MACRO Voices

with hedge fund manager Erik Townsend

Jim Bianco: Inflation Is Not Going Away

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Erik: Joining me now is Bianco Research founder, Jim Bianco. Jim, it's great to get you back on the show, I want to start with something that's really been bugging me because as I tried to figure out the equity market and just the general macro landscape, I can't reconcile this thought that I've had for more than a decade now, which is I always said, what's eventually going to break things and bring about the end game is when inflation finally starts to run away, because that's what will tie central bankers hands and suddenly, we won't be able to paper over all of our problems with printed money anymore. I'm shocked. First, I was ridiculed for even thinking inflation could ever come back. And now that we've got it, it doesn't seem like anybody sees it the way I do, which is, this is a fundamental game changer. It means that the bailout mechanism isn't going to work anymore. I don't perceive most market participants really seeing the situation that way. So it makes me wonder if I've got it wrong. What do you think?

Jim: No, I don't think you've got it wrong. I think a lot of people are in that camp. That, you know, as I like to call them, the last year's transitory inflation is this year, inflation has peaked crowd. If you look at surveys of central bankers, you know, their outlooks or Wall Street's outlook, there's a common theme no matter what developed country you look at. Everybody's got inflation peaking about now and they've all got inflation returning to 2% in the next 18 to 36 months, depending on who you're looking at. But what they all have is inflation is they believe, a one time surge because of the pandemic re-opening and then it will go away forever. And they're still using the playbook of the 25 years through 2020. Whenever there was a problem including 2020, and it looked like the world was going to end in March or April of 2020. Here come the central bankers, and if the Fed has to buy $100 billion worth of bonds a day, which is what they were doing at one point. They will levitate markets and they will make every problem go away. So that's where that complacency is. This inflation is a one time thing. It's going to go away. The printing presses could come. The fiscal authority could come or maybe they'll change the rules or whatever. And whatever perceived concerns or problems we have will disappear. So don't worry about it.

Erik: It seems like very few people are even concerned that what if the inflation doesn't go away and central bankers hands continue to be tied and essentially the Fed put is permanently expired? Is that the right way to think of this and why aren't people are more concerned about it?

Jim: Because again, they don't think that inflation is a problem. For 40 years, inflation was not a problem. And I think the single most difficult thing for people to understand is we've had a secular change around the pandemic. Now, pandemics typically, it didn't cause anything new to happen. It's sped up a lot of basic trends that we've seen in the marketplace. You know, what was it that held down inflation. There was three things that held down inflation. There was cheap labor, and cheap labor came about because of either immigration in the United States or globalization. Your job was always at risk that somebody would come in from foreign country and do it at a lower price, maybe not your job, but maybe two levels below you. And then that would lower their pay which would lower the next level, which would lower your level and everybody's pay would go down or there was a worker in another country that we could send your job to that would do it cheaper.

Now, that has been questioned because post-pandemic, workers have a newfound power. They're willing to work from home. They're willing to quit their jobs. The great resignation. They're willing to you know, not be as acquiescent to management as they used to be. And again, you could see this with the whole work from home fight in the developed world right now, where managers and employers are begging people to come back to the office and they're not. So cheap labor seems to be one that's not in the cards anymore. The unemployment rate for the moment is 3.7%. And the Atlanta Fed has this thing with a wage tracker where they say that if you switch jobs, your pay is up 6.7% in the last year but if you don't switch jobs, your pay is up 4.9% in the last year and that's the widest spread ever. So there's a huge premium on quitting and switching and looking for new jobs. So cheap labor's gone. That was thing that held down inflation,.

