MACRO Voices
with hedge fund manager Erik Townsend

Brent Johnson: The Dollar is Not Done

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Erik: Joining me now is Santiago Capital founder Brent Johnson. Brent, it's been a long time. Great to get you back on the show.

Brent: Yeah, happy to be here Erik. I'm always happy to talk to you and your listeners!

Erik: Folks, Brent has prepared a slide deck to accompany this week's interview. And you're really going to enjoy this one. Because Brent's done something for us that very few guests are willing to do, which is he took his slide deck from when he was on MacroVoices a year ago, reproduced it updated it and is prepared to talk about what he got right and what he got wrong. But before we even get into that, Brent, I want to frame this discussion in the sense that we have a very, very different geopolitical situation than we had. A year ago, the last time we spoke, the situation between Ukraine and Russia, lots of people have lots of opinions. My opinion is very much that this is likely to escalate beyond just Russia and Ukraine, I think that the tension through the Ukraine crisis between the United States and Russia is likely to escalate to the United States, Russia, and China all being in a new challenge of who really is the global hegemonic superpower, both militarily and economically over the world.

First question Brent is do you agree whether or not we're actually at risk? I'm not necessarily making an opinion on but do you agree that the United States position in the world is at least going to be challenged by Russia and China? And if so, I think we ought to focus this conversation on okay, what does that mean for your prognosis for the dollar?

Brent: Sure and I would totally agree with you on that, I've kind of categorized what's going on as the big game or the great game, or even a Game of Thrones, because I really think that this is what's happening now. And it doesn't mean it's all going to necessarily happen tomorrow or next week. But that is where the ball is headed. And I unfortunately, as much as I would love to see this turn around and go back the other way. I just don't think that that's likely. So I think we need to prepare for more volatility, and more hostility than we've seen so far.

Erik: Before we dive into markets, and what's changed since last year, give me your perspective. On this BRICS bucks initiative, essentially, the Global South, the countries in the BRICS alliance, are trying to say look, we're sick of US dollar hegemony over the global financial system. We're going to create our own reserve currency of sorts that's defined by and administered by the BRICS countries independent of the US dollar. Most of the US financial

community, the Western financial community is basically ignoring this completely writing it off is just rhetoric that's completely safe to ignore it. Do you agree with that or how do you see this?

Brent: Well I don't think you can ignore it. You know, if you look at the BRICS, you look at the population that falls into the BRICS, you look at the global GDP that falls under the BRICS, you look at what the economies in the BRICS countries have, namely commodities, it's too big of a block to just totally ignore and write off. And I would not suggest that anybody do that. However, I think where my view starts to differ from perhaps some others is that I also don't believe that just because these five or six or eight or nine countries, however you want to define that, just because they say they're going to do something, I've seen little actual progress in doing it. And even if they were to try to do it more fully than they already are, I am skeptical of their ability to actually implement and pull it off. And then finally, bringing it back to what you kind of kind of set this whole conversation up as I think if they were to do those things, if they were going to start to implement it. And if they were to start to see some success in it, I don't think that the US would just sit back and watch it happen, I would expect the US to reply in perhaps unwelcomed manner, is maybe the polite way to say it.

Erik: Well, let's take the risk of going into the impolite because I think it needs to be discussed what kind of sanction or remedy do you think the US would invoke. I agree with you, the US would not want to tolerate the actual introduction of a BRICS currency system that poses a real and meaningful threat to the dollar and its position in the world. So it sounds like we agree on that. If we got to the point where there really was something starting to look like a threat. What do you think the US would do about it?

