



MACRO Voices

with hosts Erik Townsend and Patrick Ceresna

Marko Papic: U.S. Presidential Race Risks & Complications for Markets

July 25th, 2024

Erik: Joining me now is Marko Papic, Chief Strategist for BCA Research. Marko is a geopolitical specialist. And we're going to be talking about the US presidential race, the unexpected turns that it's taken, and what the consequences and impacts of that are going to be knock-on effects for that matter, on the US presidential election and beyond. Now, occasionally, we get arguments and complaints from people who say, you shouldn't talk about politics on an investing podcast. Look, this is MacroVoices, macro means macro-economic events, politics are among them. If you don't like hearing about politics on an investing podcast, don't listen to a macro investing podcast, look at one that uses a different strategy. If you are offended by the fact that we're going to have a very candid conversation about risk factors, other things that could go wrong, and other terms that this race could take, then skip ahead now to the postgame segment and dive into the chart deck with Patrick Ceresna.

Marko, let's start with a situation report. As of now, Tuesday morning, we're recording this a couple of days before our audience will hear it and a lot can happen at the rate the news flow has been coming out in the last few days. But as of the moment that we're speaking Tuesday morning, the President of the United States has not been seen in public for six days since last Wednesday, he was diagnosed with COVID. And it was announced or leaked, I should say, that people should expect an announcement over the weekend that maybe he would be dropping out of the presidential race. That announcement or that leak was very promptly refuted by the White House, which said, no, President Biden is absolutely positively not dropping out of the race. He's in it. He's staying in it. I think it was on Thursday, when President Biden himself said, look, it would take an act of God, nothing short of the Lord Almighty himself telling me to step out of the race would get me out of it now. Then over the weekend, there was no presidential address from the Oval Office, there was no Joe Biden on camera. There was a tweet from Joe Biden's Twitter account that said, Dear United States, I've decided that it's in the best interest of the party and the country for me to leave the presidential race, no explanation of why he was doing that, other than he's decided it was in the interest of the party. At this point, there were people, understandably, that everybody is going to wild speculation on conspiracy theories. The president's dead, the President's been abducted, the President's locked up in a basement being waterboarded. by Nancy Pelosi. I mean, every crazy imaginable thing has been suggested. Marko, I don't think it's responsible for us to get into believing the conspiracy theories. But I think we should acknowledge that it's very understandable that people are jumping to them, when we've had such poorly managed communications. The last time this happened was 1968,

Lyndon B. Johnson, dropping out of the race late, made and addressed to the people on television, so that his reason for doing that and so that the American people could be assured as he was dropping out of the race that he was doing so of his own volition. That's not happening here. And a lot of people are very concerned by it. They have scheduled an address from the President to the public on Wednesday. That hasn't happened yet. As we're recording, it will have happened by the time our listeners hear it, whether it's going to be live or on video or pre-recorded, hasn't been specified yet. What's going on here, Marko, this is not normal operations for the United States of America.

Marko: Well, first of all, thank you for having me on the show. I don't know if I can answer this question. I don't think anyone can really answer the question. I think the election process has always been a little bit of a wild west. And part of it is because in the United States of America, there isn't actually any constitutional provision. There isn't any real law for how parties select their leaders. In fact, almost every four years, they issue new rules and regulations, which parties go first, which goes second, there's state law on running primaries, on running, like local elections. And so, it's a mess. And it's exacerbated by the fact that President Biden has COVID and he is 81 years old. He was born in November of 1942. First of all, that means he was a voting adult, when LBJ quit the election in 1968, if you sort of want to think about it that way. But the other issue is that it probably reveals his vulnerabilities to being a candidate in this election, because getting COVID in 2024, for most of us is not a big deal, but for him it may really be. And that may be the reason that they're taking it a little bit more cautiously in terms of him speaking to the public.

Erik: Marko, the Secret Service performance, and this is obviously something that's going to come under a lot of scrutiny, Secret Service Director Kimberly Cheadle was adamant yesterday saying she absolutely will not step down. She has done nothing wrong everything, she did nothing wrong. Then, she resigned this morning, it seems pretty clear that she was probably pressured by someone to resign, and I think that she should have resigned. A lot of people were very upset in the testimony when Kimberly Cheadle said under congressional oath, I believe, under congressional subpoena, she said, look, if the people in charge at the Secret Service had any idea that there was a risk like this, they never would have allowed President Trump to take the stage. And it was one of the congressmen who then called her a liar directly and said, we know it is well established now that the Secret Service had at least three reports that there was a man on the roof with a gun before President Trump ever took the stage. A lot of people are saying, they're calling foul and they're saying that Ms. Cheadle had perjured herself and so forth. I don't get that impression. I think she's actually that out of touch with reality that she didn't know that her own organization wasn't aware of the shooter on the roof when the President took the stage. At the time that question was asked during the congressional testimony, I don't think she lied. I think she's actually that out of touch with what her organization is doing. And I think it really reflects a lack of readiness on the part of the US Secret Service, which has achieved, by the way to their credit, new accomplishments and new achievements in the area of diversity, equity and inclusion. They're doing an excellent job on that front, but with respect to their readiness to protect the people who they are put in place to protect, it seems like there's a

serious question of whether or not they're up to this in an election, where the guy who's the front runner is kind of a polarizing personality, who a lot of people don't like.

