Most people thought that meant dollar crashing, and you've just explained why actually, what it means is dollar outperforming on a relative basis, versus the other countries that are being even more reckless and even more irresponsible, in they're borrowing and spending. So if that continues, does that mean that dollar continues to appreciate versus those other currencies? At some point, does the dollar hit a crescendo and it's a blow off top and it all reverses? Or does the dollar stay super strong throughout this entire crisis, because it's those other currencies that are failing first?

Brent: The way I see it playing out, Erik, I do think there will be a crescendo, but I think that crescendo, I think it's going to take a lot longer than people think. I think it could easily take a couple years, and maybe it takes five or six years. Now, you kind of have to be in my opinion, you kind of have to be ready for it to play out over the next six months. But I just don't think it's going to, I think it's going to take several years to do this. And as a result, I don't think we're just going to see a straight line where the dollar goes higher. I do think it's very possible that over the next let's call it 2,3,4 years, maybe 5 years, the dollar in general stays higher than it is now. But I don't think it will just do a steady march higher, I think there will be periods of time where it makes a run, maybe it'll run to 120 Erik, and that'll cause all kinds of problems. And so the monetary authorities of the central banks will come out and do something and maybe the dollar pulls back to kind of this area that 105 to 110 area. And then, it makes another run to 130, and then, causes all kinds of problems. And then that pulls back to one to one end. And so I think we're gonna see this kind of start and stop, because I don't expect monetary authorities just to sit back and let it happen. But, I do kind of feel like, you know, we're going to get into the situation where the dollar eventually gets away from the monetary authorities.

One thing I should say Erik, which I am of the opinion, is that while dollar strength causes all kinds of problems in the monetary system, which I've been trying to highlight over the last several years. And the Fed does not want a runaway dollar, I actually think that the Fed is happy to have a strong dollar right now. And I think that they have been raising rates kind of in conjunction with wishes from the Treasury Department to get the dollar stronger. And I think they are using the dollar, when I say they, I mean the US government. I think the US government is using the dollar as a geopolitical weapon tool for lack of a better word, in order to kind of bring some countries to heel, put other countries in a vulnerable position. I think it's fair to say over the last couple of years, post COVID, when everybody was cooperating that now we've seen kind of a bifurcation. We've got east versus west, China versus the US, Russia versus the US, Russia versus Europe. So new alliances are kind of being formed, sides are being drawn, lines are being drawn. And I think every side, each side is trying to shore up their team. And I think by putting some countries in vulnerable positions, the US can then extract some favors from those countries or, you know, maybe they help them with dollar funding, but in exchange, there's some strings attached. And not only that, the strong dollar puts enormous pressure on both Russia and China.

So I don't think that this is, this dollar strength is an accident, but I do think that we will eventually get into a place where the dollar gets away from the Fed and gets so strong that it will have this crescendo that you mentioned. And at that point, I think what's going to have to happen is some kind of a reset. Now, whether it's done, you know, the US resets it on its own, or whether it's some kind of a coordinated thing that everybody agrees to, I don't know. But I just know that without redesigning the system, without resetting the whole system, no matter whether it takes six months or a year, or two years, even if the dollar falls short term, we will get back to a point where we're at like we're now, where the dollar is just strong due to all the dollar debt and all the dollar demand in the world.

Erik: Brent, a lot of people talk about the dollar index as if it were a measure of absolute value. And of course, it's actually relative to other currencies. Let's go into a little bit more detail on the major currencies in the basket, which are the euro and the yen, you've got a chart on page seven, it really looks like the euro has already broken down on a technical basis to a level that suggests to me that looks like it's headed back toward a retest of those lows from 20 years ago, in the mid 80s. Is that right?

Brent: Yeah, I mean, I kind of jokingly say that the euro is about 100 points higher than my ultimate price target. I just don't see how the euro recovers, I just really don't. I think it's going to at least 80 cents, and it's very possibly going lower than that. And the yen is kind of in a similar situation, Erik. Again, many people have talked about the fact that at some point, the rest of the world is no longer going to finance the US government's debt. And when that happens, the Fed will have to buy it all, rates can't go higher, because then it will bankrupt the United States. Well, that is exactly what's happening in Japan right now. If you look at page eight, and the chart of the euro, this is a result of that happening in Japan right now. Japan has a massive amount of debt, they've been issuing, you know, they've had interest rates at zero or negative for decades, a decade at least. And they've issued a lot of debt at those low rates. And so as a result, a lot of pension funds and retirement plans and banks and insurance companies in Japan are loaded to the gills with zero yielding JGBs.

