Brent Johnson: Dollar Milkshake Update in a World of Global Uncertainty

May 2nd, 2024

Erik: Joining me now is Santiago Capital founder Brent Johnson, who is also the author of the Dollar Milkshake Theory, Brent prepared a slide deck to accompany today's interview, registered users will find the download link in your Research Roundup email. If you don't have a Research Roundup email, just go to our homepage macrovoices.com, look for the red button above Brent's picture that says "looking for the downloads." I strongly encourage you also to go to macrovoices.com if you are a new listener and are not already familiar with Brent's Dollar Milkshake Theory, we've done a couple of episodes where we went into much deeper detail on the Dollar Milkshake Theory specifically, I think that content is more relevant today than it was on the day it was recorded several years ago. So for full context on Dollar Milkshake, go there. Brent, why don't we start with just for our newer listeners a quick summary of what the Dollar Milkshake Theory is, people who want more detail can go back to the prior episodes.

Brent: First of all, let me just say thanks for having me back on here, Erik. It's always fun to talk to you, especially about this topic and just macro in general, because you and I have been talking about this a couple of times a year, every year since I first started talking about the US dollar. And the reason I talk about the US dollar and the reason I focus on the US dollar is in my opinion, it's the single most important factor in getting the overall macro picture right, I think it's very difficult for your portfolio to do well. It's not impossible, nothing's ever impossible. But I think it's very difficult for your portfolio to do well if you don't understand what's going on with the dollar and especially if you get it wrong.

And so essentially, what the dollar milkshake theory is, is really just a framework and a way for me to look at kind of an event driven thesis that's based on the fact that I believe that we have too much debt in the world. And I believe that debt has consequences. And I think what we're going to see in the years ahead is the consequences of all that debt that we've taken out, both in the United States and outside the United States, play out in the markets. And I don't think I'm unique in this, I think everybody sees the problem of having too much debt. But in my opinion, many people seem to get the knock-on effects of having all this debt wrong. And so, I kind of came up with this theory, and I call it a theory because I think it's right, I think it'll be right. So far, it's been right. Well, I guess we kind of have to wait and see ultimately, whether it's right. But I had to come up with a way to explain to my clients who are very smart, very successful, very wealthy, but aren't necessarily versed in traditional financial lingo, and they don't study monetary history or monetary policy.

So, I had to come up with a way to explain to them what I thought was going to happen. And essentially, what I was saying, what I thought was going to happen was that there would be kind of six main things that I wanted to get across to them. One is that we'd had this 40-year bond bull market. And I was of the opinion that I didn't know exactly when but I thought as a consequent of taking on all this debt, interest rates would eventually have to rise and they would break out of this long term 40-year descent towards zero. And I thought that when bond, you know, when interest rates go higher, then bonds break, bonds go lower. And when bonds go lower, then interest rates rise, when interest rates rise in the United States, that typically pulls the dollar higher, the dollar going higher versus other fiat currencies creates all kinds of problems for the global markets. And I think a lot of people thought that that might happen, but that that would cause this huge bear market, another Great Depression, however you want to describe that. And while I thought that was possible, I didn't think it was necessarily going to happen right away. And I didn't think those would be the first steps. And what I actually thought would happen was that we would have a rise in equities alongside the dollar. And I thought we would have a rise in gold alongside the dollar. And just really, in general, I thought the United States would far outperform the rest of the world. And so that's really the thesis. And you know, over the last six years, five, six years, that's for the most part, played out. Now. It's not perfect, and it hasn't always worked that way. And, of course, there's been times where things have gone against it. And you know, markets don't move in straight lines. But as I look back, and for people who think that I'm just making this up, I did an interview in the summer of 2018 and this interview is online and the transcript is online, and it's all right there. And then I did a very short presentation of it in October of 2018, where I talked about it a little bit more, but the very first time I talked about it to a kind of a captive audience and really went into detail was at your MacroVoices conference in January of 2019. And so it's been kind of fun for me to kind of track and see how this has gone. And I have to say, it hasn't been perfect, but for the most part, I think it's been right. And it's allowed me to manage my client portfolios without suffering in significant drawdowns and participated in the upside along the way.