Cheap goods, China, for over the last 40 years we got 6 trillion with the T-dollars worth of goods from China collectively. And most of that is all cheap stuff. 9 trillion from the Pacific Rim. So 2/3 of it was China, so while people weren't getting raises, and that did lead to a populist movement at times. The Tea Party movement, Occupy Wall Street, Trump, Brexit. We were also offsetting that with ever cheaper stuff. And that seems to be at an end now too. China's got zero COVID. Their economy is really struggling badly right now. They might have negative GDP for only the second time in 40 years. The first time was the pandemic in 2020 but that was an artificial shutdown. This one is not going to be because of an artificial shutdown like 2020. And they've also got political tensions higher between China in the US than anytime in the last maybe in my lifetime, you know, with the chips act with $50 billion to bring semiconductor manufacturing back in the United States. And just as we're recording the week before the Biden administration, putting more restrictions on high technology and semiconductors being shipped to China. So, they're not a reliable source of cheap goods anymore, which also held down inflation.

And the third one, more for Europe, is cheap energy. Europe has their manufacturing base was really benefiting from cheap natural gas from Russia. Zoltan out of Credit Suisse has a great statistic that he's pointed out in some of his recent writings. In a year, Germany would get $27 billion of cheap energy from Russia. And that would be the backbone to create $2 trillion worth of cheap goods. Think about the amount of energy it takes to build a Mercedes and stood car and now think about a 600% rise in natural gas, and what that's going to do to the cost basis of

building a Mercedes. And so what you've seen is a current account deficit in in Germany plummet since the war began, because these high energy costs are killing their manufacturing base.

Jim: So those were the bedrocks of why we had no inflation for 40 years and they're all disappearing. And that's where I think people are struggling. They all say, no this is just a one time thing, because the pandemic. We're going to go right back to 2020 or 2019. But I don't think we are, I think we've got to start to realize that there are secular changes that have come in play. And yes, we might not be in a persistently 9% inflation world. If we are, we're in a deep world of hurt. But we might be in a persistently 4 or 5% inflation world. And that's not a good place to be because that means neutral on interest rates is four is probably five or five and a half percent. And restrictive on interest rates is something higher than that and those are numbers that the market is just not ready to accept.

Erik: Jim, let's take those three things, cheap labor, cheap goods, and cheap energy and drill down on each one of them. Because I think there's a fascinating story in each one. Particularly on the labor side, I can't figure this out yet because what I've noticed is it feels to me like almost everybody has had an attitude change personally as a result of the pandemic. Some of those people seem to be more ambitious and less risk averse. I see more people that might have been afraid to leave their employer who wants them to return and doesn't like their work from office and just say, you know what, I'm going to start my own business, I'm going to create my own thing, I'm going to continue working at home. I like this. I don't need that job with Goldman Sachs anymore. I can start my own, you know, wealth management firm in my house or something. So there's that crowd.

But there's also a new trend that a lot of people are talking about, called quiet quitting, where especially a lot of low income earners have just reached a point I think of disenchantment, after going through the pandemic and everything, where they just feel like they can't get ahead, and they're just not really doing their jobs anymore. They go to work and do the absolute minimum. They know that with a labor shortage, it's very unlikely they're going to get fired, and they just don't care anymore. So it seems like some people are interpreting it one way, some people are interpreting it another way but almost everybody's attitude is changing. What does this mean for investments and why are all these attitudes changing and where do you think it's all headed?

Jim: So you're right, I think that the attitudes are changing, you know, people would say, you know, you are defined by your job. And, you know, some of us still are but a lot of people they've decided, you know, during the pandemic that they're not going to be defined by their job anymore. And that's either through quiet quitting or through the great resignation that they're going to seek out a job that's more convenient for their lifestyle. I think we underestimate shutting down the economy globally. What it did for people in 2020. It's almost like economically, we had a near death experience and coming out of a near death experience. We have a different attitude and a different outlook on life. And we're maybe this is not life, but this is maybe more of our economic life that we've got a different outlook on so you're right that these are going to have huge implications.

