



Jim Bianco: From FED Cuts, to inflation, to GEN Z's Infatuation with Socialism

Erik: Joining me now is Bianco research founder Jim Bianco. Jim, what a perfect time. We're speaking Wednesday afternoon, just literally minutes after the Fed Press release. We've got a cut, which was expected, some bill purchases, which some people expected, and I think it's also important to talk about the divide.

This was not a unanimous decision of the Fed. What is in your mind, the signaling of a split fed on a decision like this that was widely anticipated? Let's cover all those things.

Jim: All right let's start with the cut. The Fed cut the funds rate by 25 basis points for a total of 175 basis points since they started cutting in September of 2024. They left the door open to the idea that, they might be done or pausing for a while. The dot chart, which was updated or dot plot, which was updated, only shows a median of one more rate cut for all of 2026. Of course, there's eight meetings.

One rate cut means seven of them. You're not gonna get a rate cut if that's indeed what they all wind up doing the other thing they announced. As you pointed out, they call it reserve market purchases, RMPs, don't call it QE. They're going to buy \$40 billion of bills, maybe out to three year notes if necessary, but mainly bills a month going forward.

Now, what's that all about? The Fed has been doing quantitative tightening. They have reduced the size of their balance sheet, which also reduces bank reserves to the point now where the funding markets are not big enough for the underlying treasury market.

Remember, the funding markets, the repo market and everything else, what is their purpose to finance the 38, 39 trillion dollar treasury market? They're not big enough to do that. There's a tightness in that market, and those rates have been going up. So the Fed announced \$40 billion of buying to try and add more reserves into the system, give banks more capacity to hand out more repo loans to meet the size of that market.

Now, the pushback I'll give you is stop there real quick before I talk about the vote. The question that everybody's been attacking has been, I think from the wrong side, they've been saying there's tightness in the repo market. So the fed's gotta do quantitative easing, refer market purchases.

They need to change the supplementary leverage ratio or maybe expand the standing repo facility or all these other things to accommodate the funding market to

meet the needs of the treasury market. And I've said, but no one's turning it around and saying maybe the funding markets are giving a signal.

The treasury market's too big as opposed to the funding markets being too small, and that signal is Congress. You can't keep borrowing. You can't be keep borrowing at this level. You can't keep running \$2 trillion deficits and keep with these massive budgets because if the Fed were to expand the funding markets, which is what they're doing, maybe they're sending a signal to Congress.

Go ahead, keep running these big deficits. Go ahead, expand your budget. Start new programs. And what's the concern there? I think that in the post COVID environment. After the supply shock of 21, that caused inflation to spike into 22. The next biggest driver of inflation is government spending. And if the repo market or the funding markets were too small saying you gotta back off in the government spending, and our answer is no.

We have to expand the repo markets so they continue the government spending, then we're gonna be worried about that. They're just encouraging or enabling more government, which enables higher inflation. Finally, as you pointed out the vote was nine to three. That's the first time since 2019 that we've seen three dissents.

And they were two-sided. Two dissenters Schmid of Kansas City, Goolsbee of Chicago dissented that they did not want to cut rates. And Stephen Miran wanted to cut rates 50 basis points. So we had a hawkish dissent and we had a dovish dissent. But going into this meeting, the expectations were for a bigger amount of dissent. I'll quote Nick Timiraos, the Wall Street Journal, Fed Watcher, yesterday's paper. He pointed out that if you listen to all of the Fed speak, since the last meeting on October 29th, there's 19 members of the Fed. 12 of them are current voters. They rotate the voters. 10 of them have come out with statements that they are uneasy about continuing to cut rates. And five of them were voters, but we only got two con dissents against cutting rates. And overall we got six soft dissents. Now what's a soft dissent? The Fed put out its dot chart again today and there was still a 25 dot plot in there, and six of those dot plots were for three and seven eights, which was the rate before the meeting. So six of the members put down as their dot that the fed should not be cutting rates, although 10 of them have given speeches suggesting it, and only two of them dissented. So a couple of these members that said that they didn't wanna cut rates actually relented and went along with it.

Now why is that important? Because in May we're gonna get a new Fed chairman. Kevin Hassett seems to be the leader in the clubhouse right now and that Fed Chairman is presumably gonna do the bidding of Donald Trump, who has made it very clear. He thinks that the funds rates should be a lot lower than where it currently is.