Erik: Brent, something I've noticed is, sometimes people don't listen carefully enough to what you're saying. I've heard quite a few people interpret your Dollar Milkshake message to say, yeah, that Brent Johnson
guy, you know, he's a dollar true believer, he is the guy who's just super bullish on the US dollar, he thinks there's nothing wrong with the US dollar and the system is not broken. I don't think that's an accurate interpretation at all. So, is the US dollar broken? And particularly, help people who might be confused by that understand, how can the dollar system be broken and failing, yet, you're still predicting that it outperforms every other currency in the world?

Brent: Well, this is kind of the ironic part of it. And I do believe there's this disconnect between what I actually say and what people think that I say, and sometimes, macro can get confusing. So I bear some responsibility of this as well. But essentially, what I have said is, the US has many, many problems, probably too many to list. And the US dollar is an extremely flawed currency, probably too many flaws to list. But based on the design of the system, and based on this “sovereign debt crisis” or “currency crisis” that I foresee coming, I don't think that that means the dollar goes down, I actually think it means the dollar goes higher. And it's because of all the problems, that the dollar will go higher. And perhaps this is not fair. Perhaps this isn't the way it should be. But as an asset manager, I try not to get too emotional, and I try to put my moral judgments on the system, my job is to analyze the system as it is and figure out what's going to happen. And all my analysis tells me that as we get into more trouble, the dollar will go higher, and then that the dollar going higher in and of itself, creates more trouble. If anybody doubts this, if you look at slide 11 in the presentation, over the last 25 years, any time there has either been some kind of a global economic slowdown or a crisis, it has coincided with the dollar rising versus foreign currencies. Now, whether the dollar going higher causes the crisis or whether it goes higher in response to the crisis, I'm not smart enough to know that, maybe it's a little bit of both. All I know is that the correlation is 100%. And I don't think it will be different this time. If you do think it will be different this time, you're welcome to manage your portfolio however you want. But I have a fiduciary duty to my clients to not only try to make money, but also protect on the downside. And if I see a possibility of a rising dollar, however small, I have to plan for that. And I think it's more than a small possibility that the dollar will go higher, I think there's a high probability that the dollar will go higher. And as a result, I need to figure out a framework to manage my clients' assets through that. If people look at just slides 5 through 7, this shows that the assets that I spoke about, I said interest rates would go higher, the dollar would go higher, gold would go higher, and US equities would go higher. And I put out three different slides, one from the very first time I ever mentioned the Milkshake theory, one from the first time I talked about it at your conference. And then the third time, that since the COVID lows. And if you look over all those timeframes, of course, there's times along the way where they don't all go in that direction. But overall, under all of those timeframes, all four of those things are higher now than when we started. And that, again, that having this framework has allowed me to kind of understand what's going on in the markets.

Erik: Brent, I'm probably one of the people who is guilty of conflating your Dollar Milkshake Theory to have some other meaning that I made up in my head. Something I've noticed is, a lot of people seem to think that you and our mutual friend, Luke Gromen, have opposite views and that you disagree on everything. I don't interpret what you guys are saying that way at all. Because Luke's message is, look, the US dollar, because of so many mistakes the US government has made, is going to lose its reserve currency status, and eventually, the US dollar is going to crash against other currencies. And most people say, well, Brent Johnson says the opposite of that. And what I've always thought is, now that you guys are both right, what I think is happening is for many of the reasons that Luke has stated, the US dollar is going to lose its reserve currency status, but the only way that ever happens is you go through some really, really difficult turmoil in the world. And the way I've interpreted your theory is, yeah, that turmoil means that the dollar appreciates relative to other currencies because for now, it is still the global reserve currency. It is what everybody goes to as a safety trade asset. It is going to appreciate against other currencies through a whole bunch of turmoil, until eventually that hits a crescendo and other countries see there's just too many problems and they take some really extreme actions, maybe take some losses along the way. And it's in those extreme actions that Luke eventually gets proven right, but not until you're proven right first. So that's my interpretation of this. Is that consistent with your view? Or is that just something I made up in my head?

Brent: I think that's a fair way to say it. I think the main differences between Luke and I, is that I manage money. And I have to mark a book to market every month, every quarter every year. I think in many ways, Luke talks more kind of theoretical and from a research perspective, what could potentially happen. Ultimately, I think the big difference is one of timing, which you pointed out, and then the difference is the probability of these things playing out, in my opinion. And again, I'd be happy to say this, if Luke was here, you know, sometimes I get asked about Luke a lot. And I never like necessarily talking about him when he is not here to give his own spin on things. But my position on Luke is that he says a lot of things and it seems like it's a very high probability event where I would say, yes, it's possible, but it's a very low probability event. And then I would also say it will take much longer for these things to happen than he thinks that they will. So I don't think your interpretation is wrong, necessarily, I would just put that qualification on there.