One of them is going to be for the commercial real estate markets worldwide. What do we need offices for. We probably still need a reason for people to aggregate together in to work together but maybe not in the form that we did. The second one is about hiring and retaining talent and what we're going to need to do to hire and retain talent. So I think that we are in, like I said, we are in a period of epic change. Nick Bloom from Stanford University. You know, I kind of reflect on this a minute ago, he summed it up well. He said that before the pandemic, we had maybe 5% of the workforce was remote, and working from home, and that was rising and or working from home. And that was rising at about half a percent a year. Now we're at around 20% so what we did is we jumped ahead 20 to 25 years. Now, we were going to get here anyway but we would of had 20 years to figure out how to adjust to it. Now it all came in a very fast period. That's what I again, I mentioned this before, what I think this pandemic has done. It has not created a new trend, took the trends, especially cheap labor and it's sped them up. And that's why I think we're really struggling with.

Again, the you know, the other thing is I think after decades and decades of mismanagement of large cities. That one of the other problems people have is getting to an office is not a pleasurable experience. So if you live in New Jersey, and you've got to take the New Jersey path through the port authority and then jump on a bus in New York City to get to your office, that is a terrible experience. And that experience is a big deal for you when you're deciding where you're going to work. And so I think employers are having a difficult time understanding this is a different era. For sure Wall Street is having a difficult time with this. Goldman Sachs, JP Morgan, Morgan Stanley, all after Labor Day made a big push to get everybody back into the office 5/0, 5 days a week. And by every indication, they're getting enormous pushback on that. Now, in the past if the management of Goldman Sachs said, all you people that work at Goldman, we want you to jump the answer was how high? And now when we say we want you to jump, there's like, well, I'll do it from home. And so there's been a big change up and down the line.

Erik: Let's move on to the second item, cheap goods. I guess what doesn't add up to me is so many people are saying look, it's just a matter of time! As soon as the pandemic supply chain issues resolve, the goods are coming back down, just relax. And I'm like, wait a minute, the labor is going up and the energy's going up. Aren't those the input costs to making the goods? Am I missing something?

Jim Bianco

No, you're not. And then there's the other thing too, is that we have to understand that we are in the West, and we think like Westerners and from the moment that China put zero COVID on. Every Westerner told me oh, they're going to get rid of it. It's just too bad for their economy, it's going to be terrible. And the original idea was, they're just doing this for the Olympics and as soon as the Winter Olympics ended in February, they're going to get rid of the zero COVID. This is just to make things look good for the, you know, the global event. Well zero COVID never went anywhere.

Jim: So I just think that a lot of people are not really understanding the mindset and just look at what's been happening there between the political strife and everything else. Bottom line is you don't have a stable source of goods. Second of all, is the supply chain. Oh, once the supply chain fixes itself, it'll be all okay. The World Bank and S&P global rank the 370 largest ports in the world in terms of efficiency. The least efficient port ranked 370 is the Port of Los Angeles. 369 is the Port of Long Beach. 368 is the Port of Savannah, Georgia. 367 is the port of Vancouver, Canada, right above that is Morocco, Nairobi, and the Congo. The Congo! So we have to send people from LA to the Congo to learn how to do port management better because according to the World Bank, they're more efficient than the US.

Then you throw in all of the political strife that they're having with the West as well. And I think the answer is, they just view things differently than we do. See in the West, we think everything has to be oriented towards economic growth. And everything we do has to be truer for an end of creating more economic growth. I just don't think they think that way right now in China. So if their economy is struggling, and they're in a battle with the West over political tensions. They're going to win that fight and if they have to hurt their economy to do it, they are! And that's part of what zero COVID looks like it is. At a minimum, it's just the Communist Party exerting control over their populace that we can fix this. All these million people died in the US but that's not going to happen here because we're a better system. And if that means we have to wreak havoc on our economy, we wreak havoc on our economy.

Now, what does that mean? We have a brittle, inflexible Supply Chain system. So when you have the pandemic shutdown, reopening, taste change, preferences change, it can't handle it. That's why it is chronically short, why it has chronically has problems. The day we're recording, there's talk that there might be a big rail strike in the US. If there is, it will create absolute havoc on the supply chain again, because there's no way to is no flexibility in the system in order to change or to compensate for something like that. And so I think that this is the part that people miss is that things have changed, our supply chain cannot. And so we've got this chronic problem that needs to be dealt with. And it needs to start with, we have a bad system. And the system needs to be refined and fixed. And yet we're just Wall Street's argument is just wait, it'll fix itself and magically go away by itself.