Brent: Well, I think the first thing that they would do is put an incredible amount of diplomatic pressure on the countries on the margin that they thought they could influence. Now, whether that's helping them out with some internal problems that they're having, whether it's giving them more foreign aid, or whether it's voting with them on some issue with the United Nations, that would be the first thing I would expect them to do. The second thing I would expect them to do is to employ some more sanctions and economic sanctions, and I know that there's going to be a number of people that will immediately say, well, sanctions don't work. They backfire. And that is fair. And I will not deny that sanctions often end up boomeranging back and causing problems at home. But I think if you were to take a look at the economies of Russia, Iran, Venezuela, and some of the other North Korea, some of the other countries that have been under sanctions regimes over the last 5-10 years, however you want to define that, you know, it's very hard for them to operate, it's not impossible. And of course, there are workarounds and there are black markets, but they're not as efficient as, you know, working through the traditional channels. And so, I think while but all of this, I think would just lead to more volatility in the markets. I don't think that the BRICS could do something that would hurt the US without causing volatility. And I don't think that the US could respond to the BRICS in some way to hurt them without causing volatility. So I think regardless of which way we go here, unless everybody just gets together and starts singing Kumbaya again, I think we're headed for more volatility rather than less.

Erik: Now, if we accept the possibility that this challenge is going to occur and that the BRICS will attempt to threaten the US Dollar's hegemony, a lot of people would say, "Okay, well, if that happens, it could mean the US dollar is at risk of crashing." I think you and I have generally had kind of an opposite view from that, which is, well, wait a minute, if the US dollar were to lose that battle, it might end up crashing. But long before that could ever happen, if the US dollar were being challenged, it's probably more likely to appreciate substantially against other currencies because of the challenge. Is that still your view? And if so, please elaborate on why you see it that way. Because it is opposite what some people might think is the intuitive response. You know, if the dollar is being challenged, that means the dollar could go down?

Brent: Yeah, and here's the thing, it's a really, really important issue to understand here. And the reality is, I'm extremely sympathetic to the idea that the dollar is going to lose value, because I think it eventually is going to. But what I think the key to it is, and this is completely understandable why many people miss this, is because most people, even who have worked in finance for decades, literally don't understand it. And that is the Eurodollar market. The Eurodollar market is a market outside the United States that is denominated in dollars. This is, you know, China trading with the Philippines or Japan trading with Thailand or Turkey trading with France. Oftentimes, loans, invoices, and trade deals take place in dollars. So there's a huge amount of US dollar debt that is owed by entities outside the United States. And it's over $30 trillion. The BIS even says, with off-balance sheet, it's closer to 80 trillion.

Now, everybody knows that the United States owes $30 trillion, but I don't think as many people realize that the rest of the world owes over $30 trillion in US dollars. And the key is that they don't owe it to the United States, they owe it to themselves. So again, it's Turkey owing it to France, or it's India, or South Africa, or whatever it is. The point with this is that to de-dollarize, they would also have to de-leverage all that US dollar debt. So de-dollarization is the equivalent of deleveraging. And typically, when something deleverages, the underlying price of the currency that is de-leveraged rises versus goods and services. That is what a credit contraction and a deleveraging event typically provides. Now, I suppose there's some secret formula out there that somebody could invent that could allow them to somehow escape this, but I have yet to understand it. And so I think that the point would be, if the rest of the world were to default on all this US dollar debt, it would also mean that the rest of the world is losing $30 trillion in assets, because in a debt-based system, one person's liability is another person's assets. So the rest of the world would have to all agree, at the same time, what would be replacing that US dollar credit, and then they would have to all implement it at the same time, and then somebody would have to enforce it and operate it. And I just think that's really, really hard to do, because again, I don't think the US would sit back and just let it happen.

The other thing I would say is that I agree that many parts of the rest of the world want to deal with all this, but I would also say a big part of it is that the people who want to de-dollarize are the politicians or the monetary authorities. I have yet to see a large number of foreign business leaders saying, "Wow, I would really like to stop doing business in US dollars." I have yet to see someone from the BRICS countries stand side by side with the presidents and say, "Yeah, this is horrible. We hate the dollar," because I think that in many ways, they like the dollar. The dollar

helps them protect against their own home currencies, which are often much, much worse than the US dollar. So I understand the need or the desire to be de-dollarized. Nobody wants to be subservient to someone else. Every country wants to be their own sovereign. But I think the actual ability to actually pull it off under extremely difficult circumstances would be much more difficult than perhaps those who believe in the BRICS do.