The other thing that I would say is that it's not that the world can't de-dollarize, of course, it can happen. And it's not that people don't want to de-dollarize, of course, they want de-dollarize. My position is that the world cannot de-dollarize without incredible economic volatility, and probably not without military violence. And in either one of those scenarios, whether it's military action, or whether it's just great economic chaos, I think the dollar goes higher in that scenario. And for people who think that the dollar can't go higher, I think in that scenario, their portfolio could get severely impaired, at least in the short term. Now, if you have a 5 or 10 year time horizon, and you don't have to use your portfolio liquidity, and you have a second source of income, perhaps the timing doesn't matter. But most of the people I speak to, and especially a lot of the people I manage money for, are either in retirement, are moving towards retirement, they can't afford or don't want to experience the pain associated with a 20%, 30%, 40%, 50% drawdown in their portfolio. So for me as an asset manager, the path to the destination is extremely important. And so I think that's one thing that that many people get wrong. I think some people say, well, I can just buy gold, I can just buy Bitcoin, I can just put my money in international stocks, I don't need to worry about what happens in the United States. And it's no problem. And I think that is an extremely naive interpretation of how things are going to play out.

Erik: Brent, going back to slide 4, I think that last point, number 6, is where some people misinterpret what you're saying. Because when you say, the US outperforms the rest of the world, I think it's so essential to understand you're saying on a relative basis, because some people will hear that statement as, oh, Brent is saying, there's nothing wrong with the US economy or the US debt. And you know, our fiscal situation is fine, it’s the rest of the world that’s screwed up. That's not what you're saying. What you're saying is, everything is so screwed up, that what's going to happen is, because the US is the anchor currency, the US dollar is going to do well. And also, there's so many problems in the rest of the world that are worse than the problems that exist in the US. Is that the right interpretation? Because I think that's where some of the confusion is.

Brent: That's absolutely correct. So again, I would encourage people to go back to the very first interview I ever did on this, and it's online. And if anybody wants it but can't find it, and wants to find it, and they can email me and I can send it to them. But I think in the very first sentence, or at least in the very first minute, I said, I want to be very clear, this is a story that ends very, very badly. And I think, when this happens, when we get into this crisis, it's not that it's going to be good for the US. I just think, as you point out, it will be better on a relative basis than the rest of the world. And the other thing that I think people sometimes misinterpret is, number 2 and 3 on this list. Again, this is on slide 4. Some people think that I'm this uber Treasury bull. And listen, I can paint a picture where treasury bonds do very well in some kind of a risk-off scenario. But that's not the core part of the thesis. The core part of the thesis is that we got into this place where the 40-year bond bull market ends, interest rates start to rise as a result of all the debt and all the uncertainty and inflationary pressures. As a result of interest rates rising, the dollar goes higher. So, dollar often trades inversely to bonds, and it's the interest rates going higher. In other words, it's the bonds going lower, that is pushing the dollar higher, because it makes the dollar more attractive relative to its peers that have much lower interest rates. And the other thing to your point, is that it's not that things aren't bad in the US, it's that when things go bad in the US, it creates a nightmare for the rest of the world. And again, I'm the first to admit, this is not fair. Perhaps this is not the right way things should be. But I'm trying to get across to people that I think this is the way things are. And I think many people, again, have the knock-on effects of things going bad in the world, incorrect. And when things go really bad in the US, they become even worse overseas, because the dollar underlies the entire monetary system.

Erik: Brent, something I have become convinced of in recent weeks, is that gold rising in completely different correlation to other assets. So we've got gold going up at the same time that the dollar is going up. And at the same time, as we've got real interest rates recovering, so we don't have deeply negative real interest rates anymore, at least on paper, and that may be in the reporting that's going on. I'm convinced this is the most important signal we've seen in financial markets in 20 years. What does it mean? Drumroll please, I don't think anybody knows for sure. I really want to get your take on what it means that gold is doing. First of all, such an incredible meteoric climb that we've seen in the last couple of months, what's driving it, but why is it out of correlation and almost opposite what you would expect, given real rates?

