Luke Gromen: USD Update in the Wake of SVB Collapse

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Erik: Joining me now is Luke Gromen, founder of Forest for the Trees. Luke, what a week! The big news, of course, that came out over the weekend was the failure of Silicon Valley Bank. This is a bank which specialized in setting up fundings for venture capital firms for startups in Silicon Valley. Therefore, a lot of big companies with a lot of cash that was not insured, that bank failed. I think, because of the Fed's hiking cycle. Do you think that that was the cause? And if not, what was the cause? How do you interpret this and what does it mean for the Feds hiking cycle?

Luke: Yeah, thanks for me back on, Erik. I agree, I think it was ultimately the Fed's hiking cycle and really inflation driving the Feds hiking cycle that caused it ultimately, you put that bank and a number of other banks in a position where they have to compete with the Treasury market, the short term Treasury market in particular money markets, money market funds, where the yields error, call it at least before today's trading for three quarter percent for 30 day money, give or take. And so that puts the banks in an uncomfortable position of either having to raise deposit rates, which will put pressure on net interest margins and earnings, which is never popular with bank management's and bank investors or they need to sell these bonds to fund the deposit outflows. But the problem is, is there are these were supposed to be high quality liquid assets. And they've been not so liquid, and they are down on price. And so banks, and I'm not an expert on bank accounting. So take this with a grain of salt. But the gist of it is that the banks don't have to take a mark on big chunks of their securities books, unless a couple of things happen. One of those things being if they sell the bonds, so they would have to mark losses, and that would also hurt earnings, or they have to issue a bunch of equity, or raise otherwise raise capital to replace the deposit funding, the cheap funding as as the deposits go elsewhere, looking for yield. And so it's it sets up a choice of a number of choices for banks that all of which either hurt earnings or margins, are hurting margins, or dilute shareholders. None of which they are really big fans of so I agree with your assessment of it.

Erik: Luke, I see this as an indictment of Fed policy. Because, you know, everybody in the know understands that forward guidance. And I say that in air quotes is basically just Fed speak for we're going to jump on the market up or down in whichever direction we want to make it go. But what if some innocent banker were to take forward guidance at face value and say, This is the branch of the government that's supposed to tell me what to expect, and they're giving me a an outlook, saying the guidance from the Federal Reserve is we don't expect to be seeing increases in interest rates that are substantial for the next several years. So then bankers do exactly what bankers are supposed to do, which is they buy duration risk in order to invest the assets that they've received. The duration risk blows up in their face, because they were following the Fed's forward guidance. And then if they use the government's accounting rules, or I should say if they because of the government's accounting rules, if they were to exercise any financial prudence and hedge that duration risk that would disqualify them from mark-to-market, or it would it would enforce mark-to-market accounting rules onto them. It would disqualify them from their hold-to-maturity accounting rules, and it would cause the entire bank's balance sheet to blow up. Is that the bank's fault or is that the government's fault?

Luke: Yeah, and I would even go one further, because when you go back in time, remember, we go back to 2013 when China says we're the PBOC comes out and says, we're not going to buy any more treasuries. We're not going to grow our holdings of treasuries anymore. And then in 2014, you have high quality liquid asset or HQLA regulations that US policymakers put in place that incense banks broadly speaking to buy more treasuries so that they have a store of high quality liquid assets that they can sell in liquidity crunches. So for exactly what they've just seen and then recall as well as you fast forward to 2020. The Fed suspended or exempted treasuries from SLR regulations, supplementary leverage ratio regulations, which basically took the funding cost of treasury trees for banks to zero de facto as a way of basically helping the Fed finance these massive deficits that were taking place with the collapse in tax receipts and the explosion in stimulus payments. And so I agree with everything you just laid out there. And I would also add on top of that, that you've had a series of policy regulations over the last almost decade, essentially giving favorable treatment to the bank sector to buy more treasuries. And as I've, as I've made the point earlier, and as I've made it repeatedly over the years, is, I think part of that was due to or a the US having lost foreign central banks, as a buyer as a marginal buyer of treasuries, nine years ago. And so this is sort of a classic, emerging market playbook, which is you regulate your banks into buying government debt by offering favorable regulatory treatments.