Marko: You know, this is a difficult case. It's a difficult case, because President Trump enjoys open air events. And he's clearly very good at them. President Biden did not. And so, it was in a way easier to secure his events than those of President Trump. But I think what was the most telling to me was that Cheadle basically accepted responsibility yesterday, which was Monday, and then didn't resign. And that was very, very confusing. And so today, she has resigned, because when you accept responsibility for something that went horribly wrong, you have to resign, it's become sort of a Washington, DC standard vacuous thing to say, I accept total responsibility, and then do nothing with that. And so at least to her credit, 24 hours later, but she did then realize what the words accepting total responsibility mean. And so she resigned,

Erik: I want to talk about something next that no one else seems willing to talk about. So, trigger warning, if anybody's super sensitive to talking about macro-economic events that are likely to affect financial markets in the next six months, that's what we do here on MacroVoices, whether they're sensitive or not, if that offends you, fast forward now. But Marko, we've got still several months before this election, we have a secret service, which, at best has just been badly humiliated and is suffering from some performance and capability limitations. We have Donald Trump, who, as you just said, is a personality, who is likely to insist on, you know, he's not going to be told not to go out on stage because of security risk. He's the kind of guy who's going to take the risk. We have a situation where the perception, the division that exists in society is so extreme, that I saw one poll where 30% of Democrats polled, actually believe that the entire Trump assassination is a hoax. It was staged by President Trump to try to get more votes. That never really happened. It was all a fake. And I guess the guy who died must have been faking it too. And then on the opposite side, I don't have a statistic for this, but there certainly seems to be quite a few voices on the other side, who were saying that they are so convinced that the incompetence and malfeasance of the Secret Service allowing Trump to almost be killed that way, was so egregious that it cannot be explained by incompetence. It could only be explained as unintentional, they stood down to allow the CIA to conduct a kill operation or some such thing. Now, look, I don't think we should be subscribing to any of these conspiracy theories, Marko. I don't think that's the responsible way for us as financial journalists to talk about this. But I do think that it is extremely relevant, that the division in the United States is so great that we have large numbers of people forming these wildly opposing views. Those are the ingredients for civil war. I hate to say it, but they are.

Marko: This has been the case for a while now. So there have been conspiracies on both sides. And generally speaking, the number you quoted 30%, I haven't heard that. But generally speaking, that is the number across different beliefs, very unorthodox beliefs, that tends to come back, that there's about a 1/3 of individuals in the United States who are just misinformed. And when you say it's an ingredient for civil war, I think it's an ingredient for continued suboptimal political outcomes. So, I kind of chuckled at your trigger warning there at the beginning of this podcast, where you said, hey, if you're going to be a rankled, or bothered by discussions of politics in a macro podcast, you should fast forward. If you're going to fast forward, you're not a

macro investor, I'm sorry. The world we live in today is one where politics and geopolitics is increasingly becoming very relevant to asset returns. Now, I have a kind of an unconventional view where I think in the short term, actually, politics and geopolitics is less relevant than in the longer term, so that's like my framework. But I do believe that we need to talk about these things. And the fact that, a third of all, let's say Democratic voters believe that Trump staged the assassination, and there were all sorts of conspiracy theories about Hillary Clinton in 2016, as well, that the Republicans believed. That just tells you that a third of the electorate is making decisions based on not just poor information, but really, propaganda. Not even propaganda. Propaganda would assume that there is some sort of higher power delivering this misinformation. It's almost more grassroots nuttiness. And that's a problem. Because when you think about our primary electoral system, only about 22, sometimes 40, but very rarely, percent of the electorate turns out for actual primary elections. And those are usually the very, very motivated people, quite often who are either ideological zealots, or political activists. It's not necessarily a run of the mill, regular voter who has like two kids and a job, you know, they missed a primary election. So when somebody tells you that the average primary election in the United States of America during a presidential year to turnout is around 30%, and you also hear that about 30% of Americans believe in a conspiracy theory, there may not be recipe for a civil war, maybe that's too high of a bar, but it certainly is a recipe for getting candidates in on both parties who are not of such a high quality and who in fact, motivate voters to come out and vote for them based on, again, misinformation and all sorts of serve coded signals. So, yeah, I think I think there's definitely a problem of the electorate believing all sorts of things. And the reason that matters is, it matters because when policy is put together, it's not necessarily coherent and long term, it doesn't take into account the long term.