Erik: The third factor that you described was energy, this one strikes closer to home for me, because that's what I trade and boy on this one is our regular listeners know, I've looked at this really carefully Jim and it seems to me, although the formative global energy crisis is curable. I understand exactly what needs to be done to fix it. Those solutions would take a minimum of five years to implement. And we haven't started yet. So it seems guaranteed to me that we have an energy crisis at least for the next five years, probably the next 10. What are the implications of that on this whole inflation story?

Jim: Oh it's big. And just on the energy thing...

Erik: And do you disagree on the energy, I mean, I want to get your view on that...

Jim: No I don't disagree. I do want to give, I want to give one nuance to the story. Let's divide the energy world, the energy markets into two basic broad categories. The fungible energy markets and the more less fungible energy markets. So let's fungible energy markets are natural gas. There's a bunch of pipelines that go from Russia to Europe to supply them with cheap natural gas. And Putin has been closing the spigot on that in a tit for tat. Remember that in February and March, the US or not the US but the West in general, they froze the assets of the Russian Central Bank,, they kicked them out of the SWIFT system, and they said, look you know, we've got all of these tools in a hyper financialized world that we could punish Russia with and they almost like didn't think to itself well, he's got a tool on the other side. He's got his hand on this gas spigot and he can close it. And the problem there is that natural gas isn't quite as fungible. You know oh well if Russia is going to, you know, not sending their natural gas to Europe, they'll send it to China, and then China resell it to us. Look at a map. If you look at the Siberian natural gas fields. How long of a pipeline do you have to make to send gas from Siberia to China? The answer is the same distance as it is from Alaska to Miami. How long is that going to take you to build that pipeline? Many, many, many years. This is not going to happen anytime soon.

LNG, liquefied natural gas on a boat. Well, we're already running at capacity. Now how fast can you build boats and terminals many, many years, so that non-fungible market is in a world of hurt and that's why you've seen these skyrocketing prices to fungible market is the crude oil market. Most of those cargoes go by sea, they can be redirected anywhere else. And let me go back to what we were talking about earlier. China, the second largest economy by Gross Domestic Product is now near zero growth. iIt used to be 6 or 7% growth. Where would crude oil prices be if we didn't have huge demand destruction out of China right now? They'd be a lot higher. So we're benefiting, I think from some short term stuff, like the SPR releases and stuff but bigger picture, the Chinese demand is not there. So the non-fungible markets is where we're seeing it. You can't just take gas and just turn it in LNG, put it on a boat, send it somewhere else problem solved. You can do that with crude oil because almost all of it goes by cargo ships somewhere and you can redirect those cargo ships to other places.

So yes, I do think that we do have an energy problem. I do think that that energy problem is going to be with us for a long time. I think that people like Russia is opening up packsize to reminding them what the 70s were like that they had a weapon of energy usage or energy supply that they could use which Russia is using and I unfortunately think effectively against Europe to offset some of their sanctions, and so that this problem is not going to go away. Now, what does it mean? As I mentioned before, the single biggest input to any manufacturing process is cheap energy, then comes cheap labor, well in a distance. So if you're building that car to use my example, before that Mercedes, you're building that car, you need cheap energy. You don't have it! That is a huge problem for manufacturing in Europe and eventually, if they're going to get their gas, from LNG transports or cargoes from the United States, and everywhere else. You recently saw natural gas at a 14-year high in the United States. Now not the nosebleed levels we've seen in Europe but that's going to bleed through to manufacturing processes here and everywhere else that higher energy inputs are going to drag on everything and cause everything to become more expensive.