Erik: Let's dive into your slide deck starting on page two, when we talked to you last year, the dollar index was around 109. You told us then that it still had room to go higher and absolutely, it did go higher. What happened? What was the cause of it kind of looks like a blow off top there and what's caused the trading action we see on this chart since that?

Brent: Well, I think your description of that is very good. A blow-off top. I mean, you can see that from the end of August when I was talking to you last into the end of September, it rose from 109, another 5%, up to the 101-114, almost 115 range. And a lot of that took place literally in the last, call it, 10 days or 12 days of September. So it was a pretty fast move. And I think a lot of it was that the US had been hiking rates very aggressively through October. And everybody kind of started to get off sides. If you remember back to the end of September of last year, equities were at the lowest point in two years, the VIX was at its highest point in two years. The Euro was at its low point, the Yen was at its low point, the Yuan was having trouble, or China was having trouble with the real estate market over there. The Bank of England had to bail out the gilts market, the ECB was buying Italian bonds, and the Bank of Japan was supporting the market and the JGB market. So we had a confluence of events.

And it was all if you actually go to the next slide, the last week of literally the morning of the high, I sent out a tweet, I basically said, "This isn't over, the dollar still has a lot further to run in the long term. But in the short term, now everybody seems to be on board, and it's probably due for a pullback." And sure enough, that was the high. Part of what led to the drawdown over the next year, let's call it 10 or 11 months, was largely due to rate hike expectations. As the Fed was aggressively hiking rates and the market was expecting them to continue doing so, the market rocketed higher. But with foreign central banks intervening at the end of September to support their currencies, and the US data weakening in October and November, rate hike expectations started to fall, and the dollar rolled over. Now I thought it would pull back to about the 105 level, 105-to-1 level, and maybe pull back for six months. So it actually pulled all the way back to I think 98 or 99, about a month ago. It's been almost a year, so it's pulled back a little farther and longer than I expected. But now we're back to about the 104 level. Over the last year, the dollar is down, let's call it 4 or 5%. And what many people forget is if we go back to the beginning of the century, the year 2000, the dollar was lower than it is now.

So despite QE, bailouts, helicopter money, etc., it hasn't hurt the dollar that much. In fact, you could argue the dollar is up 15 or 20% versus its peers since all these extraordinary monetary measures started. I would expect that to continue in the years ahead. Brent, I want to go back to page two and the circle on the right edge of the chart because if I mentally adjust this downsloping line down a little bit so it touches those tops on the market back in February and May-June timeframe, it looks like there's the beginning of a breakout above that trendline. But

only just barely. Are you saying this is the beginning of a breakout? Are you watching it? Where do you stand on whether the trend is beginning to change already?

Erik: Brent, I want to go back to page two and the circle on the right edge of the chart because if I mentally adjust to this red down sloping line just down a little bit so it touches those tops on the market back in February and May-June timeframe. Boy, it looks like there's the beginning of a breakout above that trendline. But only just barely. Are you saying this is the beginning of a breakout? Are you watching it? Where do you stand on terms of whether or not the trend is beginning to change already?

Brent: Well, I think if you look at the last month, the trend has already changed. The dollar had a hard pullback, again, went from 114 to 99 in basically a nine-month period. That's a significant move for a currency. And in July, we basically had the opposite of what happened last September. So I think we've kind of established a bottom there. In July, the dollar has had a really good bounce over the last six weeks, and a number of the foreign currencies, which we'll I'm sure we'll talk about at some point, are extremely weak. And then we're kind of at the point where those central banks need to consider intervening again. So I'm actually in the very, very short term, it wouldn't surprise me at all if the dollar kind of hangs around this level, or maybe even pulls back. But I have not changed my view at all, as far as where we're headed, kind of in the medium to long term. And I think that not only will we break above this kind of downsloping line that you're highlighting, but I think we will go back to that 114 level and even through that.