And so they've been pointing a number of these dynamics that have incented the banks to buy them, I wasn't even aware of the disqualification of the balance sheet treatment, if you actually lay off the hedging risk. But assuming that's the case, then that further on a tactical basis, does more of the same. So when I take a step back, and I look at all of this, what jumps off the page at me is that whether it's bankers, whether it's the Fed, whether it's U.S. policymakers, whether it's treasury, they all had the same bet on and that bet was inflation is never coming back. And when we get these crises, the biggest ones tend to be exactly that type of situation, right? Where there is this unspoken implicit bet that everybody has on in the same direction, right? Long Term Capital Management, when you looked at their book, they were they were short quality and long crap. When you look the banks, the situation 2008, the bet everybody had on was home prices could never fall nationally. And I would argue that as you laid it out, and the points that I made, the bet that sort of everybody had on was inflation is never coming back and inflation came back.

Erik: Let's talk about what this means to the Feds hiking cycle. Because before this event happened, the general mood in the markets was okay, there's a couple of analysts that have come out and said not only has the Fed not finished hiking, but we could see even 50 basis point hikes again, rather than just 25, maybe as many as two or three more hikes. And in the worst case might be 350s in a row, another 150 basis points, you know, before the summer is out. Now, we've got Goldman Sachs saying about that hike we anticipated in March. Nevermind, nobody's really said or at least as of Monday afternoon, as we're recording this, I should let our listeners know, we're discussing this right now. On Monday afternoon, a lot will probably happen in this story before they hear it on Thursday evening. It seems like everybody's backing away from their predictions that there was going to be more aggressive hiking from the Fed. Does this mean the cycles over? We're basically qt is finished at this point? Or how should we interpret this, Luke?

Luke: I think yes, I think it is. They're really in this tough spot where they need to make a choice between letting the banking system kind of twist in the wind, or let the release valve be the dollar and inflation. And ultimately, when I take a step back, here, too, I see that over the last call it seven, eight years, the two biggest marginal buyers of treasuries have been the Fed and the US banking system. And we know the Feds not buying anymore. We know the economy's slowing. And we know tax receipts are falling. We know interest expense and deficits are rising because of the Fed's hikes. So you've got treasuries issuance has been rising, Treasury issuance from the US Treasury has been rising to clarify. You've had the Fed joining them selling them. With the dollar strength last year, you had foreign selling. And now you're in this position where the sort of one guy holding down the fort on the marginal side that's been in the big in terms of just the rankings and it's US banks. And so the Fed faces a choice, which is are we going to stop and are we going to do something to ameliorate this stress or are we going to force these banks to begin taking losses on their Treasury portfolios to by virtue of selling treasuries to raise dollar liquidity to sort of give people their money back so they can take the money back and put it into T-bills. What you're talking about is the US government effectively crowding out the US banking system. Again, and I say again, because we wrote for our clients last week, this isn't the first time we've seen a version of this. We saw this in 2019. You and I were talking regularly in 2019. Through the summer 2019 Erik, when Fed Funds rates went over interest on excess reserves, and I was harping on it ad nauseam that, look, this means U.S. deficits combined with fed QT is crowding out the US his own banking system. And sure enough, we had a repo rate spike and boom, the Fed reverses course, and away we go. And this is really just a different version of that same dynamic. It's just happening at duration instead of the front end.

So I think gun to my head that's it because I think they don't they the Fed do not want to create more of a problem again, in the treasury market. And I say again, because oh, by the way, Friday afternoon, the Treasury volatility MOVE index went out at 140, which the creator of that index, Harley Bassman note in October of last year, that once that index starts getting near 150, that means the Feds losing control of the Treasury market. So to me, there's this still largely undiscussed side of this, which is yes, the banking system side of it. But to me, this is ultimately about the Treasury market. And so because I don't think the Fed wants to lose control of the

Treasury market, and they are quietly close to doing so, I think I think they're done. And I think the release valve is going to be inflation, which I think the release is going to be inflation.