Now, if interest rates rise even a little bit, which they started to do earlier this year, as a result of all the inflationary pressures, it very quickly causes a banking system crisis in Japan. And so the Bank of Japan has had to come out on several occasions and just do these enormous bond buying programs, buying the bonds to keep the interest rates low. And as a result, flooding the market with yen. And as a result, the yen is down like 15%, 20% in the last year, that is an incredibly big move for a major currency, it would be a big move for an emerging market currency. But for the yen, which you could argue is the second or third most important currency in the world, to drop that much in a year, it's really quite something. And again, it's a result of all the things that many people think will eventually happen to the dollar. So again, you can live in the future or you can live in the right here and now. And I know many people future trip about what's going to happen to the dollar. But you know, the yen is experiencing it today.

Erik: Well Brent, it seems to me that the stage geopolitically has been set for the euro, particularly to continue to suffer. Because as much as this conflict with Russia is hurting a lot of different countries, boy, the energy crunch that it's putting on Europe has just been crazy. What do you think this means in terms of the setup for what's coming next? It seems to me that more escalation of tension between Russia and the West is likely to happen here. What does that mean, in terms of the dollar? And particularly in terms of the euro?

Brent: Well, I really think Erik, this is kind of why I think that the dollar hitting 109 gain, and top a couple of people's calling for a double top, I just don't think it's right. I think we're gonna go through 109, I think we're gonna end up going higher. And the reason is really what you just laid out. I mean, a month ago, the ECB raised rates to zero, from negative to zero, they're first rate hike in over 10 years. And on the same day, they announced a new bond buying program to hold rates lower, because you know, Italy and some of the southern countries are already starting to see their sovereign bonds fallen value. And so this is before we've even gotten into the winter, when the energy crisis is really going to, you know, the rubber is really going to hit the road. And I can just imagine how many euros are going to have to be printed to subsidize the energy needs of the euro zone. I don't think Putin did this to cut them some slack come November, December. I think he did this very strategically in a way to put them under maximum pain and, fingers crossed, maybe by some miracle, we can come to some agreement over the next couple of months. And this, all this crisis is averted, but I think the probabilities of that are pretty low. And so you know, the euro is at 99 right now, it wouldn't surprise me if the euros at 95 and a couple of weeks, and it wouldn't surprise me if it's in the high 80s come this winter. Again, when you think about what they would have to do to turn that around, it's just really hard to come up with a way for it to happen now. Is it possible? Of course, anything is possible. I think you kind of have to be ready for anything in this type of an environment. But the odds that are stacked against the euro right now are really rather, I guess, immense is the best word I can come up with.

Erik: Brent, I think it's so important that we be really clear on this subject of absolute versus relative performance. When we talk about currency indices, like the dollar index, please, elaborate.

Brent: Yeah, so one of the arguments that I often get, Erik, is because if we're in this environment, where there's inflation all over the place. And even though the dollar is rising versus other currencies, it may be falling in absolute terms. I think it's really important because, a lot of people have said to me, the only reason the DXY is high, higher is because it's tracking the euro and the yen, and the euro and the yen are the only ones that are losing value. Well, that's not the case. There's a slide here that shows that against most currencies in the world, the dollar is up, and not only up but up significantly. And the other, the argument that I get is that, since all since the all fiat currencies are being devalued, I don't need to worry about the relative strength of the US dollar. And you know, I kind of jokingly put a facepalm emoji in here, it's because I really want people to understand this, unless you're gonna go move away, live on a mountaintop and not engage in society, that is just unfortunately not the case. It would be nice if it was that easy, but it's not. And the reason is, because the world operates on dollars.