Erik: I think I need to be a little bit more specific in the risk scenario that I'm concerned with, because I think a lot of people are not putting two and two together, probably because it's such an unpleasant thought to think about. But generally speaking, human nature is such that if someone tries and fails at something they try, try again. There's lots and lots of people who feel so strongly, they've been told that for President Trump to return to the White House, would literally end American democracy. I'm not quite sure what the logic of that rationale is. But there are people who believe that so strongly that they would do anything to keep him out. One attempt has been made on his life. It was unsuccessful, but very close to successful. And the entire world has learned that the US Secret Service, at least in this instance, was very, very, very poorly prepared to defend the president. It seems to me that all of the ingredients are there for someone to try again, for there to be at least one more assassination attempt on President Trump's life. And frankly, if one were successful, which is entirely plausible, as far as I'm concerned, because the Secret Service seems to be asleep at the switch, not really doing their job, although doing it in a very DEI enabled way. If the Secret Service is not ready to do their job, and you had public officials, in some cases, and a lot of Hollywood celebrities, lamenting that the shooter missed, wishing that it had been successful, there's plenty of people in the country who still want to conduct a murder of President Trump. And they've got plenty of time left to do it. And frankly, in my opinion, President Trump's personality is such that he's not likely to cower and hide behind the glass shield to make sure he's safe, he's likely to be out on stage where he's at risk taking that chance. So it seems to me that there's a very real risk that we

could end up in a situation where President Trump is assassinated before taking office, either before being elected or after being elected, and before taking office. And if that were to happen, given the lack of confidence, or the shaking of confidence that's already occurred in this presidential race, I think it would open the United States up to a moment of vulnerability where it could fall into hard Civil War, actual fighting in the street stuff. And for people who are convinced that China is looking for an opportunity to come and nuke us. Frankly, I think that's paranoia. I don't think China really has that intention. A lot of people do, though. And if you're worried about those things, if ever, there was a moment of vulnerability when another nation might try to disable or disarm the United States, it would be when you're in this mayhem, where you're not sure who the next President of the United States is, both of the two guys that were running that nobody was particularly impressed with either one of them, one got killed, and one dropped out. That would be a really bad situation that I think could throw the entire world into a complete financial upset and markets don't like uncertainty and uncertainty doesn't get any more uncertain than that. Now, it's absolutely not a prediction, I'm not saying that's about to happen. But I am saying that I think the probability of someone somewhere attempting in some way to kill President Trump again before the election has got to be at least 50%. Now, hopefully, we'll get the Secret Service to get their act together. And they won't have any chance of actually being successful and it won't matter. But I don't think anybody's willing to talk about this, Marko, and it could happen.

Marko: I'm an investor. I'm a macro investor. So how do we disaggregate everything you've said? How do we incorporate this into some sort of a view of the markets? Because that's ultimately what we're doing here. I would say, first of all, that I've had the view that polarization in the US is very, very high, and that chances of unrest are rising. You know, that's something that I've written about, since 2014, 2015. I actually said that by 2020, there likely will be significant unrest, and this ended up happening, you know, 2020 was a very, very difficult year for a number of different issues that were going on at the time, obviously, pandemic exacerbating them. So, there is a structural and a secular reality, which creates higher probability of domestic unrest and conflict, someone like Peter Turchin, for example, Professor Turchin, I don't know to what extent your listeners know him, they should Google him. He's written this in several books. He talks about overproduction of elites, and his context of instability. And I think he's really nailed it. And I think the consequences of this higher level of domestic tensions, the consequences have been articulated in fiscal policy in the United States. So that's how this stuff matters. It actually matters in a secular sense, we have to date, the higher inflationary outcomes that we have, because American policymakers don't know how to legislate. They have no legislative solutions to the domestic political problems. So, what they do is they just kind of hose the population down with handouts. That is, and I'm being very glib here, obviously, but that's the mechanic that has articulated itself.

That said, your point that President Trump can be, there could be another assassination, that's a more tactical concern. It's a more of a shorter term thing. And you cannot trade that, you can't really hedge that successfully. It's a moment in time, that's impossible for anyone to predict. So while I don't disagree with you that there could be another assassination attempt, I think that the much bigger picture here is that we have come to a point in American history where it's 2024,

and you have an anti-establishment candidate, who is at higher risk of being assassinated. You see what I mean? That is the moment, that is the sort of a temporary tactical reality that we live in. The secular reality is that we've been living in that kind of a world for the past, I would say, 8 to 10 years. And so what investors have to take from this is, well, President Trump could be assassinated again, what do I do in that situation? That's not a trigger for civil war. Or rather, that is the trigger for civil war, potentially, but that is just a spark, the kindling has been pretty dry. There's a secular reason why we're in the moment that we're in, in the first place, and is the fact that over the last, really since 2008, since the great financial crisis, you had secular stagnation, jobless recovery, you had austerity complemented with private sector deleveraging, we created a very, very difficult and painful recovery. That is why Americans voted for a game show host as their president, you know, and I'm being purposely glib, just to be dramatic about it. Like the roster of establishment politicians was insufficient. Why? Well, because the establishment wasn't working for the median American in 2014, 2015, 2016. So they pick Donald Trump, he became the champion of that anti-establishment, but there's a reason for it, because the economy was working. And then, of course, the pandemic happened, somebody else came to power, he's now a front runner again.