Erik: So let's talk that through to the next step. Because it seems to me I think you're right, that they're going to react to this by saying, okay, we got to quit the hiking, Clearly, the Fed's mission, I've always said is to continue a hiking cycle until they break something. Congratulations guys, you've succeeded, you've broken something. So they can declare success that they broke something and but wait a minute. Now, what's going to happen? I think, is they stopped the hiking cycles, inflation doesn't go away, we continue to see that inflation is probably going to become a bigger political issue. We're going into a presidential election cycle, you're going to see more inflation, that's going to be reported as big news, consumers, there's going to be a lot of congress people standing up on whatever they can find the stand on screaming at the top of their lungs about how somebody better do something about inflation. Where does that take us? Does the Fed then at some point, come back in and try to resume another hiking cycle or you think they've been scared out of it by this? And if so, what does that mean, in terms of trades? Clearly gold is up I think just about exactly $100 or just over $100 since it bottomed just before this news came out, looking at 1919 right now as we're speaking, and I think the bottom was around 1812, just a week ago. So is gold going to continue to be the benefactor? Is it time to pile in? How do we trade this if we think that the Fed has basically boxed themselves in a corner where they know there's more inflation coming, but they're not going to be able to fight it?

Luke: I think it's I think it's the reacceleration of of Argentina with U.S. characteristics trade that we that we saw in 2021. So gold, Bitcoin, commodities, industrials energy. Back in 2021, we calculated that, with what had already happened with where debt-to-GDP was, the U.S. needed to let inflation run between 10 and 20% CPI per year for four to five years, that would get debt-to-GDP down to a sustainable level from which the Fed could normalize rates. And for a little bit, it looked like they were going to do that. And then all of a sudden at the end of 21, early 22, the Fed and certain politicians panicked. Maybe it was that it was an election year, I don't know. But they did. And suddenly inflation went from backburner to COVID to front burner. It became the number one political issue all along last year said look, they didn't do they didn't inflate enough for the debt away. They didn't inflate debt-to-GDP down low enough. This tightening is going to be a disaster. And it's not going to be a glide path it's going to be I'm sure I probably said it to you before there not operating at that other operating switch. And we just saw it. It's a switch. So and this isn't the first symptom of it right. By August-September, we saw the Fed go into an operating loss position, which was just foreshadowing of what we just saw this weekend. We saw stocks and bonds combined last year have the worst combined year in the United States since 1871. We saw the Treasury market underperform US equities in a top 20 drawdown for stocks for the first time on record, going back to at least 1966. That's a statistic from Michael Gayed. So yeah, there were all these symptoms that were telling you, you didn't inflate the debt away enough on a debt-to-GDP basis.

And so now here we are, it's gotten acute in the banking system. And so I think what we are going to see is a basically sort of game back on reacceleration of the Argentina with U.S.

characteristics or U.S. with Argentine characteristics, however you want to phrase it, where you're going to get sustained high inflation, it's going to accelerate back up, it probably will be an increasing political issue. But cynically, it's not an election year. So they've got a little bit of time not to care. And in the meantime, keep in mind that that the US just announced they were going to change the way inflation was calculated beginning January of this year. So last month was the first of February numbers were the first time they were reported. I had thought that they would start under reporting inflation right away, I was wrong, the numbers came in hotter. I will note that as you lay it out, based on people that really dig into those numbers, the what they have done means that the year ago, comparisons get tougher as we move into the back half of this year. So in theory, if you're going to restart to rerun the US with Argentine characteristics playbook where you're going to have a reacceleration in inflation, all else equal, those comparisons get tougher, and so that will keep it less egregious in terms of the increase in inflation than it might have otherwise been without those changes. But if we didn't want high inflation, then there's a whole laundry list of things we shouldn't have done, that we've already done. So in my view, it's baked in the cake at this point.

Erik: Now Crude oil rallied quite a bit in that 2021 period that you're talking about. We've seen quite the roller coaster in the wake of the Silicon Valley Bank news, with WTI crude down more than $5 in the overnight session through the European session before U.S. even opened on Monday morning, then back up $4 In the US session to retest its five day moving average then back down $2 dollars before the session ended. So wow, we're really looking at a market that's confused I would say about what whipsaws up and down, it doesn't know what's going to come next. Luke what's going to come next?