Erik: ...and what are the primary drivers that are going to take us back to that 114 level and through it. And also, when we got there before a whole lot of people were saying, hey wait a minute, if this goes any further because of the impacts it's going to have because of the borrowing dynamics that you described, it's going to cause a whole bunch of people around the world to go broke. We can't let this happen. It's going to cause a crisis. Are you saying that crisis is coming and if so, what's the driver that's going to take us there?

Brent: Well, I think there are several crises that can take us there. One of them we've already talked about, and that is the geopolitical uncertainties. You know, I don't think you have to take too big of a leap to imagine that the war in Ukraine could spill over into some neighboring countries, and then it becomes a NATO issue. I don't think it's too big of a leap to think that China will continue to demand that Taiwan show allegiance to them. And that has the potential to lead to geopolitical problems. So that's the first thing that comes to mind. And I would imagine that in that type of scenario, both the dollar and gold would probably do extremely well. The other thing that I think could lead to it is, I still think that Powell is going to hike in September. And I think the only reason he doesn't hike is if we have a big severe market dislocation prior to September. So I think rate hikes are still going to go higher. The other thing is, you always have to remember that everything is relative. I don't think that what's going on in the European economy is as good as what's going on in the US economy. So I don't think that the ECB is going to be able to continue with their forecasted rate hikes to the same level they would be able to. And so that's what you've got to remember, a lot of the reason that the dollar has fallen over the last year is the expectation that there would be no further rate hikes in the US and

there would still be rate hikes in Europe and Japan and Asia and other places. So I think if those kind of expectations got reset a little bit, and the US were to stay low, higher for longer, and the rest of the world were not to hike as aggressively, that could give the dollar a boost.

The other thing is, and we'll get to this in a little bit, I think what's going on in Japan is really, really important. In many ways, I think the Yen is the key to everything. But what the Yen is doing right now is, as it weakens, it puts an incredible amount of pressure on China, which is not only a regional trading partner but also a regional trading competitor. And as Japanese goods get cheaper in yen terms, it puts pressure, it makes it easier for foreigners to buy Japanese goods than to choose Chinese goods. And China's already dealing with some severe deflationary pressures in their real estate market. I think we're getting to the point where China is going to have to seriously consider either bailing out their entire real estate market or implementing some other programs to help it, and that would lead to the yuan weakening, I believe. And if there was to be some kind of a surprise devaluation of the yuan or even just more weakness in the yuan, that probably gives a tailwind to the dollar. And so, those are three reasons right off the top of my head where I think the dollar could still surprise to the upside.

Erik: Brent, let's go to page 10 and the Euro chart. First of all, this is a long term chart. So the breakdown that you're showing below a long term trend line is not just something that's happened this month or this week. You're looking at over the last several years, you're charting a breakdown below a significant trend line. Am I reading that correctly and what are you expecting as we approach this retest here?

Brent: Yeah, and this kind of goes back to what I was just talking about a few minutes ago with regard to the European economy. Now, the Euro had a very big slide last year and again, almost 11 months ago, the ECB was getting to the point where they were having to buy Italian BTPs because they were kind of blowing out versus German bunds. And so, and the euro was at its lowest level in close to 20 years. Now, when the dollar started to rollover, it got a bounce, and it's had a very good bounce. But now it is, you know, when it broke that long-term trendline, let's call it at the beginning of 2022. That was a severe break. And it fell all the way and went below par for a couple of weeks. And now it's bounced all the way back up. And now it's retesting that previous support line, which is now resistance. So I think it's a pretty interesting level that we're at right now. And if it breaks through, then sure, it can go higher. But I think the odds are that it's going to kind of keep testing that level. But it's eventually going to break back down, mainly because I don't think the European economy is in as good shape as the US economy. And I don't think that the European economy can deal with, even if the ECB does continue to hike rates, I don't think that their economy is strong enough to withstand it.