So that context that I'm describing, has actual macro consequences. And I would argue that it's very difficult to explain the current environment that we're in, including the recovery, which has been strong, but also the inflation that has come with it without understanding that secular context. And that secular context is one where policy makers kind of swing from one extreme to another, from austerity from 2010 to 2015, to dramatic fiscal stimulus from 2020 to 2024. That has given us the macro context that we're in. Now, whether a civil war would occur because President Trump was shot, I think, the probability of civil war in America as, again, as Peter Turchin has written and as I've also opined, certainly, it's not zero. I also don't think it's as high as in, for example, where I was born in my homeland of Yugoslavia, and one difference between, say Yugoslavia and the United States of America is state capacity. And so, one thing I would say is that, if one of the candidates was assassinated, I don't see the cleavages within the various institutions in the United States of America, mainly the military and law enforcement, I don't see the cleavages within those institutions that will allow it to become a civil war. Now, whether you're listening to me on this and believe me or not, let's say you do believe me, you're like, oh, Marko Papic makes a good point. I'm not sure to what extent that's going to make anyone feel better about the society they live in, but I don't see a civil war breaking out. I don't think you can have an organic civil war in the United States of America, because state capacity, which is a political science term is overwhelmingly powerful.

Erik: I wasn't aware of that state capacity phrase, I'm assuming that's a euphemism, meaning, we got a shitload more guns than you do, little people.

Marko: Oh, that means we have an F 22? Yes.

Erik: Okay. Got it. I think that we're thinking about this slightly differently. Because I agree with you that there's no reason to expect, okay, let's suppose heaven forbid, Trump, or Harris or somebody, you know, there's a successful assassination, one of the candidates is taken out on

the stage. And of course, that causes a massive panic, everyone is concerned and so forth. I'm not saying that Civil War 2.0 breaks out the next morning, what I see is a vicious cycle beginning where other central banks around the world that have been for the last five years scratching their head saying, boy, we really can't afford to leave this dollar system because the whole world runs on it. But boy, we really wish that we were more independent from the US dollar. That's their forcing function, they get off the US dollar, and they dumped the US Dollar as reserve currency. That has the effect of reducing foreign demand for dollars, that has the effect of increasing US borrowing costs, that has the effect of increasing US debt, and it becomes an economic spiral. It gets worse and worse. Eventually, it probably does descend into full on civil war, but I'm looking at it more as a global reaction to the United States becoming unstable. If you think about what happened when the fall of the Soviet Union occurred, everybody's mind was on the same thing, which is the nukes. What are we going to do if the nukes fall into the wrong hands? How do we make sure we secure them? And I could see, if you had President Trump, you know, executed on a debate stage with Kamala Harris, other countries start to get really nervous about what's going on with control of US nuclear weapons, when it doesn't seem like the situation in the United States is very stable. Now, I'm not saying anybody's going to start a war over that. But I am saying that other nations would start doing things like saying that maybe we shouldn't be so dependent on the US, maybe we shouldn't be dependent on the US Dollar as a reserve currency. You've got guys like Sergei Glazyev who are designing strategies to try to unseat the US Dollar as the world's reserve currency. Nobody used to listen to them, well, maybe now they're going to start listening to them. And I think that begins a vicious cycle, which eventually comes back and does lead to potential mayhem in the United States. Again, not a prediction, I'm just saying, I think that the risks associated with this presidential election just went up by a lot, not down. Everybody else seems to be breathing a breath of disbelief that, well, thankfully they missed President Trump, so there's nothing to worry about now. I wouldn't say there's nothing to worry about.

Marko: My counter to that is exactly what I said earlier, which is that everything you just said, has already happened over the last decade. Literally, verbatim, every point you made, which is debt is going to go up, deficits are going to be chronic, like the US dollar will start losing some appeal. This is, literally, empirically, are all already happening. The US debt is at \$37 trillion. US deficit is basically at 6.5% at the end of an economic cycle, not after a recession. I mean, the recession could be coming in 12 months. Where are we going to be then, at 12%, 13%? Why? There's no pandemic. Why is it at 6.5% this late in economic cycle? Then, the dollar, in terms of its role as currency reserve in Central Bank's vaults, so not in terms of other things like being used as a financial assets for transaction where it's still very robust, but in terms of being used as a store of value, the US has dropped from 70% at the end of the millennium, in 1999, to about 58%, 57%, 56% now. So that's a pretty dramatic drop. And so, what I would say, again, just to reiterate, we are in a process of US domestic political volatility that's been acting already, that there has already been an outcome. And that outcome has been the inflation that we live in today. I believe that the inflationary world we live in today is a product of American policymakers dealing with an electorate that is extremely agitated already. And at a brink of, you know, just like this sense of social unrest is just under the surface. And that's had the consequences we have today. I mean, let me put it this way. Why did we stimulate as much as we did during