Brent: Well, I think this is really kind of the point that I've been trying to get across for several years. And it goes back, if we go back to this, again, this list on page 4, the dollar rises, gold rises. When I first started talking about this, I would say, you know, I don't know the exact timing, but we will have a period where dollar and gold rise together, versus all the other fiat currencies. And again, if you go back to this original interview, I made it very clear the dollar and gold, I think, are both currencies. And I think those two will rise versus all other currencies. I also said in that interview, I don't know the exact timing of this. And even though I would like to lay it out in kind of this linear story book title, or story book way, so that it kind of makes sense to everybody. I don't know exactly when this is going to happen, or that's going to happen. But I think that we'll get into a period where dollars and gold rise together. A lot of people told me that couldn't happen. Part of the reason they said it couldn't happen is they said typically the dollar goes inverse to gold. So you can't have those two rising together. Other people told me, no, because gold moves with real rates. And if interest rates are going up, then that would push gold lower. Again, interest rates going higher, is the same thing as dollar going higher, because again, higher interest rates pull capital into the dollar. So I've been trying to get across the point that I thought we would get into a point where real rates would rise, but gold would rise with it. And that's kind of what we're seeing.

I think that's happening for a couple of reasons. And I think the reason it's breaking the long-term correlation, which you highlighted, is several reasons. Number one, I think there is this wide kind of acceptance or acknowledgement or realization, however you want to describe that that, that the world is in trouble, that fiat currencies are in trouble and that governments around the world have kind of gotten themselves into a bad situation. And the way that they're going to try to get out of this bad situation is by either financial repression, or by inflating away the debt, or whatever it is. And again, this applies to all currencies, all fiat currency, it's not just the dollar. So that's part of it, I think all fiat currency is going to debase. The second thing is, I think that, again, the rest of the world is in more trouble than the US. And as a result, the dollar is rising versus their currencies. And those markets are seeing a bigger demand for gold than the US. If you look at the buyers that are driving this price higher recently, it's mainly from Asia and outside the United States. There has been buying in the United States, but the demand in the United States has been dwarfed by the demand overseas. And that kind of makes sense because the demand overseas is coming from countries whose currency is falling dramatically versus the dollar. The yuan is down 15% versus the dollar over the last couple of years. When the average Chinese citizen goes and buys gold, they're not buying it because they fear the dollar is going to lose value. They buy it because they know the yuan is going to lose value. So I think that's part of it.

I think the third part of it is the geopolitical tensions are at a level or as high as anytime I've been alive. Now. I kind of grew up during the latter stages of the Cold War. You know, I can remember all the Rambo movies. The Russians were the bad guys. I can remember the movie *Red Dawn* where the Russians kind of came over Canada and took over the United States. And the Wolverines were the rebel group that kind of fought back the bad Russians. You know, there was a movie called *The Day After*, that was kind of a controversial movie about a nuclear war there. This is all when I was 10, 12, 13 years old, and then we kind of got into this golden age, the 90s and early 2000s, where the Cold War thawed and we had this globalization, and everybody kind of cooperated with each other. But it didn't take that long. And now we're kind of right back to that. And, for better, for worse, whether you agree with it or not, the policies taking place in Europe, specifically with Ukraine, has pushed Russia to the edge. And I think people are realizing that, you know, Putin is not going to back down. Now, whether he should or not, again, that's a completely different question, but I just don't think he's going to and I think the world is largely starting to recognize that. And so, there's a big possibility that this erupts into a greater conflict, and what does better in great conflict than gold? So I think there's several things that are working together to push gold higher.

Erik: I agree with everything that you said, I think all of those drivers are in play. I'm surprised you didn't mention one, though, which I think is, frankly, I don't think anybody in the West is really picked up on it yet. But regardless of what you think about the actions that Vladimir Putin has taken in Ukraine, I'm not endorsing anything that he's done, please don't interpret my words that way. But what just happened Brent, is, the US House of Representatives just passed a bill, which authorized the US government to say, look, let's play god here, because since we're bankers to the world, what we can do is without any court action, without any United Nations resolution, without anything else, just because we're the US House of Representatives, we're American, we're used to telling the rest of the world what they are and are not allowed to do, let's take this opportunity to do that. We'll seize all of Russia's foreign reserve assets that are denominated in US dollars, because the US dollar is the world's standard for central bank reserve assets, we'll seize the assets of one country and give them to that country's direct enemy, as a way of us basically playing god and deciding what the outcome of this war should be. As the banker. And you know, I completely understand the role of the United States government, as a military force wanting to side with one country or another. But when as the banker to the world, we take this position, we're sending a really important message to all of the central banks of the world, which is, if you continue to keep your assets denominated in US dollars, and you ever piss us off, we might seize them and give them to whoever we think your strongest enemy is. Just be ready for that to happen. Are people going to continue to keep using the US dollar denominated asset as the central bank standard reserve in that environment?