Erik: I want to integrate these ideas now Jim because we started with the idea that there's a massive complacency among market participants. And that complacency is people feel like, hey, we know from a whole generation of trading now that anytime anything really bad goes wrong, central banks come rushing into the rescue, they print up a bunch of money, they paper over our problems by bailing things out. And I think we've established the reasons that that doesn't really work if there's inflation.

We've then discussed that everybody seems to think the inflation is not going to be persistent. Yet, we've just gone through a whole bunch of reasons that it seems like it almost has to be. So how do we reconcile all this? Is there some moment of awakening where the whole market says, oh my gosh, inflation really is persistent, that really does tie central bankers hands. And you know, all of a sudden equity markets crash or what happens? How do we get from it seems like the market is out of touch with the market right now.

Jim: You know like I said, I think it's more of a debate between those that think it's just like the last 25 years. You know, that there will be a solution at the end of the day. I've heard people say this to me, they were kind of half joking but half not, oh, don't worry about the European energy problem. And I said yeah but they met in Brussels last week, and they couldn't come to an agreement. They said, yeah cause it's not 40 degrees outside. You wait till it's 40 degrees outside and they give them a little bit of urgency, they'll fix the problem. How they're going to fix the problem? They always do. Now, I don't want to be dismissive of that idea. Because that from about 1995 to 2020. That was the exact way that pretty much every problem worked its way out. And what you point out correctly is what underpinned to all of those ideas that you could just print your way out, change the rules, fiscals expansion, whatever it takes to get the problem away. Never had inflation but now we have inflation. The big argument is, is inflation a bigger problem or a more persistent problem because of cheap energy, cheap labor, and cheap goods? There's a debate right now on Wall Street and most of Wall Street does not think that this is a secular change.

Now, part of that might be that everybody's been so ingrained with the most expensive words on wall street are this time is different. And you're right, every time people say this time is different and it isn't. It's very expensive for your trading account, except when it is different. And you don't recognize that it is. That is devastating for your trading account. So I think over time, as this persistent inflation continues, it's going to become more problematic.

Now, let me divert your real quick Erik and go off into one other quick thing on this subject. Let me talk about the Federal Reserve. The way I see the Federal Reserve when it comes to this inflation topic. I think there's two broad camps at the Fed. I think Jay Powell, is in a camp that is probably more aligned with the persistent inflation problem. Augustine Karstens is in that camp. He's the head of the Bank of International Settlements. He gave a speech at Jackson Hole, the luncheon speech after the morning speech that Jay Powell gave, that pretty much laid out a lot of what I just said, and I think that Powell is in that camp. I think that Isabel Schnabel or the ECB is in that camp, and some of others are.

But on the other side, I think that there is Lael Brainard. There's Steph of the Federal Reserve, and maybe Christine Lagarde who are not in that camp. That they are still of the belief that this is a one-time pandemic rise of inflation, and that it will go away. And this is part of the problem because when the central bankers when Jay Powell comes out and gives his eight minute speech, this is it there will be no pivot and the market stock prices in a pivot. And the market rallies a week and a half later, because it says the Fed is going to pivot. Because there's enough people on both sides of the camp, that you get a mixed message. But ultimately, it is the chairman of the Federal Reserve that believes that inflation is persistent. And I think that is going to win the day in the long run. that people are going to have to come to understand, gone are the days of 2% inflation. Gone are the days of 1 to 2% interest rates and that we have to now understand that we are in a higher interest rate regime.

Erik: Jim, I want to go back to what you said about if you say this time is different, and it really is different, that hasn't gone up and you didn't anticipate it, you're really in trouble. I think it really is different this time and it's actually not really different. It's just a bigger wave. You know, when we say that, it's not different this time. What we've been talking about is there's no inflation, there's no inflation, there's no inflation. Well, wait a minute, in longer term waves, there has been big waves of inflation like the 1970s. And I think the beginning of the next one is already upon us. So if I tell you, I do think that it's different this time, in the sense that the next secular inflation cycle that everybody thought would never come back again, because it was never ever going to come back. I think it is back because it always comes back every few decades. What does that mean, in terms of what I need to do with portfolio construction and positioning? How do I reposition if I think this time really is different in the sense that we're beginning a secular inflation?