COVID, you cannot empirically convince me that Americans cared about COVID, more than any other people on the planet. And yet, in the United States of America, by far, the US by far, it's not even like it's off the charts, the US stimulated the most as percent of GDP. And so there's no way to really tie the fiscal response to the pandemic, to some sort of a measure of how much Americans cared about the virus. Because we all know that, Americans, when it came to Western countries, generally were more on the sweeter Switzerland side of not caring, than more on the sort of Australia, New Zealand side of really caring about COVID. So then, you cannot explain the fiscal stimulus of 2020, 2021, 2022, in terms of COVID, it was something else, there were some other variable that was motivating policymakers, which by the way, doesn't include just Biden, but also Trump to lubricate social stability through fiscal spending. And that alternative explanation, of course, is everything you've just listed, which is this high level of social tensions in the US. And so yes, I do agree with you that if President Trump or Vice President Harris were assassinated, it would just exacerbate the sort of very trendline that we've been on, I would argue for the last 10 years, but we are on the straight line. And so the reason I keep going back to the secular point, is because six months from now, someone might listen to this podcast and say, wow, these guys are really dumb, because nobody was assassinated. And there wasn't even a single attempt after this one. Probably, you know, unfortunately, mentally deranged young kid trying to assassinate former President Trump, not a single assassination attempt happened, and therefore this podcast is completely useless. And my counter to that would be, I actually think we're already in this world that you're describing. If another assassination attempt doesn't happen, it doesn't mean that we're not living through the macro reality as investors, of higher social unrest. I hope that makes sense.

Erik: Well, Marko, it does make sense. And unfortunately, I think it's a recipe for continuing unrest and continuing problems. What else do you see on the horizon? Let's say, between now and the election, or through the election and including the election, what should investors be thinking about that might not be obvious, or might not already be on their mind?

Marko: So first of all, I think Kamala Harris is a very suboptimal candidate for the Democrats. And there's an empirical track record of this. Her legislative and career accomplishments are, I would say, in the bottom 50% of policymakers in the United States of America, they're just not that impressive. And her performance into 2019 Democratic primary, like we have empirical track record of Kamala Harris running for office. If you look at the polling during the 2019, Democratic primary, President Biden was consistently polling better than everyone else. But Twitterati, as I like to call them, were agitating for an alternative to President Biden. And so, everybody kind of had their moment in the sun. Elizabeth Warren, Bernie Sanders. Kamala Harris' moment in the sun came when she attacked Joe Biden on stage for his various sort of racial policies throughout his career. And then she basically catapulted herself to be the primary challenger that lasted about as long as it takes me to drink a cup of coffee, because of the very next debate, when the focus was on her as the Joe Biden challenger, this was the summer of 2019. She performed extremely poorly. There's a reason that the White House has kept her off the airwaves. I mean, I don't remember the last time she made a nationally televised speech, Joe Biden kind of has a at least an excuse for why he is gaffe prone. He is a very elderly gentleman, Kamala Harris is not.

Erik: Do you think the reason that Biden is not stepping down as president is because they don't want Kamala Harris to show us her talents as president? In other words, they think she's more electable if people don't know what they're getting?

Marko: No, I mean, listen, I don't think there's enough time for you to get a taste, maybe an amuse-bouche, if you will. But I don't think there's enough time for anyone to get a sense of Kamala Harris as the president. And by the way, she would be so busy competing anyways, I don't think that's it. I think Joe Biden is looking at his legacy. He doesn't want to resign. Very few presidents in history have resigned. You mentioned LBJ earlier. Yes, he did the same thing as Joe Biden. Not this late, by the way, I would mention to all your listeners that LBJ decided to resign in March of 1968. So March, not, you know, almost August? I think just the Democratic Party has just been...

Erik: Hang on a second, let's go back to that moment in March of 1968. When that happened, and LBJ resigned, there was a great big sigh of relief. Everybody felt like, okay, that means this beginning of a year that we thought might be kind of tumultuous isn't going to be so bad after all. And then you got the summer of '68, which for people who are not old enough to remember, was probably the most on par with, was it 2020 or 2021, on par with 2020 in terms of civil unrest and crazy things happening in the United States of America, the second biggest year, or maybe those two years are tied. That all happened in the same year after LBJ pulled out. Should we, therefore draw a conclusion, Okay, the reason that all this civil unrest happened was because of a president pulling out of a race, and therefore, we should be concerned that there's going to be more civil unrest this summer? Or is that unrelated?