There's a number of Fed officials that are more concerned about inflation to continue to aggressively cut rates. In theory they could stand up and push back and say, yeah, but you're only one of 12 votes. New Fed chairman, who's the other six that are gonna vote with you to give you a majority because we're not in agreement here

with you that we should be cutting rates, which is all fine and good, but if they wait until May to finally push back on that, they look, the Fed looks.

Highly partisan. 'cause you waited for Trump's guy and then you got a spine with all your dissents. But when we had Powell and before him yelling and before her Bernanke, you never dissented on any of that stuff. But now with Trump's guy, you're dissenting. And so they would've been better off, in my opinion, having a seven five vote Now to show, look, we're pushing back.

He had enough to get the cut through, but we're really of the opinion that we shouldn't be aggressive with these rate cuts in the future. Note to next Fed Chairman, but they didn't do that and I think that might come back to haunt them when we get that next Fed Chairman.

Erik: I'll come back to Kevin Hassett in a few minutes, but I wanna go back right now to some of the comments that you made a few minutes ago about how the market is responding to the government continuing to run all these deficits.

It sounds like you're saying, okay, early stages of bond vigilantes showing up in fighting armor might be, starting to show their faces. Is that what you meant? And I guess if the qualification I think is boy, for any sane thinking person, we've all felt for the last 20 years, like US government spending is outta control.

Surely the bond vigilantes are gonna show up and it's all gonna be, forced their hand. But that hasn't happened in the last 20 years. So what would be the changing factor that would cause Bond vigilantes to actually be able to change the or to force the hand of the government. And why hasn't that happened for the last 20 years?

Jim: I'd say for the last part of the question, the last 20 years, let's say pre COVID, no matter what we could do, we couldn't get inflation above 2% to any great degree except for brief moments here and there. So we were always in a very low inflationary environment. So the bond vigilantes really had nothing to be vigilant about.

In the post COVID environment, we are five years. We are approaching the fifth anniversary of the COVID shutdowns. Right now, I actually, excuse me, the sixth anniversary is coming in a few months in February of 2026, and the inflation rate is still 3% or higher, depending on which ones you look at. So they can't get inflation below three Now.

As opposed to above three. So the bond vigilantes, I think are, as you pointed out, putting on their armor and starting to push back. Now, I would argue again what I said before, 175 basis points of cuts and the 10 year notice, 55 basis points higher. On top of that, I would point out that gasoline prices in the last couple of days.

Have now broken below 3% as \$3 as national average. That is the first time since the Russian invasion of Ukraine, that we have seen gasoline prices below \$3. So

that alone should have been very bullish for bonds. So you've got falling gasoline prices, you've got 175 basis points of cuts. And you've got the 10 year yield higher by 55 basis points.

While all that's happening, that sounds to me like a real pushback in terms of bond vigilantes, even though you might say, but Yeah, but it's still 4.15. It's not five, it's not six. Yeah. But they've ignored what should have been. Incredibly bullish stories for bond yields to fall and fall quite a bit, and they haven't.

So yeah, I think that the bond vigilantes are out there in force right now. And if we continue to push, Hey, we need more cuts. We need to be cutting by 50, the president. Criticize Jay Paul after the press conference saying that they should have cut 50 basis points today and not even be talking about being close to being done.

That the bond vigilantes are there. That, that we should probably be in the low threes right now, all things being equal, but we're 4.15, so there is an impact from none.

Erik: Let's stay on inflation before we come back to Kevin Hassett. Obviously we just got a 25 basis point cut, but more importantly, as you say, starting in May, president Trump has been super clear.

He wants a lot more cuts. He wants to see 1% cut, baby cut. Obviously the textbook fear is that really starts to unleash inflation. I suppose the counter argument to that would be while that. Does unleash inflation, it won't unleash any significant inflation before November's midterm elections.

And I think that's probably what's driving the president. So do we have a setup here for cut, baby? Cut. That sets up a big inflation response, which maybe doesn't actually kick in before those midterm elections, but. Boy, it seems to me like we could have a setup for inflation to start to run away in late 2026 into 2027.

Am I right to think that?

Jim: Yes. For the inflation statistics are officially classified as lagging indicators, so they will take some time to kick in and show the inflation bond markets are forward looking. They're not gonna wait for the inflation, they're going to anticipate the inflation.

So if you wind up. Cutting too aggressively, and the markets are worried about inflation, they'll react to it almost immediately. And that, could be the story of 2026 if we were to wind up getting a single-minded focus fed chairman who wants to aggressively cut interest rates. By the way, let me.