Jim: So first of all, you're right, let me put a finer point on this time is different. What I said earlier, we've sped up the cycle. So what is happening, what's going to happen anyway, it just is coming on at a much faster speed and a much greater change than we can handle. And I think, like I said, the catalyst for that was the lock downs in the pandemic. But as far as portfolio management goes, I think that there's a couple of things that we have to kind of get our head around. Gone maybe are the days of just buy SPY, you're done, goodbye. In other words, buy the S&P 500, the market always goes up, the Fed prints money if they have to get the market to go up. I think we're going to be in a period of great change in a great turbulence. Now, that is not I don't believe a bearish scenario. I think that is a scenario of opportunity. We need to understand supply chains need to change, we need to find new sources of cheap energy, we need to find new sources of cheap labor, we need to find new sources of cheap goods that presents opportunities in the manufacturing sector, in the industrial sector, in the transportation sector, that gives us more opportunities in the energy sector.

Notice what I didn't say? I didn't say technology. Maybe what we're all waiting for is when is we're going to get back to the days that the unprofitable tech NASDAQ, QQQ stocks go up 50%-60% a year, and a bunch of stocks that, you know, no one has ever heard of, you know go up 20x. And they have something to do with the internet or they have something to do with

cloud computing or something I don't understand but they go up 20x. That era, I think might be done. Now, that's not to suggest that those stocks are necessarily done. But I think that their heavy valuations in their heady gains are behind us. And we're going back to stodgy old, boring companies. You know, people that invest in the stock market, they get excited about Tesla, and they get excited about Google and they get excited about meta, and they get excited about zoom and stuff. But what's to get excited about manufacturing companies and industrial companies or Caterpillar would mix just giant trucks that move Earth. That sounds really boring but that might be where we need to go. And a nice way to say this, if you will, is there has been and as we've seen in the last year and a half a shift back towards value stocks. And a lot of these companies are in the value bucket.

And maybe that's really how people need to start thinking about things in terms of sectors that we need to change things, we need to refine things, as opposed to just wait for everything to be lifted at the index level that worked great from 1995 to 2020. And that's also because we had no inflation from 1995 to 2020 but now we have chronic shortages. We have bottlenecks. We have problems. And we have inflation. And I just don't think that the same ideas in the same prescriptions that worked till 2020 are going to work moving forward.

Erik: Let's tie this in now with the military upset between Russia and Ukraine because most people seem to be thinking about this as the Russia-Ukraine war as if it's an isolated thing. Personally, I think this is the Russia-Ukraine battle, which just like the formative China-Taiwan battle are various different parts of a much bigger picture, which I think is all related. I think it's what Dr. Pippa Malmgren calls the New World War three, which is not being fought like World War Two with soldiers and trenches and rifles. It's being fought on the cyber warfare battlefield. It's being fought on the economic warfare battlefield. But it's already begun, and it's a much bigger thing. Those are two radically different views. How do you see it and do you think that this Ukraine thing is something that just, you know, needs a few more months to blow over and it's done? Or do you think that Ukraine and Russia is just a battle in the context of something much bigger, which is a secular change in the way world history is headed from here?

Jim: I mean, it's a battle and something much bigger, because let's go back to the beginning of the Ukraine war. What I saw that a lot of people saw that was extraordinary was the sheer level of Western sanctions on Russian companies. Everything from McDonald's closing 900 stores, you know, all the banks pulling out, everybody, you know, stopped doing business, like I said, they got kicked off the SWIFT system. They froze their central bank assets and the like and here's the problem. And now we're seeing as I pointed out, Russia's got some things that matter to us, like natural gas for Europe. But here's the problem, after 25-35 years of globalization and integrated globalized economy to have World War Three fought at the cyber level, or at the level that we have now, it's almost impossible to have this done. Because there is a global supply chain, there is a global economy.