You know, one thing we haven't really talked about is part of the reason that earlier this year we had a banking issue in the United States. And it was related to the US aggressively hiking rates and the banks were holding low-yielding treasuries. You got to remember, these European banks are holding negative-yielding European sovereigns. So as rates go higher in Europe, those bonds are under increasing pressure. And their balance, those bank's balance sheets are getting overturned to the same level that the US bank balance sheets are getting overturned. So

they have a number of challenges to deal with, with higher rates. And so if those rates don't go higher and the economy continues to slow, and perhaps they even go back to some further forms of QE themselves, I think that would be a reason that the Euro bumps its head against this now resistance level and trades back down below par.

Erik: It seems to me that there is absolutely no reason for Russia to try and weaponize energy prices in the summertime. Guess what? It's not quite fall yet. But we're getting there quickly, does it make sense to think about risk to both the euro currency and the European economy as we come into winter in terms of energy prices? It seems to me like this is where the vulnerability period comes. Have you considered that and what are your thoughts?

Brent: Yeah, absolutely. And I'm glad you brought that up because that's actually an extremely big one. So again, there's a number of different places that these shocks can come from. Again, I don't know if and when they're going to develop. I just know that the table is set for these totally global shocks, and one of the biggest ones is out of Europe. And it has to do with the energy markets. And the fact that, Russia, the Ukraine war continues to drag on. Now, last year, in many ways, I would argue that not just Europe but the world as a whole got very lucky that it was a very mild winter. And not only that, but the US was able to replace a large number of the gas supplies into Europe with LNG from the United States. I don't know that we're going to get that lucky again this year. I think it would be very unlikely that we got that lucky with that low or with that warmth of a winter. And so as we get closer into here, I would not be surprised at all if Putin were to try to do some additional measures that would hurt Europe more than it hurt last year. And so that can easily happen.

And you have to remember, this is part of the reason the Euro was falling last year is because they were having to do all these stimulus measures and QE measures to a certain extent in order to fight against not just the war in Ukraine, but the war on energy prices. Now, initially, energy prices really skyrocketed. You know, by late spring, early summer, that wasn't nearly as bad. But for a while there, it was touch and go. And as those currencies fell, as you know, the euro fell and oil rose, energy prices were rising in the United States when the dollar was rising. Imagine being in Europe, where not only is oil and natural gas prices rising, but your currency is down 10 or 15%. It's like a double whammy and so I think that could easily happen again.

Erik: Brent, when I look at slide 11, in your chart of the yen, it's interesting unto itself, but frankly, what I find more interesting is the comparison to the chart we just looked at on page 10. Because if I go back to page 10, as you just described, okay, look, we saw a breakdown on the euro, it hit what clearly was a short-term bottom, looks like maybe it's retesting that previous support line as resistance, but it's early to make that call. I wouldn't make that call yet, could still go above it. But boy, if I look at page 11, what we saw here was the yen broke down harder than the Euro did. It tried to recover. It didn't even make it back up to the previous support line, which would be resistance, but we didn't get anywhere close to it. And it looks like it's really dropping again. Is it reasonable for me to extrapolate that this chart is telling me that it's probably more likely to see a downward outcome to slide 10 than that slide by itself might reveal?

Brent: Yeah, so Erik, I think this chart is probably the most important chart for me in the entire slide deck because I think in many ways, the Yen is key to it all. Now, similar to the euro, it had a huge breakdown last year and broke like a 40-year support line. I'm using the Yen futures contract here. And as it falls, that is the yen losing value, it fell down really hard, it bounced and now has rolled over again. And part of the reason is that the Bank of Japan is now at a place where it has to choose whether to save the bond market or save the currency market. The problem with trying to save both is that one program that would help the currency would hurt the bonds. And if you try to help the bonds, then you hurt the currency. And so, the reason that they're in such a tight spot is that Japan has been issuing negative yielding JGBs for a number of years. And so all the banks, the insurance companies, the endowments, the pension funds are loaded to the gills with negative yielding Japanese government bonds. If interest rates were to rise, which they have been pressured to do due to Japan finally getting some inflationary pressures, then the bonds on all of those balance sheets start to fall in value, and the whole balance sheets for the whole system start to get turned over. And it can very quickly lead to an entire banking system crisis over there.