Brent: Well, I think there's two, there's probably several, but I think there's a couple of things here with regards to that. So, you're right. I should have mentioned that, and I overlooked it, but I should not have. I do think that that is part of the reason. Again, I think the world is largely recognizing that we're in a bad place, the whole world, again, not everybody else except for the United States, everybody else, including the United States. And I think that they realize that we had this period of globalization, now we kind of have this period of de-globalization, we're kind of getting a global divorce, for lack of a better way of saying it. And you know, you don't quite trust the people, even though maybe you still love them, you don't quite trust them the way you used to. And I think in the years ahead, the fact that the US confiscated Russian reserves, and then is now going to give them or lend them or whatever they end up doing with them to Ukraine or to Europe to use to fight against Russia, I think that will be looked at as a mistake along the way.

I do think that there's two sides of the story, though. I think if Russia didn't realize this was possible, then they're pretty naive, because we've confiscated many things in the past. Now, maybe not against a country like Russia. But it has happened before. And one thing I would say is, two things. This one is, sometimes when the bully acts like this, it galvanizes all the other kids to gang up and go beat up the bully. I fully admit that that sometimes happens. But I've been on the playground with bullies before. And I've seen this in person. And it doesn't always go that way. Sometimes, the kids who didn't get beat up, will run up next to the bully and befriend him because they don't want the bully to take out his anger on them. And so, I don't think it's quite so clear that the US is going to have to go it alone now, because you know, the rest of the world is just going to reject US hegemony. But I would say that this is definitely a marker on the road. The other thing I would say is, again, let's say that perhaps the rest of the world does not put their savings in treasuries to the same way that they used to. Again, that kind of goes back to the thesis at the end. Again, go back to page 4, bonds break, interest rates rise, if the rest of the world does not buy treasury bonds to the extent that they used to, and interest rates rise as a result, that makes the dollar stronger, which causes a lot of these problems that I foresee. So if the rest of the world rejects treasuries, I don't think that that rejects my framework.

The other thing I would say is, you've heard a lot about this term, fiscal dominance, right? The whole world needs US dollar funding. Now, perhaps you don't think that they should, and perhaps that you don't think it's right. But again, the whole world needs US dollar funding, the rest of the world forget the US owes over 30 trillion in US dollar debt, and has over 80 trillion and off balance sheet derivatives in US dollars. So the whole world has a need for dollars. Now, the idea that the US Treasury is not going to be able to get dollars, but that a corporate entity in Turkey, or China, or Europe, or South America, or Australia is going to be able to get dollar funding, I think is completely wrong. So again, I think we are in this period where interest rates are probably going to go higher. I think we are in this place where fiscal dominance as a result of the US budget deficit widening happens. But I think the US will get dollar funding before anybody else gets dollar funding. And as they do that, that deprives the rest of the world of this much needed dollar funding. And I think that potentially leads to defaults. And then that leads to more economic chaos. And when economic chaos happens, then what do the local politicians do? They start blaming the evil foreigner, and then you get higher geopolitical problems. So I think all of this stuff is related. And I think in many ways, the die is cast, we just have to sit here and wait for the game to play out.

Now, as I bring this back to gold, I want to make something clear, I have always thought everybody should own gold. But I am not somebody who thinks that gold can only go up. I am not somebody who thinks that every time gold goes down, it's due to some, you know, evil manipulation. And I do not think that somebody should have all of their portfolio in gold. My clients typically have anywhere from 10% to 25% of their portfolio in gold, depending on their individual and personal situation. And I know, there's been times where I've been on the show before, Erik, where I have said, I own gold, but I expect it to pull back. Well, here's the thing. I actually said, somebody called me out on this couple of months ago, they said, well, Brent, last time you were on MacroVoices, you said, yeah, you own gold, but you expect it to pull back. So I went back to the last four times I've been on your show. And I don't remember exactly what I said on every show. But I know in general, for the last four years, I've said, listen, I think everybody should own gold, that should be the core of your portfolio. But I don't think you should be 100% in gold. And you know, it wouldn't surprise me at all if it pulls back. So I went back and I looked and sure enough, the last four times I came on the show and I gave that opinion, the first time it pulled back 16%. The second time it pulled back 8%. The third time it pulled back 10%. And the last time it pulled back 7%. It's really only in the last two or three months where gold has really broken out. So I think we do have a change of behavior here. If you don't own any gold, you should absolutely go buy some gold, I want to make that clear. If you already have a full allocation like I do, then you don't need to go buy it here at all-time highs, I would not buy gold since I already have a full allocation, I would wait for it to pull back. If it doesn't pull back, that's fine, because I already have a full allocation. But if it pulls back to $2100 or $2000 or $2150, or whatever it is, then maybe at that point, I would buy some more.