And to disconnect one part of your economy from the other part because we're going to take up sides in a war is next to impossible to do. So we could all pat ourselves in the back that, you know, McDonald's pulled out of Russia to you know, teach them a lesson. Of course, all those

stores were reopened under a Russian name within a couple of weeks. But now we're starting to realize we can withhold money from them and they can withhold energy from us. And we both wind up being losers. At the end of the day, this is very different. This is you know, how are we going to fight a war and you are right not necessarily a shooting war, but an economic war with China when all of the tools we're going to use, or not all the tools, but a good number of the tools, we're going to use an economic war come from China in the first place. We're going to turn around and use them against them and vice versa.

So this is a difficult new environment that we're still trying to get our head around. This is much more than an excursion into a bordering country, Russia into Ukraine, and meaning a lot more than that. I think we're right on that. But I think we're not appreciating the consequences of doing this in an integrated economic system. Because what war suggests is we all need to isolate ourselves. We all need to have economic nationalism, it's impossible to have an economic nationalism when you're relying on your heat this winter from the country you're fighting with. And so this is something new, and something different and something we have not experienced before.

Erik: So two views that it sounds like you and I definitely agree on Jim are number one, that the inflation is not likely to go away anytime soon that it probably is going to be persistent and perhaps even secular and get worse over time. And the other is that this present military conflict is not just Russia, Ukraine, it's part of something bigger. Now, those are both non consensus views. Therefore, variant perceptions that should create some alpha opportunity to make some money in the market, if you see it different from the way the masses do. How do we translate this to actual views? Is this about interest rates going up? Is this about equities going down? What is it that we do to translate this variant perception to a market positioning?

Jim: Well, see the thing about market positioning is you're right I mean, it is more value stocks, it is more industrial stocks, it's also more commodities. It's also looking for higher interest rates along the way. Now, a couple of things about that. The problem in commodity land and especially the problem in energy is for all of the listeners here that have never traded a cryptocurrency. If you trade energy, you're basically trading the same volatility as a cryptocurrency because some of the volatilities that we've seen in energy have been, you know, they'll even make cryptocurrency traders blush, is what we've seen.

So the point here is that a lot of people understand this idea that there might be a long term secular play in commodities. But it's not going to come without a thrill ride or two or three because of a lot of the volatility that we've seen! Interest rates, let me remind everybody who's been trading stocks for 15 or 20 years. Oh, interest rates have no value. They're too low. I hate the bond market. The bond market is going to do nothing but sell off. And I've been wanting to tweeted out the charts over and over again, that the total returns in the bond market year to date are some of the worst we've ever seen. See, you got to stay far away from the bond market. Okay, that's true, except the bond market also has something that the stock market doesn't. It's senior in the capital stack, which means the bond market is going to get funded. And if it has to destroy everything in its wake to get funded, it will. If you think and I don't mean this accusatory

for anybody listening. Let me say it differently. If you believe that, well, the bond market will just tank and rates will go up and who cares if you're trading commodities or stocks. Without those funding costs, staying at reasonable levels then the stock market, commodity markets, and everything else are going to be in constant turmoil. So even though the bond market has problems in an inflationary environment, where it needs to readjust to no more central bank buying of their bonds and higher interest rates at the same time, QT if you will and inflation at the same time, it will get funded. It does not go away. You know, large parts of equity markets can go away, but it won't. So it will find buyers! As there's an old adage in the bond market, there are no bad bonds, there's only bad prices. And if the argument is we got bad prices, we'll just take prices and bonds lower and lower, interest rates higher and higher, till they get funded. And whoever they kill in their wake in order to fund them, they kill in their wake. So be careful in the bond market.

Now eventually, and I think we might be within a year of this. Rates will get to a point where the coupons will provide you with decent returns, regardless of where you think, think of the 70s. If you go back and you look at the charts in the 70s, the bond market was all rates were going up and it was terrible, yes. But coupons were so high, you always got a positive return from the bond market. So even if you bought them and rates went up, you lost on price. But you had such a big coupon, at the end of the year, you made money every year in the bond market. We might be close maybe a year or two away from a period where we could say that about the bond market if rates keep going up. Yeah, it doesn't look good. Yeah, rates have to go up but the coupons will offset the losses. And you will be making money year in and year out. We cannot necessarily say that about other sectors in the market.