Marko: No, I don't think it's unrelated. I mean, I think part of the reason why the Democratic Party has so quickly coalesced around Harris, which I think is a mistake, many others, Atlantic, again, as I said, just published an editorial about this. Nate Silver, who I respect quite a bit, as a commentator and pollster, has said the same thing. The Democrats are losing an opportunity to have a democratic process at the convention, to maybe have some irreverence, some showmanship, some pageantry, and have an actual American Idol style competition, which I think would be positive in this particular moment. But they're, I think, is skewing it because of what you just said. Because the convention in Chicago, by the way, which is again, the convention in 1968, led to violence, and I think the Democrats are just saying like, look, let's just package and resell Kamala Harris as the obvious choice, which I think is a very, very big mistake for them. But they're probably thinking along your lines. Last time this happened, it didn't turn out well. We don't want to have a democratic process over three days. It's too risky and we don't know who is going to emerge out of that convention, if that were to happen.

Erik: Marko, let's translate this whole complex picture and appreciate, it is a very complex picture and doesn't translate directly so to speak. But let's talk about what investors care about, which is, what things can we take away from this very big complex situation that helps us with our portfolios, either in terms of where the opportunities are. Or more likely, what needs to be or

can be hedged in terms of risks associated with what's going on in the election and the fallouts and knock on effects from the election?

Marko: That's a great question. So first of all, let's think about the arc right now. I think that the mainstream media and the Democratic Party, and the White House are going to work very hard to build Kamala Harris into a strong candidate. And I think that will be successful over the next two to three months. And therefore, I fully expect President Trump's probability to continue to decline in the sort of betting markets. So, he was at 70% probability of winning on July 15. Today, on July 23, Tuesday, a week later, it's down to 57%. I think it will go down to 55%, 54%, 53%. As Kamala Harris's sort of tailwinds take her higher, that's probably going to change. Media is fickle. They like to build people up and then deconstruct them. And then there's a debate in September, where I assume Kamala Harris will likely not do very well. And then, you could have probability of President Trump rising again. Why does this matter? It matters, because currently, very few investors are short. And we can see that from positioning data. So, there is almost a universal consensus in the market, that we are in a scenario of soft landing. And what you need for a soft-landing scenario, this kind of Goldilocks, is you need growth and inflation to come down. But not into recession level, but down enough to allow the Federal Reserve to cut interest rates. And it also does something else. It brings bond yields down, long end of the curve comes down, which means that borrowing costs for consumers and for businesses decline, allowing soft landing to become a sustainable bounce back. So it's like a mid-cycle slowdown, if you will, like what happened in 2015 and 2016. It doesn't become a recession. This is what everybody, and I mean, generally speaking, we can quantitatively measure and prove this. The majority, the vast majority of institutional and retail investors believe this is the case.

So then why does the election matter? I don't think it's just general political volatility. It's not about assassination attempt, as I argued, it's not about that kind of volatility. It's about volatility, of certainty of outcomes. And last week was very important, the week of July 15. So if you're listening to this podcast, many, many weeks later, go back to the 15th, 16th, 17th, 18th, and 19th of July, those five trading days. Those were the five trading days where we had certainty of outcome. It was like a Petri dish of a Trump administration. It was five days during which we had a window into market reaction to President Trump being the president, because his probability of winning was at 70%. It was before Biden bowed out. It was right after the assassination attempt. So the sympathy for the former president was high. And how did the market react? Not very well. Now, Trump supporters are going to dismiss this as well. It was just five trading days. I agree. You do not want to do a PhD dissertation on this. You certainly do not have statistically significant data, but I don't think we should discount it. And I think that the reason that the market didn't do well, the rotation narrative about going from tech to small caps didn't really work out because then Thursday and Friday of that week, small caps also got killed, value stocks got killed. What happened, I think, is that President Trump, and his election upsets the Goldilocks, soft landing narrative, because there's nothing soft about President Trump, and in particular, his stimulative policies, which the market cheered in 2016 and 2017, for good reason. We needed stimulus at the time, there was no growth in 2016 and 2017. Trump was God's retribution against austerity. He was a mean reversion fairy against the secular stagnation of

that era. In 2024, 2025, I'm not sure we need any more growth at all. There is no need for growth because with growth comes something else. And that's something else is inflation. And so that's where I think that what you saw over the course of those five trading days is that the dollar actually did relatively poorly. So the US dollar did poorly, stocks didn't do well. And bonds, you know, bond yields were actually quite well positioned like they did not come down, bond yields, arrested, they're nice and gentle, moved down, which is what soft landing is all about. And I think that's something to worry about. President Trump wants to stimulate the economy, he wants to cut taxes, I know that vast majority of your listeners are going to say, look, that's going to be great for stocks. I disagree. I disagree, because it's not clear to me that the US economy needs any more growth. And if you add growth and inflation to it, bond yields may not come down, as the vast majority of investors who are betting, who are long, want them to come down. And so that's the risk number one. The risk number two, is that over the next three, four months, we're not going to get any of this. We had that window, that window has passed. And from now until the election day, we could very well have what is perceived to be a close election. And so the risk becomes trading the election outcome, when really the only thing that matters are macro fundamentals. So investors should watch very carefully what the consensus is. And I think that over the next two months, at least, the consensus will be well, this is a close election again. And so in that context, it's very dangerous to be trying to trade the election outcome.