So in most transactions, and most asset prices traded around the world, the dollar is the denominator. And the price is then the numerator, right? The problem is, if the denominator starts to grow, and grow fast, that by definition, mathematically means the price which was in the numerator falls in value. Now, that wouldn't be such a bad thing, if there wasn't so much dollar based debt, and there wasn't so much leverage in the world. But as those prices start to fall, and the even if it's even if it's just something that you don't personally use, in a debt based monetary system, it can lead to a default. And once one default starts, then another default starts, and it has the potential to be a daisy chain. And if there's any doubt about this, just go back and look at asset prices in March of 2020, everything went down, because the dollar was going higher. Wheat went down, gold went down, Bitcoin went down, stocks went down, bonds went down, real estate went down. There was no place to hide, and it was because the top the entire monetary system is priced in dollars. And so you really do not have the opportunity to just ignore Fiat. Tt's a nice thought, but it just doesn't really work that way. And I threw a few slides in here for people to look at if there's any doubts about this, through some slides from 2022, 2020, back during the.com bust and during the global financial crisis. And what it basically shows Erik, is when the dollar is rising, asset prices tend to fall. Now, this is not always the case. Of course, there are exceptions. But when you get a rapidly appreciating dollar, typically asset prices fall, and you don't have to bet on that happening. But I would be very careful against betting everything that it isn't going to happen. And so you know, a rising dollar, unfortunately, if you're going to be involved in global markets, I think a rising dollar is one of the most important things that you can understand.

Erik: Brent, I want to interrupt and ask about gold here because it seems to me that you know, the very, very common gold bugs strategy was people got the idea that fiat currency in general was being debased that had to be good for gold. What happened though, was other currencies got debased a lot faster than the dollar. So investors who are euro based or yen based investors who bought gold are absolutely delighted right now the performance has been fantastic. But people whose investments are denominated in US dollars who bought gold in that logic have been disappointed because even though gold is doing fantastic against fiat currencies, the dollar is outperforming other fiat currencies and it's making gold investments denominated in dollars, not look so great. So how do we reconcile all this if your view is still that governments all around the world will continue to debase fiat currencies. And you kind of thought gold was the way to play that. Is it the right way to play it if you're a US dollar investor?

Brent: Well, I think there's two ways to answer that, Erik, or it's a two part answer. And the first thing I'd say is, despite my short term views on gold, I am still a believer that gold is one of the most, if not the most important asset that you can own in your portfolio. I believe that the reason you have a portfolio and that you have diversification is so that not all assets in your portfolio are performing the exact same way at the exact same time, I do believe that there will come a day where gold will be the savior of your portfolio. Just in dollar terms, I don't think that that day is today. So I do think we will end up there, I think it's important to own gold. But in the short term, I think gold has some challenges as well, I have a slide in here somewhere where we basically show that, it kind of had this double top it hit 2000 in 2020, it came up and tested again this year. And now it is kind of rejected the downslope two different times, and we're kind of approaching a fairly important level, let's call it the I don't know, if 1670 to 1690 range, I think it's very important that that that that level holds. If that level were to give way, I would expect gold to fall 1600, 1500, or something like that. But again, just because in the short term, I would view that as an opportunity to then buy gold. And just because I think that the price is going to potentially fall in the short term, it doesn't mean that I think you should go out and sell your gold. It doesn't mean I think that you should ignore gold, and it doesn't mean that you shouldn't still hold it in your portfolio. I'm just not expecting that to pay off right now.

The other thing I would say is, part of the reason that's not paying off right now, Erik, and you kind of alluded to this a minute ago, is the US dollar is not in the crisis. Now, you may think it should be in a crisis, you may want it to be in the crisis. But it's not. I mean, I'm sorry, it's not. It's at a 20 year high. Which means, there's more faith in the dollar today than there was 20 years ago on a relative basis to the other choices. And again, relative matters. I know a lot of people don't want to think that relative matters, but it really does. And the other part of this, Erik, because I think one thing investors need to really try to do is, not so much consider what they think about something but consider what most of the other people that are operating in the markets think, right? Most of the other people in the markets do not wake up every morning and go check the price of gold. Most of them check the price of the currency or the interest rates or the stock market. At some point that will change. And when that happens, I think gold will do very well. I just don't think we're there yet.

Erik: Well, Brent, you've said that gold is longer term, an asset that you favor, but maybe not so excited about it right now. What do you get excited about in this environment? Let's talk about where the trades are, what the portfolio construction should look like, based on the way you interpret the landscape here. Why don't we move on to I think page 23? You've got several slides on this.

Brent: Yeah. So my overall asset allocation hasn't really changed a whole lot in the last year, Erik. We're still positioned pretty similarly, we've made some money over the last year. I wouldn't say that we've hit a homerun over last year. But you know, we've made some money. We're set up in a way that we're kind of ready for anything. But what I think's interesting is that, even though we're still positioned pretty similar to last year, I think it's interesting to kind of take a look and see how things have changed over the last year. When I was here a year ago, the 10 year Treasury yield was still within this, call it 30, 40 year channel. Since that time, it is broken out to the upside, it broke through it pretty significantly. It came back and kind of touched the top of that channel sometime over the last month, and now it started to bounce again. I actually think that it's likely that the US yields will fall and re-enter this channel.