Erik: Jim, as I listen to what you're describing, what you say is ahead, it seems to me that everything the gold bugs ever told me was going to drive the price of gold bullion up to $5,000 or $10,000 an ounce either already happened and most cases it already did or it ought to be coming real soon based on what you're talking about. But the price of bullion is really not going anyplace up a little bit in the last week. But still floundering I would say, given everything that's going on geopolitically. Does gold just not work the way we were told it was supposed to work or what's going on here?

Jim: Single most frustrating market to me has been the precious metals markets. Yeah, just to underscore what you said, you know, everything Peter Schiff ever wanted in life has occurred in the last six months. He's right. Everything he said was going to occur there was going to be bullish for gold. It has occurred. It has, I'm not trying to criticize him.

Erik: Well, the other way to look at it, you could reframe it as every single thing Peter Schiff ever predicted would send the price of gold to the moon all turned out to be wrong.

Jim: Right! Because all the things that he predicted that would send it to the moon and it hasn't it. So what I say when I say I'm frustrated about it is I would have a year or two ago agreed with him if ABC and D happened like you said price of precious metals would go up. And ABCD and half of EF happened and the price of precious metals have done nothing. And so it's been very

frustrating to try and figure out what it is that the market needs or wants. Now, the best argument I could give you is to why precious metals aren't moving is why do we own gold or silver in the first place? It's kind of a derivative of the crypto markets, right? It's a way to get your money out of the financial system with, you know or away from the financial system so if there's a problem in the financial system, inflation, deflation, financial crisis, here's an asset that would be immune from it. But what have we done to precious metals over the last 30 years or 20 years, is we financialized the hell out of them through derivatives, through ETFs, through futures, and everything else so that if there is a problem in the financial system, then you know, if the financial system catches a cold, gold and silver get pneumonia anyway. So all of a sudden, if they're not going to be immune. The financial systems got problems, maybe the problems are inflation. Maybe the problems are a crisis like 2008 then gold or silver should benefit because they're not part of the system. No, they are part of the system. They're squarely ensconced in the system. The biggest way that everybody you know, I've had this argument countless times with people yeah, I like gold. I just bought GLD. Why? Because I'm worried about the financial system, you think GLD is going to survive if we if we have a problem with the financial system? It's just going to be worthless piece of paper. But you know, you haven't gone and you haven't bought gold coins and put them in a safe deposit box. Oh, that's too hard. I don't understand how to do it. But not enough people have done that so what we've done is we financialized this system to such a degree, it can't escape the thing that it's supposed to benefit from, and that is problems within the financial system itself. That's the best answer I could give you because otherwise, I agree. Everything that is happening should be bullish for precious metals but yet they're not going anywhere.

Erik: Jim, 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 Bianco Research. Obviously, it is an institutional research firm but even for our retail listeners, you do a tremendous amount of writing on various different channels. How can our listeners both institutional and retail follow your work?

Jim: Yea, so Bianco Research has been around for 24 years and we are affiliated with a institutional bond brokerage firm called Arbor research in trading in the Chicago area and our primary customer base is an institutional investor primarily in the fixed income space but not exclusively in the fixed income space. We don't have a retail product per se. So that is codeword for it's a bit of an expensive product. But to offset that I am very active in social media at @biancoresearch on Twitter. We have a YouTube channel Bianco Research YouTube channel. We also have I'm on LinkedIn at my name Jim Bianco. And, you know, I publish I do op-eds. I do pieces from here and there to kind of give you the big picture ideas that we're trying to promote and where we're thinking. So if you follow us on any of the social media channels, you'll get an idea of where we are, but the nitty gritty of you know, the positioning and the specific ideas in the more detail that's reserved for our institutional base.

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