Talk about that inflation by diving off a little bit into the labor market. Why did the Fed cut rates, what is the Fed most concerned about? They're concerned about that jobs are falling that a year ago, a year and a half ago, the US economy was cranking out 150,000, 180,000 jobs. The beginning of the year we're still, churning out.

80 to a hundred thousand jobs. Now it's churning out somewhere around 10 to 30,000 jobs. And I say that somewhere because we don't have the official statistics because of the government shutdown. They're still only current through September. We're looking at things like a DP, we're looking at things like challenge of Grand Christmas layoff announcements.

We're looking at some alternative data to that degree. So the Fed is worried that. The labor market is producing less and less jobs. Absolutely true, but they only give very short notification about what the Fed calls labor supply, which the market calls the breakeven rate. How many jobs does the US economy need to create?

The biggest driver in deciding that number is the population growth of the country. So if you go back to 23 and 22, when we were cranking out almost 200,000 jobs a month, the population of the country was booming. Why was it booming? Because of undocumented workers in illegal immigration, we were getting 3 million plus illegal immigrants into the country a year in 2023 that was making the population of the country swell by more than 1% today.

I'll go with the numbers that Trump used at his cabinet meeting last week, and he's repeated these numbers many times that the illegal immigration into the US in the last six months, he says, has been zero zero, not one person. He also says 2 million people have deported. 500,000 of them have been through ICE arrests, and 1.5 million have self deported. Now, he's not showing his work. We don't know if those numbers are accurate but conceptually they are accurate. We do know just from the watching the economy, the number of undocumented workers coming into the country is down a lot. The number of people deported being deported versus last year is up orders of magnitude.

Whether or not it's 2 million and zero or some number, near that we don't know. But, that brings up an issue that it's possible that the population growth in the United States is either zero or negative in the 250 years this country has existed. There's only been one other year that we've had negative population growth.

That was 1918, the Spanish flu, we got close in 2020. We got down to 10 basis points of growth. We didn't even have negative population growth during the Civil War when we. Killed 6% of the population of the country. 'cause the fertility rate, the average woman had about six kids. That's why we didn't have negative population growth, but we could be having it for the second time now, or something very close to zero if you don't have population growth.

Paul actually said this, if you don't have population growth, you don't need a lot of jobs. And we might be cranking out 20 or 30,000 jobs a month. We don't need many more than that. And if you are cranking out 20 or 30,000 jobs a month. Every other, or every third month might be a negative month, and then you have a 50,000 month to offset it there along the way.

If that's the case, and the Fed is cutting rates because they're worried about the labor market, they just cannot make that jump. Yeah, we, we're producing 180,000

jobs a month. Now we're producing 30, but we only need 30 or 20 or zero, and we're okay with 30. So don't worry about the labor market. They can't make that jump.

They're saying, what if we're wrong? What if the labor market keeps sinking? We gotta keep doing what Paul has referred to as risk management cuts, and they're not necessary. Then all that stimulus is just gonna go in the prices and push inflation even higher. So that's really the question about the labor market and about how inflation fits into this.

How bad is the labor market right now? And to answer that question, you have to ask the question, how many jobs do we need? Is it zero? Is the break even rate zero? Any positive number is okay. Again, over. A three or six month average. You can have negative numbers in there and some positive numbers in there as well too.

That is really the open question, and if we come to the answer that yes, it is somewhere near zero, yes, 30,000 is enough, all these rate cuts are just gonna go towards inflation, and we know everybody's angry about affordability and you're just gonna push inflation even more. That could become a real problem.

Erik: Help me if I'm misinterpreting the news flow here. 'cause what I think I've heard is a few weeks ago, president Trump announced, okay, look, it's the fix is in. It's a done deal. I've made my final decision who the new fed chair is going to be. I'm not going to announce it till after the end of the year, but.

It's a done deal. It's decided that's it. And then this week he started interviewing other guys for the job. Okay. Did he change his mind? What happened? I think almost everybody in the market assumed when he said that his decision had been made, that he was talking about Kevin Hassett. So I guess I should ask first, do you agree that's who he meant when he was saying that the Vix was in?

How come he seems to be backtracking on that? Is he, is it no longer a certainty that Kevin Hassett is the pick? What do you think?