But again, I think people who are in this all or nothing mentality, 100% in Bitcoin, 100% in gold, 100% Nvidia or AI or whatever it is, I don't think that's the right way to manage a portfolio. So I think everybody should absolutely own gold, but I think you got to be careful as well. You know, markets don't move in straight lines.

Erik: One of my theories about what's going on with gold is, historically, when you see a hot CPI print, people have in the past have seen that as gold bearish because the thinking is, okay, if there's a hot CPI print, it's going to make it that much more likely that the Fed is going to increase interest rates in order to counter inflation. And that effect on real yields is going to be negative for gold. I think what's going on here is people are saying, no, wait a minute, we're into a new game. Now we're into the game where inflation is about to start to run away, in the sense that the Fed’s not going to be able to afford to increase interest rates enough to fight inflation, because if they did, they would completely corrupt the US government's ability to service its debt. So they're going to have to let inflation run away. That's going to mean that real yields, maybe not reported real yields, bu real world, real yields are going deeply, deeply negative, and they're going to lose control of it. And that's ultimately super bullish for gold. So I think that signal of what hot inflation reports mean, might be changing its meaning for the market. Would you agree with that?

Brent: There's definitely a change of behavior, I tend to agree with you. We may disagree a little bit in that I do think that, you know, I think 2400 bucks is a pretty good price for gold, it would not shock me at all to see it pull back here. In fact, I kind of expect it to kind of trade sideways, maybe even pullback over the summer. Now, I want to be clear, this should not keep people from buying gold. If they don't already own it, I think absolutely everybody should own gold. And since I already have a full allocation, I don't need to buy more. But what I will tell you, Erik, this may slightly go against what you believe, but you know, I do have puts on silver. A few weeks ago when silver hit $29, I can tell you that the day it hit $29, people on Twitter were just losing their minds, bullish over, the RSI was as high as it's been in five years, the sentiment was as high as it's been in five years. And the CoT positioning on silver is starting to get fairly bearish. And so, I bought puts on that morning, and you know, silver pulled back off very quickly thereafter, it's still down by maybe 5% from there. And here's the reason I did that, is because that is the environment, when everybody is bullish and everybody's in, that's when you're going to get a pullback like that. So that's just a tactical trade of mine. Now, at this point, if it goes higher, and my puts don't pay off, that's fine, I'm not going to get wrecked. If silver pulls back to $24 and I sell the rest of my puts and we make some money, that's fine. It’s not going to change my life. But those are the types of tactical trades I will do along the way, in addition to my overall long term strategic hold of gold or other assets that I don't trade in and out of. So in other words, I never short gold. And the reason I don't short gold is we could wake up tomorrow morning and for all the reasons you and I have already discussed today, gold could be at $4,000. So the last thing I want to do is be short gold. But I'm not afraid to buy puts from time to time, I'm not afraid to hedge things from time to time. I think when everybody's on one side of the trade, then I think you need to be ready for it to go the other way, at least in the short term. So I'm extremely bullish gold long term. But I want people to be careful. I don't want people to just blindly go put 100% of their portfolio into anything, even gold.

Erik: Let's come back to the dollar crisis on page 11. What you're showing there is that from here in coming months and years, we may be headed toward a global crisis. I think you're right on that. My view is that the escalation to a hot war between the United States, Russia and Iran has probably just been put on hold until after the election. But I think it's coming. And I agree with you that it means dollar goes higher, it means interest rates go higher, means inflation continues to run away. And I think your view that that creates a crisis where the dollar appreciates is exactly right. Does that hit a crescendo at some point where it causes the rest of the world to, it seems to me that as you said earlier, the biggest problem with the dollar for the rest of the world is, so much debt around the world is denominated in dollars. At some point does the rest of the world say, look, we've got to re-denominate our debt and stop paying it in dollars, not so much for the sake of de-dollarization as a sanction against, you know, taking out our grudges against the United States. But just because we can't afford to resolve debts this way. Did something happened that changes all of this to where it reverses?