Luke: I saw that! I was watching oil with great interests. When I turned on my screens this morning, I saw two prices, and then not that often do I turn on a screen and say that's the wrong price. And I turned on my screen this morning knowing what we knew coming into the session. And there were two numbers on my screen that were the wrong price. The first price that was the wrong price was oil in my view as I saw it down like that so that's the wrong price. And then the second price that was the wrong price was TLT. Long dated treasuries, which was up three and a half percent this morning in early trading. By the end of today, TLT was down I think it finished up marginally but it was red at like 3:45. So that has started I think I think to maybe move toward the right price because what these day after situations I think it's important that there had to be a lot of margin calls this morning right so whatever positions people had on. They had to degross, etc. until they figure out what's happening and so it's a little bit of a fog of war type of situation but as I take a step back based on okay, here's my understanding of events, oil was trading at the wrong price this morning and TLT was trading at the wrong price this morning.

And so let's see how that plays out by the time this this recording hits Thursday. Let's see how it plays out in the coming weeks and months but I think it's really good for oil. I think it's not good for treasuries, for long dated bonds. If the Fed's done, if the Fed's going to backstop this kind of stuff. I'm not what's I mean, what's the bull case on long duration... You know, the next step will be yield curve control, like, sure, I guess that's a bull case, if they set that the cap lower than this in terms of yield, but there's obviously a lot better ways to play that on a relative basis. So to me, oil and TLT, we're not trading at the right price this morning. TLT started made a lot made three and a half percentage points of progress in the correct direction or what I think is the correct direction through the course of today on Monday.. Oil kind of bounced around like you said, so let's watch and see what happens.

Erik: Now this is going to sound crazy, because it is crazy Luke. But let's talk about what this means for equities because before we had the biggest bank run in US history, your equities were rolling over well below the 200-day moving average seemed like perhaps the end of the bear market bounce was in and we were headed lower. But as crazy as it seems, if what we're going to see is an end to the hiking cycle. And it seems like investors are just paying attention to the Fed policy more than the real economy these days. Does that mean that it's time to buy the stock market hand over fist because the end of the hiking cycle is going to take it higher as everyone celebrates the biggest bank run in US history reinvigorating the stock market is crazy as that sounds?

Luke: Very Argentine indeed, isn't it? Something that emerging market listeners will know, be intimately familiar with, but the Westerners maybe not so much, at least not yet. But I think we're about to get up close and personal view of it. Yeah, I think it probably will be for stocks, paradoxically. I think it will probably be better for industrial and commodity related equities. It'll probably be better for emerging markets, it'll probably be better for foreign equities, whether it's Japanese or Europeans or all sorts of different equity. Because remember, everybody going into this, when we talk about the trade that either everybody has on or doesn't have on right? Every nobody had that inflation was coming back on to kind of kick this off. And the other trade that that really nobody has on or that everybody has on, I should say is everybody's max long the dollar in terms of dollar short squeeze, in terms of US equity market cap as a percent of total global market cap, equity market cap is either at or near all time highs. So if this is it, I think equities will do well you probably see actually emerging market, European, Japanese equities probably do better than US equities. I think you'll see commodities and industrials do better than big tech. And I think it's going to be really good for, except for gold, Bitcoin is up 15% today. I suspect we'll see more of that but we'll see. So I do think it'll be good for equities. And I think you'll probably see some capital move away from the dollar if for no other reason than just positioning.

Erik: Luke let's talk about the Russia and China situation. Something I just heard for the first time this weekend is someone in China apparently made the statement: as much as the US doesn't want China to provide weapons to Russia. For every weapon that the US provides to Taiwan, we're going to provide one to Russia. So their tit for tat. How is that and everything else going on between China-Russia escalation of the war situation? How is all this going to translate to markets?