But what I would say is I don't currently have this trade on. And this is not a trade that I feel super strongly about. A lot of people assume that because I think the dollar is going to get a lot stronger that it's a deflationary environment, and therefore, bonds have to get stronger. And that could happen again. And that's why I think it's very possible that these yields come back down, but it's not necessary. And if you think about it, the fact that yields are up is one of the reason that the dollar is so strong. You can actually buy a US Treasury now and actually get a little bit of yield on it. You know, over the last several years, how many times do we talk about you can't buy anything and get any yield? Well, now you can buy a 10 year bond and you can get 3% on it, which is not great, but it's about 3% more than you could get a couple of years ago, right? And so, yield is being hired to certainly not hurt my thesis at all.

The other thing that I think is really interesting right now is equities. When I was here last fall, I will say in that I was expecting that we would get a pullback to the top of this very long term channel that I've been tracking, and I thought it was actually going to happen in Q4 of last year. Turned out, it didn't happen until this year. So I was early, but it did pull back and it's kind of amazing it pulled back right to the top of that channel. And then it's had a very strong bounce since then. I would say that this bear market rally. I'm calling it a bear market rally, whether it turns out to be or not, we will see. But it's my belief that we're in a bear market rally. And I think it's very possible, we pull back into the kind of the middle of that channel, before we then make a move back to...I still think over the next couple of years, when we get into the sovereign debt crisis, and as investors decide to get out of sovereign bonds, all that money is going to have to go somewhere. And I think that money will find its way into the US, US dollar and the US equity market. So I still think that despite some pain that I think we're going to have over the next six to 12 months. I think after that, I think we could have a very strong move higher in equities.

Erik: Let's move on to commodity markets. You've got a slide on page 24. Let's talk more about this.

Brent: Well, this is something else that I talked about last year, and I mentioned that I thought that we were, you know, the commodities were threatening to break out of this band that they'd kind of been in for a while. And I kind of noticed that it was kind of shaping up to be this very, very long term head and shoulders pattern. And sure enough, at the time I was much more bullish on agricultural and kind of soft commodities than I was on kind of base metals or industrial commodities. Now, it turns out, we saw a kind of a big jump and all of those, and it went kind of amazing, it went right up and kind of tested that right shoulder. And we've had a pretty big pullback here and commodities over the last, I don't know, six...three to six months, depending on which ones you're looking at. I think we're in a very, very uncertain time right now. I think with with markets of the way they are with the Fed continuing to tighten, I really don't know what's going to happen, Erik. I know people would probably like for me to come on here and be very definitive. And the simple answer is, I don't know. What I do think is that, I don't think you can ignore the inflationary pressures. And I don't think that you can ignore the deflationary pressures. And which side of the razor's edge we're going to fall? I just don't know. But I ultimately I think that we will get into a commodity bull market, whether it happens this year or a year from now, I'm not sure. But I think once we kind of break through that level that we saw earlier this year on commodities, then we will probably be off to kind of the races on commodities. But it's a tough call right now.

Erik: Brent, with respect to commodities, obviously, there was a huge, huge run up in commodities is there was kind of the reopening spike, if you will, on then maybe it's kind of sold off, as we're realizing that maybe we're headed into a global recession. What's the direction from here? And what are the things that could happen to change the direction in terms of your outlook for commodities, generally over the next couple of years?

Brent: Well, again, I think the markets are just very, very interesting right now. Because I do think we're kind of on this razor's edge between inflation and deflation. I lean towards deflation, but I you know I always say, be ready for anything. What I think is interesting right now, Erik, is what we are seeing with the dollar with the yen with the euro, and how this really affects China. Because China is probably the one thing that we haven't spoken about yet. That is maybe the most important variable in the markets. China has had the economic global engine of growth for a few decades now. And they are struggling mightily with both the deflationary pressures of their real estate market, the Chinese real estate market is probably the biggest asset class in the world, you know, 10s of trillions of dollars big. But now, it is no longer growing and you could argue it's falling. And so, China is really having to or they're really struggling with the deflationary pressures of this. Despite they have high inflationary costs because they have to import a lot of food, they have to import a lot of energy, they have to import water in, with those being priced higher right now. They're really getting squeezed from both the top end and the bottom end. And they have had to ease monetary conditions over the last couple of months to try to fight this deflationary pressure.