Jim: Yes, I think Kevin Hassett was the pick. I think that there is some doubt if you wanna go with betting market numbers. Kevin Hassett was trading mid to high eighties after that announcement came out that, Trump has made his decision and now he's trading 69.

It's still above 50. He's still the favorite, but doubt is creeping in. Why is that doubt creeping in? As best I can tell is after it became known that Hassett was gonna be the guy, a lot of press reporting was corporate American Wall Street was pushing back about Hassett and they were unsure whether or not he should be the Fed chairman.

Not because of his resume. From a resume standpoint, Columbia professor of Economics has worked in the White House, has worked at the Fed. He has got a resume that makes him qualified to be the Fed Chairman. Question is, are we gonna

get the Kevin Hassett of the resume or are we gonna get Kevin Hassett stooge of Donald Trump, whose job is to just cut interest rates and not even think about anything else?

Wall Street and Corporate America was worried we were gonna get Kevin Hassett, stooge, and they were saying what we were, what I was trying to argue, before you cut too much, you're too aggressive. You might have a backlash in the bond market because you're not being sufficiently vigilant about inflation, and you could actually have higher rates.

So what I think happened was Hassett who's been out there almost every day, has been trying to assuage these concerns. About the idea that, he would he would overdo the rate cuts, and I think Trump doesn't like hearing that from him. Also, Trump likes the way that Scott Bessett, the Treasury Secretary, is a respected and calming voice in the market, and Hassett Wise, a very qualified, and he's a, competent person.

He's not getting that respect. From the marketplace right now. Seems like Trump is maybe having second thoughts and he is opening up the the selection process to interviews. But let's be clear. Question one is, what are you gonna do to get the funds rate to 1%? How are you gonna ignore anybody who gets in your way?

In order to get the funds rate to 1%, it's gonna be question two. So he's not looking for an objectively minded person. He's looking for somebody who wants to be single focused in lowering interest rates.

Erik: Let's talk about the prudence of the President's agenda because I can't believe he really cares that much about policy rates, which is what the Fed actually sets, I'm assuming.

The reason he cares about that is he's making the assumption that those policy rates translate, you, you lower the policy rate, it's going to translate. To lower rates further out on the curve. As you've described, it doesn't always work that way. I'm not sure if the president sees that, but boy, if you imagine the Democrat party saying, okay, we wanna do anything we can against President Trump, how many economists could we round up to express?

Publicly, the view that aggressively cutting policy rates doesn't necessarily result in lower interest rates on something like mortgages or car loans or things that voters care about. It seems to me like there's a pretty large contingent of economists that don't really like the president who would be ready to take that view.

And I think that frankly. The way I understand monetary policy, transmission is a lot of it has to do with the mood of the marketplace. So that kind of propaganda, if you will, could be very effective in maybe causing the back of the curve to respond opposite the way the president is assuming.

Am I reading too much into that?

Jim: No, you're reading exactly into that, that is the concern. And there will be enough people that will come out, me included, that would say, look, aggressively cutting rates is gonna backfire on you and produce higher long-term interest rates, because that's where mortgage rates are set and that's where corporate borrowing is set.

And those are the rates you wanna lower. Remember, Trump is already said that he. Thinks he should be fed chairman, but he acknowledged he can't be. He wants to appoint himself because he's a real estate guy. So that makes him, in his mind, an expert in interest rates and in fairness to Trump, every real estate guy I've ever met thinks that they're an expert in interest rates.

And they always have their expertise go in one direction. They're too high and they need to go lower. That's what every real estate guy thinks, because they think in terms of mortgages because that's the way that they're they've cut their teeth. So he's of that opinion right now that he needs to see interest rates come down.

And I still think that, he, that's why he believes. That the economy will boom. If we were to see the Fed continue to cut rates that eventually, long-term rates, mortgage rates, all of those borrowing cost rates will come down. And if there've been slow in coming down now. Trump's ready-made answer is too late.

That's what he calls Powell. You should have been cutting rates aggressively and earlier and we'd have a much lower tenure notes. We'd have much lower 30 year mortgages if we were to do that. Although I would argue no, it's more about. Worrying that you're overcut worrying that there's an inflation problem and that's what's holding it back.

And the only reason we're down at 4.15 is drill, baby drill seems to be working 'cause gasoline prices are down, but you still can't even get the funds rate. The 10 year rate below when you started cutting the funds rate at this point. So yeah, I think that's exactly what it is that.