Luke: Other than one factor... I don't know. It's not good for geopolitics, it is not good for peace, it's hopefully not going to escalate. For markets, I don't have a strong feeling about it other than one factor, which is my sense, as best I can tell is that consensus is that rising tensions and war would be good for US Treasury bonds as a flight to safety. And I think that is incorrect. I think if you take a look really just at any war, you're hard pressed to find a war where bonds buy you more real goods at the end of the war than they did at the beginning of the war. But we're talking about two great powers between the US and China. We're talking about Russia, who is the world's biggest energy and commodity exporter and a nuclear power and these tensions, I think you have to go back to the analog to World War Two. And if you go back to World War Two, what you find... We've published this chart a couple of different times in the last three or four weeks to our clients. You can look at long term government bond yields. And in late 1941, you were basically US economy was really slowing. You were at generational lows in terms of yields on long term US government bond yields, and they were 2% yield. And then the Japanese bombed Pearl Harbor and almost instantly, 10y or long term government bond yields went from 2% to 2.5%. So the bond market crashed. And then the Fed came in and kept bonds kept bond yields 10y at 2.5%. Three months I believe it, I think it was 3/8th of a percent, maybe it was 7/8th of a percent. But the point is, is that as old tempos are war is inflationary, there is nothing more inflationary than war.

Another way to look at it is as of is during World War Two US deficit as a percent of GDP rose by 25 percentage points. We're already at call it eight, right? So you'd be talking about a major war adding, you know, 1000 basis points to as a percent of GDP to deficits, say it's just 500 basis points. And that when I when I look at this into this situation, we described already, where there's has been and continues to be a worsening fundamental mismatch between Treasury supply and demand. I don't know how any of this stuff is going to work out China, Russia, U.S. other than to say that if it does, for any reason that there's a geopolitical accident somewhere, if it actually goes hot somewhere, if it keeps up, this is not good for bonds. The last place you want to have your money in a war is bonds. And so let's hope it doesn't continue to escalate. But then you say, okay, what is that? That's an inflationary impulse, you should have money flowing out of bonds, broadly sovereign debt, in particular of all stripes into things like gold, Bitcoin, commodities, real estate, hard assets, those if there's really a war, those are the kinds of things you want to own equities can serve as that as well. So let's hope that cooler heads prevail. But I've been really, really surprised how a laundry list of U.S. senior policymakers have been paraded up on the weekend new shows over the last two, three weeks and talked about how they're going to get tougher with China and how this is a red line. And that's a red line up with seemingly no understanding how they are kicking out the legs underneath their own Treasury market. Because you look, if there's going to be a war with China, if there's tensions with China, if there's a new cold war with China, the last thing you want to own are bonds, because inflation is whatever you think inflation is going to be you take the over, you almost couldn't, you almost couldn't. I mean, it's just, you know, inflation is going way higher. So, that's, why I say, I don't know, other than to say, they need to be very careful, because if and both sides. Look, China will have to fund internally to. So bonds are not priced in but China runs a surplus, right? They are, they've got a current account surplus. So they're not as dependent on foreign financing as the US, but they would have issues obviously, as well. But the point is bonds are not priced in the right zip code if you actually have some sort of war. That's my only takeaway as it relates to markets.

Erik: Let's talk about how this plays into a longer term situation or series of events that you've written and talked quite a bit about, which is looking at everything from US tax receipts to the overall indebtedness of the country, you've basically made a prediction that the US dollar, which has been the world's global reserve currency ever since the end of World War Two, would eventually lose that status. And you made crazy bold predictions years ago that some countries would stop settling oil transactions in US dollars, people called you a nutcase for even predicting such a crazy thing. Well, that's now happened. You predicted that foreign central banks would divest some of their US dollar holdings, people really called you crazy lunatic over that one. Well, that's now happened. But what's kind of interesting to me, is, despite that a lot of these predictions that were associated with your view that the dollar would eventually decline substantially. They all came true. But the dollar as they were coming true, was actually making kind of a generational high just a few months ago at 116. Was that the final peak here, are we coming off of that? Are we potentially going to retest that again? How does this play into the longer term story of the dollars role in the global financial system?