Brent: Yeah. So what I think happens, eventually what happens is, when countries finally make the decision to take the tough economic pain that would be associated with de-dollarization, I think that process itself, again, is part of the chaos that pushes the dollar higher. But eventually, the dollar gets so strong, either because of military conflict or because of this economic chaos or because of you know, everybody just gets together and decides and says this can no longer continue. It's not good for anybody. Then, I think that there will be a reset, now, whether that's another Plaza Accord type crisis or event that takes place in relative peace, or whether it takes place as a result of some treaty post military crisis, I'm not smart enough to know that. I just know the odds are stacked in favor of the dollar going much higher because of either economic chaos or military conflict, ultimately, the worst thing in the world for the monetary system. And the best thing for gold, ironically, in the long term is a strong dollar, because a strong dollar literally wrecks the entire monetary system. And they will have to either reset it, or do something to kind of fix it, right the dollar down. But again, I don't think that happens at DXY 105. I think that probably ends up happening, DXY 130, or 140, or 160, for years, I've said the DXY will go back to 150 or its all-time high. And that's just kind of a marker out there, I actually think that that will ultimately happen, I think it will probably take longer for this to happen than many people think. I think a lot of people think we are very close to the edge, that we're going to have this big event in the next, I don't know, six weeks to six months, and then the dollar is going to be dead. And we're going to go on to something else. I think the timeline is more like six years, I think it probably takes another three, four or five years for this crisis to really kind of hit in spades. And then, you know, it won't happen in a straight line, that's the other thing is, perhaps we get the dollar run to 115, then it pulls back to 105, then it goes to 130, and it pulls back to 118. And then we get some kind of a big crisis and it goes to 150 overnight. And then it's all said and done. Again, this is all speculation on my part, I don't know. But what I do know is that the design of the system makes it extremely difficult for the dollar to just get whittled away and just inflate it away and it loses, the DXY goes down versus its fiat peers and eventually just loses its global reserve currency status in some kind of a peaceful manner. I think that that is probably the lowest probability event that I could come up with.

Erik: Brent, while we're on this topic of the US dollar relative to its fiat peers, I want to go to slide 19, where you've got some context on that point, specifically.

Brent: Yeah, so I think everybody knows that the world has gotten way over its skis into debt. And financial repression is probably the way out. Governments throughout history have always inflated away the debt. Part of the reason I think the US dollar will outperform its fiat peers is because the US only has debt in US dollars. The rest of the world has debt, not only a huge amount in their local currencies, but they have a huge amount in dollars. And as a result, because those currency pairs trade opposite to the dollar, you can't simultaneously inflate away your local currency debt, and your US dollar debt. If the Fed decides to financially repress the dollar, and the dollar goes lower, versus its fiat peers, then it makes it easier for the rest of the world to service their US dollar debt. But it makes it much more difficult to service their local currency debt. And it makes it much more difficult for their export economies to export, as their currencies are stronger versus the dollar. And this is the position that the rest of the world has themselves in. And the vice versa, if they decide to financialyl repress their own currencies, and to kind of inflate their way out of their own local debt, then you get the dollar rising dramatically versus their currency. This is exactly what you're seeing in Japan right now. So again, this part of the problem and why I think eventually we're going to have the dollar at its all-time high. And it's just going have to get a reset, because it's just going to cause too many problems. The system just doesn't work this way. So hopefully, that kind of helps people understand the situation that the rest of the world in. And one of the advantages the US has versus the rest of the world.

Erik: Brent, under normal circumstances, given that you have a dollar going-up view that would suggest that commodities would perform poorly, because they're priced in dollars. So if the dollar is going up, the price of commodities, like copper and agricultural commodities, and so forth, would all be going down. That's not at all what we're seeing. We're seeing, particularly in copper, some really strong strength. Does that jibe with your theory? Am I missing something there? Or why don't we translate this view into a number of different asset markets, because I see you've got quite a few slides on the deck on various different commodities and other assets.