Erik: I don't think that trading, and I can't speak for other investors, trading the election outcome does not interest me. Hedging potential risks from the election outcome does interest me and I don't think so much in terms of if this guy wins, or if that guy wins, I wonder more about what if there's an upset, whether it be an assassination or a terrorist event or something else, because it seems like the geopolitics are heating up and heating up quickly. If we get to a situation and it's not like this just didn't happen recently in Ukraine, where the sitting party has decided that it's necessary for the good of the nation to delay the election unconstitutionally, because of special circumstances, I mean, that's when you get a complete loss of confidence on the global stage, and other nations are freaking out and really getting scared. I'm not saying that's going to happen. I'm saying we're closer in terms of risk conditions to something like that being a real possibility than we've ever been before in my lifetime. And that concerns me.

Marko: I would actually say that I'm maybe more concerned than even you, because I don't think we need...

Erik: No, I'm more concerned than you are, buddy. Let's go take it outside.

Marko: No, I just I just don't think we need an assassination attempt. To get to a point, I think the biggest risk to the US is that there's \$37 trillion worth of debt. And the budget deficit isn't six and a half percent, for no good reason at all whatsoever. And so, the risk to the US is the dominance of a single part, when there's no checks and balances, because we've seen what happens when that is the case, especially in the first two years of President Biden's term. Basically, he could pass whatever he wanted, similar to how Trump could pass whatever he wanted in the first two years of his term 2016, 2017. And what we know from the performance of

both parties is that they tend towards profligacy, towards unconstrained spending in both camps when they are not checked by the opposition. So, this is why a Democratic sweep or a Republican sweep should be concerning to investors. Now, democratic sweep is extremely unlikely, okay, like that's not going to happen. Maybe Michelle Obama runs, maybe then something happens, but we all know the math. And the math is that the Senate is going to go to the Republicans, it's a bad year for Democrats. We all understand this. So this is why nobody really in the markets is talking about a democratic sweep.

Erik: Now, when you say maybe Michelle Obama runs, it sounds like you have a different understanding of where we are in this process than I do.

Marko: I'm joking!

Erik: Oh, okay. I can't tell at this point, who's joking, because it does seem possible to me that we go into maybe the first debate or whatever. And it becomes really painfully clear that Kamala Harris cannot possibly win. And they decide, okay, we got to drop the DEI thing. We really do have to put Newsom in. How are we going to do it?

Marko: I don't think that's possible. I think the first debate is in September, and you know, I mean, she's the Vice President of the United States of America. So look, if they don't run a convention, a contested convention, if they don't run that as an American Idol type of event, then it's over. Like, by Labor Day weekend, this will be over, we will have a candidate that they won't have any more time to kind of like pool in another reserve. And because she's the Vice President of United States of America, like it just makes sense. It's her. But from a performance perspective, it probably doesn't. But what I'm getting at with this is something very important. To me, it's not about risks, such as an extraordinary event that we don't expect to meet the risk is that on January 28, we will inaugurate the president who has no checks and balances. That's the risk. You know, it can be a Democratic president, it can be a Republican president. Now, the reality of mathematics is that...

Erik: You think a sweep is the biggest risk?

Marko: Yes, yes. Now, I want everyone to listen to me very carefully, because I'm going to make a lot of conservatives very mad right now. I don't care what party it can be, green, yellow, can be an elephant, it can be a donkey, can be a tiger, can be an alien race that invades us, it doesn't matter. A sweep is a risk, because it's about material constraints to pause. And a sweep means the President will have no constraints. Now, the mathematical reality of 2024 is that the odds of a Democratic Party sweep are what they observe. They are very low. And that's why I'm not worried about that. The reason that I do think investors should think about how excited they are about Donald Trump in 2024 is that we are in a different macro context. This is a podcast about macro. Well, let's discuss macro for a second, when Donald Trump became the president with a GOP sweep, he did so at a time when a 10-year yield was 1.6%. He did that after eight years of sub optimal growth, where R-star had been unnaturally lowered by several factors, including austerity policies of the Tea Party and the Obama administration together, allied. And