But the problem is the yen just keeps losing so much value that the Bank of Japan has a hard time just letting it keep going down. So they've a couple of times come out and said we are going to widen the band that we do yield curve control. So yield curve control is the program via which they control interest rates in Japan. So the government bond prices don't fall. But they've said we're going to widen that band a little bit to allow for some inflationary pressures. But when they do that, every time they've done that, then the Japanese government bonds fall, and things start to go wacky really quickly, and they've had to every time come back in and start immediately buying a bunch of JGBs. And as a result, the currency has just rolled back over. Now in the very short term, as I alluded to, with the dollar, and even the euro, it's gotten really weak here. And it wouldn't surprise me at all to see a short-term bounce. But ultimately, at the end of the day, I believe that Japan will choose to sacrifice their currency and save their bond market. Because if they choose the other way around, if they choose to save their currency, then the risk of banking system collapse, and I just don't see that happening. So I actually expect the yen to go much lower.

And this again, as I alluded to earlier, puts pressure on China. And it just, it becomes a huge problem. Now here's the interesting thing, Erik, let's say I'm wrong, if I am wrong, and Japan chooses to forego yield curve control, allows interest rates to rise and allows the yen to appreciate, then what's going to happen in my opinion, maybe not initially, because at this level, the yen rallied a little bit would probably be risk-on for the rest of the world, because it would relieve a little bit of dollar pressure. But if it goes very high very quickly, then Japanese carried yen carry traders are going to start flooding back into Japan. What I mean by that is, this is important to understand for years, because Japanese government interest rates have been extremely low or even negative, carry traders, which means people will borrow in yen because it doesn't cost them anything to do it. And then they'll take that money and they'll go invest it abroad in either foreign government bonds or equities or real estate. And then as you know, those projects produce a return, they pay off the yen that isn't costing them anything. So if they

even find a project that yields them one to 3%, and they lever it up a couple of times, now all of a sudden they're earning 6%. That works as long as the yen is not costing them anything to borrow. But if the yen starts to appreciate and interest rates start to rise over there.

Now those Yen carry traders, those leveraged Yen investments are going to start to get unwound. And those investments that those are in are going to get sold to go back and repay off those young loans. That would be liquidity leaving those other markets, whether they're emerging markets or developed markets, it would be a path of draining liquidity from global speculative markets. And so that in itself has the potential to be destabilizing as well. And that's why I say this slide is super important because I think regardless of what Japan decides to do, it has enormous implications for the rest of the world.

Erik: Going back to slide 10 for just a second, would it be fair to characterize your geopolitical view to say that what you expect is if there's geopolitical escalation, and what I mean by geopolitical escalation is things like, let's say, the conflict from Ukraine and Russia, growing to the point where it doesn't feel so much like the US providing financial aid to Ukraine, but the US getting more directly involved with either more US weapons or US troops, the US boots on the ground, direct conflict between the US and Russia, potentially, then escalating to China making a move on Taiwan, whether or not the US would be directly involved in a military conflict with China, you know, maybe it would start initially with some threats and some freedom of navigation exercises, they get more and more harrowing, and so forth. If those kinds of things were going on in the world, as I'm understanding you, you think that those would all be fundamental drivers for the dollar to continue to appreciate. And it would probably only be if you got to a point where the US was suddenly clearly losing that war or conflict with China and Russia, that it would actually become negative for the US dollar. Is that a fair overall approximation of your view?

Brent: That is a perfect way to say yes. Again, I think someday down the road, you know, all global reserve currencies eventually come to an end. And the new hegemonic power enforces its will on the rest of the world. But for that to happen, I think you would either need to have economic chaos or military violence. And I think in either economic chaos or military violence, I think in that period of time, the US dollar appreciates.