Brent: I think a large number of people out there believe that because they know that governments are going to have to inflate away the debt, then the simple answer is just load up on real assets. As fiat gets debased, commodities go higher and everything is easy. I don't think it's going to be that easy. I think we're going to get into this stagflationary state where some assets do very well and some assets don't To now, year to date, the overall commodity index is only up like 3%, 4%, or 5%. So it's up but not dramatically. But the interesting thing is, some hard assets, some commodities have gone up a lot like oil is up 15% year to date, copper is up 17% or 18% year to date, I think, now, I don't know. But I think that both oil and copper are going to pull back over the summer and into the fall. And part of the reason I say that is because we're heading into an election, the last thing that Joe Biden needs is spiking inflation heading into an election. And so, my guess is, there may be some stuff going on behind the scenes to try to get these both lower. Now, whether they can do that or not, I don't know.

But the other thing, like copper has had a great year to date. And it's had an amazing month. But copper has gone up so fast so quickly. And part of the reason I think copper has gone up so much is because of China has recently started to do more stimulus, their market has started to rebound a little bit. And I think this geopolitical tension, people are starting to stockpile a little bit, kind of these necessary commodities. So I think that's behind a little bit of copper's rise. I think in the short-term, copper is going to pull back, not because I don't like copper, not because I don't understand that it's a very highly prized commodity, especially in some kind of a geopolitical war or, you know, supply chain disruption. I just think it's come too far too fast. Its RSI, its relative strength is as high as it's been in five years. Its sentiment is as high as it's been in five years, and it's just gone straight up. So I think in the short-term, that needs to pull back. But if it does pull back, that's probably something you want to buy. Same thing with oil. I think if oil gets back down into the $70 range, you probably buy it. Now, the biggest frustration for me in commodities is the area I have been most bullish on for the last, call it nine months. And where I remain the most bullish going forward is the soft commodities. Last fall, I think really shortly after I was on your show, I bought wheat, corn and soybeans. Now all three of those have been pretty frustrating. Wheat is basically flat from where I bought it, but it's spent significant time below. And both corn and soybeans are about 10%, 5% to 10% below where I bought them. So that's been frustrating. But I do think that that's an area where I think because of, again, geopolitical events, because of weather patterns. And because everybody still needs to eat. I think we could see some very big moves in wheat, corn and soybeans later this year, may be even perhaps some things like we've seen in both cocoa and coffee over the last couple of weeks.

Erik: Brent, before I let you go, let's just touch on the S&P 500 on page 30, for people interested in the stock market, the implications of all this?

Brent: Sure. Well, I think every time I've come on here, Erik, I think I've shown you the same slide. And this is just a long-term trend/channel chart of the S&P 500 that I show. And, you know, part of my theory is that the equities are going to go a lot higher in the years ahead, because of fiscal policies in the US, I think capital will flow into the United States. I think QE will come back probably at some form in some fashion, whether domestically or internationally, I think that money will flow into the US. And as money leaves the bond market, again, if we get into the situation where money flows out of bonds, I think the US equities will be a place that they seek refuge. Now, I don't think that happens in a straight line. I've always said there will be terrifying drawdowns along the way. I think we're overdue for another drawdown, I don't know if we'll be able to pull back, you know, it's 20% down to the top of this channel. I don't know if we'll get lucky enough for it to pull back there. I would love it to pull back all the way there. But if that happens, I would probably be a buyer there. And I think in the years ahead, we're going to see the S&P 500 much higher than we do today.

Erik: Brent, I can't thank you enough for a terrific interview. Listeners, I do encourage you to peruse the slide deck, because there's quite a few charts we didn't get enough time to talk about, but some really great content there. For people who want to follow your work and also understand what services you offer, please tell them a little bit about what you do at Santiago Capital.

Brent: Sure. So, Santiago Capital is a wealth management firm, have about 15,16 clients. They're all very wealthy, very successful. Total assets that we have under management are around $175 million. We customize our portfolios to every client. So we don't have a model portfolio or mutual fund that everybody goes into and everybody does the exact same thing. I'm a very big believer in diversification. I know over the last couple of years, it's been very popular to put all your eggs in one basket and then watch that basket very closely as I think Druckenmiller said one time, I don't think that's the right way to do it. I still believe in diversification. I think having assets allocated to the United States as opposed to overseas is the right way to be. We build diversified portfolios and we have things set up in a way where we can participate in the upside, but we also have protection on the downside. So we don't have to suffer through these 20%, 30%, 40% corrections that many long only managers have. So, if that applies to anybody out there and they're looking for that type of service, I'd be happy to talk to you. Our typical minimum is $3 million and higher. It's not because I don't think a lower amount needs help, it's just that for a number of regulatory purposes, that's kind of the number that we've stuck on.

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