Luke: Yeah, I mean to clarify, we've always said that the dollar, the dollars reserve status, the post 71 reserve status would eventually be restructured needs to be restructured, and would eventually be restructured. Because it is no longer in the United States interest to maintain that system. Now, within the US right now you've got sort of the two crowds, you've got the defense establishment who understands how the post $71 has hurt its ability, it has forced the hollowing out of the US Defense industrial base, and you're hearing and seeing this all over, if you read a number of different things, there have been some very good articles talking about how, how hard it has been for the US to replenish certain industrial ammunition type stuff in Ukraine. And that's just sort of a proxy war, we're not throwing our full weight behind. And we're chewing through supplies again, because we have under invested in our defense industrial base, our manufacturing base, because that is the cost of the post 1971 dollar. People like Michael Pettis and others have noted for a long time. You have to offshore your industrial base, that's fine if you're fighting people in Iraq that are holding an AK-47s and driving Toyota trucks. But if you're going to fight industrial powers, if you're going to have great power competition with other great powers, you better have an industrial base. And you can't do that with the post-71 dollar. Because by definition, you have to offshore your manufacturing, by definition, your biggest export has to be treasury bonds. And it has been up until up until recently. And so I continue to think the US dollar reserve status, not only will be but is in process of being restructured in terms of the implication of what it has done.

I can go back to September 2014 and in the earlier days of FFTT, we wrote a report highlighting that the dollar is rallying. This could be in part because foreigners are beginning to move away from the dollar for energy pricing on the margin, you had begun seeing Russia, China, Venezuela, Ecuador, a few others running into dollar shortages. These enter some and in particular, the energy exporters who were still running current account surpluses with oil at that point still in the mid-90s. That should have never happened unless one of two things happen either they had become much more corrupt in like the last two to three months, where they were pulling those dollars and sticking them off and the Caymans or Switzerland or something, or they had begun on the margin, selling more oil to the Chinese, outside the dollar system. And paradoxically, the more oil initially, the initial impact of moving away from the dollar in energy markets of de-dollarizing commodity markets, is to squeeze the dollar higher. And we've said this over and over and over and over, it's something I still get a lot of questions about. But we've said it over and over and over. And that is because if you think about it, there's a huge installed base of dollar demand from all the dollar denominated debt outstanding. And there is not a huge installed base of Yuan denominated debt offshore because A) no one denominates debt in Yuan and B) the Chinese run surpluses, so they're not going to end up with a lot of offshoring anyway.

So if you start shifting just small amounts of the global energy market, which crude prices, I don't know, to two and a half trillion a year, I mean, it's real money. If you start shifting to small percentages away from the dollar to the Yuan, you're going to take just a little bit of dollar liquidity away from that huge bid for dollars from all that dollar debt. That's good for the dollar. And you're going to shift just a little bit of Yuan into a market where there's really not a lot of bid for Yuan, that's not good for you want. So paradoxically, as China shifts from one to the other, just on the margin, it's good for dollars. So when you say where could the dollar go, it's a function of how fast... China's got to be careful, they do this too fast, and they kill their own currency. So they can't go too fast. And that's you have to also offer something in return in terms of settlement of goods, in terms of recycling, in terms of gold, all of which they've sort of done, but it's all else equal in the short run really positive for the dollar paradoxically. The other factor in terms of trying to decide is this the dollar peak, or was this the dollar peak or was it not is... It depends on how much pain the US government that the Fed is willing to endure. And as long as that that pain is private sector, I think the Feds willing to endure it, I think the US government's willing to endure it. Once that dollar strength impacts the Treasury market, Powell doesn't want to be the first Fed chair to oversee a failed Treasury auction. And every time the dollar gets too strong as we saw these auctions start getting really sloppy. And that to me is really the governor on the upside in terms of the dollar is, is once these auctions get too, too sloppy, you know, he doesn't want to be Arthur burns, but he doesn't want to be the first guy to oversee a failed Treasury auction either.

Erik: Okay, so in terms of how all of this translates to portfolio positioning, it sounds like the strongest conviction is long your choice of gold or Bitcoin or a combination of gold and Bitcoin, whatever your favorite anti-dollar trade is, and maybe also a long on oil. Have I got those two right? I'm guessing that the oil is a lower conviction than the gold or Bitcoin? And what other trades should we be thinking about here?