The president is pushing really hard on it, and there's going to be some pushback if that's where they're gonna go in the future. That is, the new Fed chairman is gonna be single-minded, focused about being aggressive and cutting rates.

Erik: It seems to me that this is all a great big setup for the president to accidentally unleash.

I think there's a secular inflation in the making anyway, but it seems like, it takes a catalyst to really get an inflation to run away. Didn't you just kinda lay out the game plan for creating that catalyst?

Jim: Yes, and that is my concern about why I think interest rates could go higher from here because.

We're not talking about, being vigilant about inflation. Jay Powell said today that every member of the Fed expressed a concern that inflation is too high. I agree with him. Not one member of the Fed, according to Jay Powell has, is their base case. Any consideration to raising rates in the future doesn't mean we have to, but think about what I just said.

We're all worried about inflation, but we're not gonna do anything about it. We're, because doing something about it would mean raising rates. And so that is a, that is going to be a real concern. And as a matter of fact right before we, we started talking, Jay Powell said something at the presser too that was interesting.

He said that the inflation rate ex-tariffs is in the low twos now. There is no measure called inflation rate ex-tariffs. So obviously the Fed has invented one. They haven't shown their work as to where they come up with it, but I was looking at some of the breakdowns of the inflation numbers and I was looking at CPI services 'cause we're not tariffing services.

That's above three. CPI services. Less energy is above three and a half right now. I don't know. Yes, he's correct. CPI goods, which is largely a lot of tariff stuff is in there, is rising rapidly, and that does account for the majority of the rise of inflation over the last several months. But if you take that out of the equation.

Services are still above 3%. I don't know where he comes up with the low twos. Obviously he's got a measure that he came up with to come up with that, but I wish like the president would show his work about what the population growth of the US is. I wish that Jay Powell would show his work as to how he came up with that low twos number of, inflation ex-tariffs.

Erik: Let's talk a little more about inflation's, particularly secular inflations and how they work, because I could imagine, somebody from the Trump administration was listening to the two of us talking about this. They'd say, look, guys, come on, relax. We think that we can bring policy rates down that should bring long-term rates down in the unlikely event that Jim Bianco is right.

And what really happens is that pushes longer term rates up because of inflation fears. We can make an adjustment at that point, maybe we'd have to hike rates in order to bring longer term rates down, but we'll find that sweet spot and it's all gonna be fine. I don't think inflation works that way.

I think the way inflation works is once you start to see a runaway, not so much in inflation itself, but in inflation expectations. What happens is it changes consumer behavior. People start buying things now in order to buy them before the price goes up and all of the sudden you get a runaway situation that's out of control and can't be stopped.

It seems to me like we're playing. We're playing with fire here. We're playing with matches at a time that we don't understand that the forest is really dry and potentially at risk of once something gets burning, we can't stop it. Am I exaggerating to think that's a risk and what could go wrong here?

Jim: No, it's a real risk and it's happening right now, and I'll even, Jay Powell addressed this and I disagreed with him there. There's two broad measures of inflation expectations. One broad measure is market-based measures. You can look at the inflation swaps market. You can look at the treasury inflation protected securities market to back into what's called the inflation break even rate.

What is the market pricing in for inflation? So if you look at market levels of inflation there. Anchored to use the fed term. They're low in the low twos, they're not moving. They don't have a lot of volatility, and they would give the Fed and the administration comfort. See, the market-based measures of inflation are not a problem.

But if you look at the consumer-based measures, the surveys, the University of Michigan Survey of Inflation if you look at the political polls, the number one issue according to the political polls is. Affordability, the president's approval rating is falling because everybody's talking about affordability.

What they mean is the level of inflation. CPI is up 27% since April of 2020. And they would like to see some relief on these high prices in their example. Inflation for the public is unanchored, and they're very upset about it right now. Jay Powell dismissed it by saying that the inflation numbers are well-behaved in the surveys.

I'm like. We've only been talking about the University of Michigan being at 30 and 40 year highs in inflation expectation all year. And I'm sure he's found some other survey that says that, no, that's not the case. But the big ones that we look at are showing that's the case. That really comes down to what is more important than a bunch of bond traders aren't pricing in future inflation, or the public is tanking the president's approval rating and is spit and mad about affordability. I'm gonna go with the public being more important than a bunch of bond traders and that the public is the one that's going to lead towards unanchored inflation 'cause they want something to be done.