What is exacerbating it Erik, is not only the increase of commodity prices, you know, energy, food, etc. But the fact of what's going on with the yen is dramatically affecting them as well. We showed that chart of the yen earlier where the yen has fallen like 15, 20% in a year. That's important, not just on the global stage, but it's important regionally because the yen or Japan and China and the yuan kind of compete with each other regionally. And as Japanese goods get more inexpensive due to the falling yen, it makes them more competitive with Chinese goods. And so, if you were to look back over the last 10 years of the yuan, and you saw in 2013, it had a little bit of a devaluation. And then in 2015, the more kind of famous mini devaluation, because they have a pegged currency. And so when it dramatically eases, that's by design. That's not kind of by accident. But they had, if you look back at those two occasions, where that happened in 2013 and 2015, each of them were preceded by the yen weakening. And that's exactly what happened again this year in the first quarter and second quarter as the yen was dramatically weakening, the Yuan was staying fairly strong.

But then in the last couple of months, you've seen the yuan start to weaken appreciably. And it's because of this dynamic that not only the stronger dollar, high energy costs, and the weaker yen are putting them in a very vulnerable position. And so I think ultimately, what is likely to happen is that I think China will ultimately have to devalue the yuan. Because I just don't think there's any other way for them. And when that happens, I think that will send a deflationary wave out of China pull an inflationary wave into China. And that deflationary wave out of out of China to the rest of the world, probably pushes the dollar higher. And we all know, as we've just been talking about the problems that the higher dollar causes, and I think it's something like that, that could then lead to a rapidly appreciating dollar, that the central banks kind of have to come out in coordination and stop its runaway ascent, so to speak. And whether we get a temporary solution to dollar strength at that point, or we get an overall reset, I don't know. But I think we are getting closer to this "endgame" that many people have spoken about for years now. It is amazing, the government's and the monetary authorities ability to kick the can down the road. And I'm not gonna sit here and say that they can't do it again. But I think the further we go forward in time, you know, these kinds of in game scenarios become a higher probability event, and I just don't think they can be ignored anymore.

Erik: Well, I agree, Brent. And I think what's going to happen in the case of currencies is that the digital currency system that can replace the US Dollar as the world's global reserve currency doesn't exist yet, but it will someday. And to me, it's all a question of how someday happens from here. What is the path to get there going to be? I think it's unlikely that an existing cryptocurrency like Bitcoin will be that be all end all global reserve currency system, but we will get some kind of digital currency to replace the dollar as the world's global reserve currency. When that happens, I think it's going to be a game changer for the entire world. And I think this is the decade it's going to happen. And any thoughts on that?

Brent: Yeah, I tend to agree with you, Erik. I tend to agree that we will have a digital solution, I tend to agree that this solution will be government based rather than private market based. It doesn't mean that Bitcoin is going to zero, but the Bitcoin Maxis, who think that governments around the world are going to end up bowing down to the this private currency, I think, I think it's just wrong. Perhaps it's a nice thought. But I just don't see that happening. But, you know, this private market solution opened up the eyes of a number of governments around the world to the power of them. And it's kind of one of these genies that's out of the bottle now. And the idea that it's going back into the bottle, never to be seen again, I think would be very naive to think that. So I tend to agree with your assessment there.

Erik: Brent, I can't thank you enough for a terrific interview. But before I let you go, please tell our listeners a little bit more about what you do at Santiago Capital, how they can follow your work.

Brent: Sure. I have an SEC registered and an NFA registered firm. I do overall wealth management for a very small group of very wealthy individuals, and we do kind of complete wealth management solutions for them. As part of that solution, we also manage private funds. And we have a very specific, it's kind of a volatility focused fund that we think will do well, if this crisis that we have long predicted ever plays out. We use that as a hedge against the kind of the traditional portfolio and we have a number of clients who are involved in that private fund, who do not use our services for their overall wealth management. But if anybody would like to contact me to find out more, if you go to santiagocapital.com, you'll find my contact information on there. You can call me or email me and you know, I will say, I always try to get back to as many people as I can. Our services are limited to very high net worth and accredited qualified purchasers and so I cannot always offer a solution to everybody. But anybody that wants to reach out I'm happy to try to help to the extent I can do so.

Erik: Patrick Ceresna and I will be back as MacroVoices continues right after this