Erik: Unfortunately, I agree with you, I think we have more economic chaos and military violence ahead of us. And I agree that it's likely going to be dollar positive, at least initially, it would only be if we reached the point where the United States military hegemony, not just the dollars financial hegemony was questioned. That would probably be the catalyst that would change everything for the dollar. Luke Gromen would be proven right. And it would be a completely different world. Until then, I think we're in agreement that it's probably dollar bullish until that happens. Let's move on to page 14, our listeners already know what a fiat currency is, what's this point that you're making here?

Brent: Well, I think it's really important to point this out because I often speak to people and they say, "Well, if one fiat appreciates versus another, it only matters to currency traders, it

doesn't matter to us on Main Street." And the point I want to get across is that is incorrect. Perhaps it doesn't matter if the Australian dollar rises versus the Kiwi dollar, or perhaps it doesn't matter if the Euro rises versus the Hungarian forint or whatever it is. But if the US dollar is rising versus foreign fiat, it's a big deal. And the reason again goes back to the euro-dollar market, everything, commodities around the world trade in dollars, the world, you know, countries around the world have US dollar debt that they need to serve as, a lot of invoices are done in dollars. So as the dollar rises versus foreign currencies, it puts pressure on prices. And so you know, as the dollar tends to rise, prices tend to fall. And that's when bad things start to happen.

And that's what I show on the next page on page 15 is a rising dollar versus other foreign currency fiat always doesn't always lead to, but it always coincides with crises around the world, just go back over the last 25 years, every time we've had a crisis around the world, it has coincided with dollar strength. Now, whether it's the dollar reacting to the crisis, or whether the higher dollar causes the crisis, I think that's something that could probably be debated for a very long time. But the correlation is very clear. And that's why I say it's very, very easy to sit back and think that, "Oh, I don't need to worry about one fiat currency versus another because they all lose value over time." It would be nice if you had the ability to just ignore that. Unfortunately, I don't think that's the case. The dollar rising has huge implications for everybody around the world, even if it's only rising versus foreign currencies.

Erik: Hang on a minute because I'm concerned about it rising against non fiat currencies, specifically gold, because if we were to just look at your chart on page 15. If you're expecting a move to new highs on the dollar index, this is not over yet then in theory you ought to be bearish gold, it's time to short gold, I got a strong feeling Brent, that you're not shorting gold. So tell me how to think about gold, when frankly, what it's been trading as, at least in the last few years, is primarily an anti-dollar. It's mostly been trading inversely to the dollar index. Why wouldn't you be short gold if you see what you see?

Brent: Well, I think you could be on a tactical basis, but I would just wouldn't recommend doing it if you're not extremely nimble. And let me explain what I mean by that. is I think we are now at a point where it's not just one kind country that's in crisis and one country that's going to have to go back to QE or extreme monetary measures. And it's not just the US that will have to do it either. I think, largely, we're not, I don't want to use the word end game, because I feel like everybody uses that. And it's a little bit overplayed. But I think we are kind of at a point where everybody is starting to realize that these countries around the world, all of them have kind of gotten over their skis, they've kind of exhausted a lot of the different things that they can do as far as monetary policy or fiscal policy. And that as a result, fiat currencies are going to lose value versus real things as we enter another crisis. And the governments have to quote unquote, print their way out of it. And so I think what's likely to happen is we are going to get into a situation where all Fiat, not just the US dollar, but all Fiat is being debased versus real things. The dollar is rising versus foreign currencies, but gold is rising versus all of them. And that's how you get if you're in a foreign if you're in the Euro, and you're looking up and you see

the dollar and gold above you, that's their dollars and gold rising together versus all the other currencies. I don't know if we're there yet, Erik.