Luke: So when you boil all that down, there's multiple factors that are inter playing with each other and reflexively sort of bouncing back into each other. When I look at those factors, you're starting to get more critical mass and you want energy, you are starting to get the Treasury market to where it is, it is borderline the Fed losing control of it in terms of dysfunction, versus levels we've seen before and when I look at that on the DXY. Yeah, I would say is that the ultimate peak, you know, if we have an absolute death spiral, there's sort of no limit it could go to Brent's point. But if we don't have sort of this death spiral, which oh, by the way, is completely on uninvestable. If people think I'm going to wait till the dollar goes to 200 or 160. And then I'm going to move like... good luck. But I think we probably saw it before. So, full disclosure, I was wrong before that. Hey, I thought 103-104 was a peak before... I was wrong. So was 115 that peak? I'm going to step back in the box take another swing. Yeah, it probably was given what we're seeing in the treasury market. But let's see.

Yeah, we came into this year, we said to our clients that we were sitting at 20 to 25%, cash and short term treasuries, and we were 20 to 25% gold miners and Bitcoin when we came into this year. Maybe it was 25 30% on the last one, but the point is, and then we also owned energy-related commodities and some industrial equities. We've been referring to this as our barbell approach. And the reason we've been highlighting this barbell approach is that there are a number of factors that nobody alive and trading has ever seen and lived for through before. First bursting global sovereign debt bubble in 100 years, first peak cheap energy cycle. In a long long time. There's a rise of another great power competition. All of these, the derivative side. So the barbell to us is an is an acknowledgement of it's how we're investing our own money. It's an acknowledgement to really, I have high conviction in how this game is going to end, which is with inflation, because once sovereign debt bubbles and sovereign debt crises rarely end in deflation. However, the cash in the short term Treasuries are really a nod to, I have no conviction in the path. So, as I look at events like this week, I'm inclined to probably take a little bit out of the cash in short term Treasury bucket, and press the bet a little bit on some of these inflation sides. Inflation, more inflation reads, but again, I think it's really important to be humble about how this could go in terms of the path. There's just so many risks that are unknowable, unhedgeable in the short run that, to me, I just, I don't mind own short term debt. I don't want to own duration. To me, as you look out for portfolios, I think more people need to start thinking about, you know, instead of the 60/40 portfolio that has sort of worked for my entire career certainly, and probably closer to 40 years, where it's 60% equities, 40% bonds, and you toggle the 60% equities around amongst growth and value depending on where you are in the cycle. I think it might be 60/30/10 or something where it's you toggle 60/30 back and forth between growth or value equities or domestic international equities. And then the other 10, you sort of have some bonds and you have some gold, and just based on where we are in a variety of different cycles. So that's what we've told clients. That's how I'm thinking about it. You know, the volatility we've seen, I think it's going to continue and I think it's going to continue and things people have never seen volatility like this. And people seeing crazy volatile in equities, we've seen crazy volatility commodities. I think we've started to see and I think we're going to continue to see equity and commodity like volatility levels in G7 rates, in G7 FX, and G7 sovereign debt. And we started to see a bit of that last year. And I think people thought that was an anomaly. I don't think that was an anomaly.

Erik: Doesn't that imply some really big systemic risk? Because there's a lot of things in the financial system that are really designed around the concept that bonds are inherently low volatility instruments. If bonds become high volatility instruments, doesn't that break a whole lot of stuff?

Luke: It's a great point and yeah probably!

Erik: Well Luke, I can't thank you enough for a terrific interview. Before I let you go, please tell us what you do at Forest for the Trees and how our listeners can find out more about it.

Luke: Absolutely yeah, we aggregate a large amount of different publicly available data points in a unique manner trying to identify developing economic bottlenecks. It's been my experience over almost 30 years in investment research, that excess returns accrue to those sectors that stand to either benefit from or are in the wrong, not in the right position relative to developing economic bottlenecks. So if you're interested in more, to learn more about it and check us out at fftt-llc.com or you check us out on Twitter @LukeGrumen.

Erik: Again that's fftt-llc.com for Forest for the Trees. Patrick Ceresna, Nick Galarnyk, and I will be back as MacroVoices continues right here at macrovoices.com