also the fact that the private sector was deleveraging. So when President Trump came and said he was going to cut taxes, and said he was going to basically boost growth, there was absolutely nothing for anyone to worry about, except how fast are you going to sell bonds and buy stocks? Because that was unequivocally bullish, given the macro context. But in 2024, 2025, that is not what the economy needs. Yeah, I mean, it sounds great, corporate taxes going from 21 to 15% seems pretty good for stocks. I don't think it is. Why? Because we have all the growth we need. And we have inflation as a risk, they can rear its head again. So that's where the macro context really matters. I mean, this is kind of like your own personal life, your diet. And what's healthy for you depends on the body type, how much exercise you have, what age group you're in, all sorts of things. Similarly, policies are not always unequivocally bullish for stocks. And so my number one risk is that if we do get a sweep by the Republican Party, or again, just for the sake of people being mad at the Democratic Party, which is not going to happen, the risk is that we get the Liz Truss scenario. The risk is that we have the French election scenario, where the market basically says, wait a minute, we don't actually want more growth. What is the Fed going to do now that you're bringing all these tax cuts that you're going to have higher growth outcomes and higher inflation outcomes? And by the way, this happened again, it happened to Liz Truss in the United Kingdom. It happened in France. Why couldn't it happen to United States of America? And that would be something to think about. And I think that will we got a preview of on July 15, 16, 17, 18, 19, those five trading days again, go back and look at them and look at the market performance. I know a lot of fans of Donald Trump will ignore it. But the reality is that the markets absolutely vomited. The one week, we had President Trump's probability reach 70%. Why? Because 70% probability of getting elected assumes he will carry the House and the Senate. And so I think we got a little bit of a preview. And this is a very controversial topic. And I don't think anybody else really sees it that way. But I think that the macro context really does matter. And it's just different from 2016, 2017. We don't need tax cuts. We don't need growth. We probably need some budget consolidation, we probably need some austerity policies. And it's not clear to me that policymakers of either party are going to do that unless they're forced to by the markets.

Erik: Well, you're right that that is an unconventional viewpoint. But boy, this is a time in history, when a lot of unconventional views are being proven true, so I'm going to be watching carefully to see what happens. Marko, I can't thank you enough for a terrific interview. But before I let you go, I want to talk about another news item that went unnoticed, which is you've changed, you were with a different firm last time we talked to you. You're now taken over as Chief Strategist for BCA research. What are you doing there? What are you working on? How can people follow your work? And generally, tell us what's happening?

Marko: Yeah, so I've left the buy side, and I'm now back at home. This is actually the firm where I started my career in finance. And so, I'm writing in investment strategy called GeoMacro. The premise of this is exactly what your preamble to our podcast is. If you don't have the stomach for incorporating politics and geopolitics into the markets, you shouldn't be listening to this podcast, you shouldn't be reading my strategy. And you should probably not be a macro investor, as I very boldly and hyperbolically said, in my view, we need to incorporate geopolitics and politics. And I have a very particularly, I think, differentiated way to do that. In

the tactical time horizon, I tend to fade geopolitical reaction by the market. When it comes to strategic and longer term investing, I believe that there's almost nothing that matters other than politics and geopolitics. And you got a little bit of a taste of this, by the way, you know, you were focusing on the assassination attempt, or successful assassination, I was focusing on the context that has gotten us to this point. So I do believe that the world we live in today, the R-star inflation expectations, market performance, is almost all an outcome of this 8-10 year period that we've been in that has produced fiscal outlays, procyclical fiscal policy, relatively dovish monetary policy, a lot of things that have happened, can be explained, I think, politically. So yeah, that's what I'll be doing and BCA research. If anyone's interested, you can just come to the website, bcaresearch.com. Take a look at it. You can also follow me on Twitter. But yeah, I mean, thank you so much for the platform, and really appreciate you shouting out the job change as well.

Erik: Well, Marko, we'll look forward to getting you back on the show for an update at some point, and I sure hope it's not to talk about another assassination attempt.

Marko: I hope so too. I hope that we definitely never have to talk about that again. Instead, what I hope we can do is do a little analysis of an American Idol style convention for the Democratic Party. I think that'd be awesome. I think they could bring in some guest judges, like why not have Mitt Romney be a judge at a Democratic Party, American Idol, you know, they could have fun with this. They could be irreverent, but I don't think we're going to...

Erik: So you think the Democratic Party should employ democracy in their methodology? Copy that.

Marko: It's not just that, it's not just democracy, I think it's something else, you know, what we need, we need some humor and what I've seen is that both sides are starting to skew humor and irreverence. And they're way too serious. Obviously, assassination attempt is serious, and it's terrible. But at the same time, the contest itself could be fun. And I think that when too many people are serious, that's when you get serious fights. And I think the Democratic Party had a chance to have some fun with that convention. But clearly, they've gone the other way. Because, they've been telling the American public that this election will determine the future of democracy in America. And I mean, I think that that has set the tone for the election.

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