And if we got into some type of a liquidating market, like we saw in 2020 or 2018, I would expect gold to fall initially, but I wouldn't expect it to last very long, I would expect gold to recover very quickly and then be off to the races. I will say that gold over the last year, it's up, I don't know 5-6% or something like that. But it's done that in the face of real rates rising and in many ways, I think gold trades not necessarily inverse to the dollar, but mainly inverse to real rates. And gold has held up very well as real rates have risen. And to me, that's a positive sign. I'm not necessarily saying that gold can't go back down and retest some level. I know last year, I was saying that it needed to hold the 1700 level, which it did, and it bounced and stayed strong since then. But I would be very careful shorting gold. And the other thing I'd say is everybody should own gold as part of their portfolio. I think everybody should have some kind of a strategic allocation to gold that doesn't get traded. Now, if in addition to that, you're pretty nimble, and you want to do some short trades here and there, as are hedging trades, I think that's perfectly acceptable. But if you don't own any gold, I wouldn't be going out and shorting it right here.

Erik: Brent, I have to share some of your pessimism about the geopolitical outlook. But in terms of markets, is there anything that you're bullish on?

Brent: You know, when your outlook is like mine, it is sometimes hard to do that, but I will say, the one area where I'm getting increasingly bullish on and where I've actually started to buy some stuff recently is in the commodity space, not in the industrial commodity space, and not in the hard commodities, but in the Soft Commodities and specifically in corn and wheat and even coffee. I've been buying over the last couple of weeks. In 2022, both corn and wheat had huge spikes higher, part of it was geopolitically driven. Part of it was, I think, just a long term. You know, it had been a long time since that it had a run like that. And for a little bit there a year ago, I kind of felt like I had missed it. But then I kind of stepped back and I said, Well, I don't think that, you know, that direction. And that speed with which both corn and wheat were rising was sustainable. So I kind of stepped back and said, I'm going to be patient and what levels would I like to buy it at? Well, here this year, it's gotten back to those levels that I'd like to buy it at. So, we'd had a huge breakout in 22 and then had a huge retracement, it's kind of back down to a little bit below the $600 level where I've started buying it. And largely the same thing with corn, huge run in 21, pull back a huge run in 22 and then a pullback.

And part of the reason that I'm starting to buy these is they're so beat up the sentiment on them is so low. And at the end of the day, it's food and people have to eat, you don't have to have an iPad, but you do have to eat. And this also goes back to what we were talking about last year with a relatively mild winter, crop yields were extremely good. Not only that, but Putin allowed for the grains from the Black Sea area and Ukraine to be exported. I'm not sure that he's going to be as generous this year. Right. And then finally, that we're getting into an El Niño year, which is a weather certain weather pattern that typically causes. Again, it's nothing is guaranteed, but it typically causes problems with crop yields. And so when you put all those things, you have something that people have to have its beat up in the center that's out of

whack. There's geopolitical concerns that could constrict the supply and then you have weather patterns that could constrict supply even further. I feel like that's an area where you I want to be exposed.

Erik: Brent, I can't thank you enough for a terrific interview. We didn't get to all of your slides. Listeners, I definitely encourage you to peruse the full slide deck. It's got some excellent stuff in there. Brent, before I let you go, please tell us more about what you do at Santiago Capital and particularly how people can follow your work.

Brent: Sure, well, I have a wealth management firm. I've been doing this for close to 25 years now. I work with a handful of very high net worth individuals customizing wealth management plans for them. We do that through a combination of separately managed accounts and private funds. I'm pretty active on social media, I love to kind of debate with people on Twitter. And earlier this year, a friend of mine and I started a podcast called "Milkshakes, Markets, and Madness," which kind of gives us kind of a play on the whole dollar milkshake theory. And so we've had a lot of fun with that and should anybody want to have a conversation or interact with me on one of those mediums, I'd be happy to do it.

Erik: And please tell our listeners where they can find the podcast and where to contact you.

Brent: You can find it at @MilkshakesPod on Twitter. You can find me at @SantiagoAuFund. If you go to either one of those, you click the link you can find our site and people can send me an email at Brent@santiagocapital.com if they want to have kind of a one-on-one conversation.

Erik: Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com