I'll say the last thing about this is how mad are they? They just voted a socialist in this New York City mayor. They almost voted a congressman who is a socialist in, in a very red district in Tennessee, and they voted a socialist in the night before we're recording as mayor of Miami. So they're now turning towards socialists that are saying, you want affordability?

I'll just cap the price. I'll just make it illegal for these prices to go up anymore. Does it make. Economic sense. No, but I just want relief. And if they're offering me relief, I'll take the relief is what we're getting right now. So yeah, it is a problem. And just because the tips desk at Goldman Sachs is not pricing it in.

Therefore doesn't mean it's a non-problem

Erik: Jim, I couldn't agree with you more. Let's shift gears now and talk about the consequences of all of this stuff in markets. If you and I agree that there's a very significant risk that we're about to unleash a secular inflation the first thought is both precious metals in crypto.

Then I guess the next thought is let's talk about what happens in a big inflation to the stock market. I think a lot of people, remember the 1970s and think inflation up stocks. Down. I don't think it really works that way. I think it's inflation up stocks up at first a lot, and then stocks down only after the feedback loops kick in.

So let's get into what this is gonna mean for markets.

Jim: Yeah. So let's start with the precious metals markets. Obviously they're flying year to date. I'm just looking at my screen right now. Silver's up 110%. Gold is up 61%. Year to date. Silver traded over \$61. The day we're recording at one point earlier in the day and gold is still at around 4,200.

They're not pure inflation plays, I don't think they are. What they are is they are. Uncertainty, bad things happening plays. That's why you buy gold. One bad thing obviously is inflation. Deflation could be another one. Political strife could be a third one. And the like. And so the fact that gold has been moving up quite a bit has been a signal to the marketplace.

It's worried, there's worried that there is a problem here and a lot of that's been coming outta Asia right now because you could actually argue that within Asia. The inflation problems and the worries are bigger. Japan has got a real inflation problem for the first time in 50 years. 50 years. Japan has a higher inflation rate than the United States.

You gotta go back to 1977 to find the last time that they actually that, that the, they had a higher inflation rate than us, as they do right now. China is an, I've been a very big bearer on China. I think that their economy is struggling. I think they've got a real estate problem. So that's been the big catalyst.

For gold, and the problem with China is if their economy is struggling, their answer is print, more accommodation, more government spending, and that would lead to inflation over in China. Now, the stock market, you're right, the stock market as we talk right now is just closed a few points short. Of an all time high.

The all time high, by the way, was set on October 29th, which was the last day that the fed cut rates. And so at this point I think we need to define the stock market two ways. There are the AI companies and then there's the non-AI companies. I use Michael Camp's at JP Morgan. They went through and they identified what they call 41 AI related companies.

It's the Mag seven. It's a couple of other companies along those lines. It's a few power companies that get primarily their business from supplying data centers with

power, couple of capital equipment maker companies, 41 of them, those 41 companies. 47% of the S&P 500 market cap. The other 459 companies in the S&P are 53% of the S&P.

Now, what I just said is one theme is half the US stock market, when was the last time one theme was half or more of the US stock market. The argument is, and I've looked at the data too, you'd probably have to go back to the railroads of the late 19th century. To find the last time that we've seen a theme concentrated to that degree.

The AI companies have been 70% of the gain of the S&P 500 over the last few years. The other companies the have the other 4 59 companies have been only by about 30% of the gain. We restated the non-AI part of the stock market is up about 8%. Per annum over the last couple of years. Not a bad number, but we're all used to this 20% gain that the index has.

That's largely because of AI. So we've got a transformative technology coming in right now in the form of ai, and that has gotten the marketplace to get excited to push those stocks up. Beyond that, you've been getting rather middling kind of stock market returns, seven 8% type of returns in the market, and you're right in the initial stages of an inflation.

The earnings look good. Companies can raise prices and they can fatten their margins. But as the inflation goes on, that reverses because then something else happens. Their input costs go up, whether it's labor or raw material goods, especially if it's raw material goods from overseas that's being tariffed.

They go up and they're gonna start getting squeezed. That's why if you go back to the seventies example, if you go back to the late sixties, early seventies, people were openly saying. The best inflation hedge is stocks because they can raise prices and keep up with inflation, so own stocks. And then by the mid late seventies, that completely reversed and it completely went the other way because it was yes, but your input costs go up and your margins get squeezed, and it's really hard to make a profit.

And the stock market was a terrible performer. Until the early 1980s. And so that's where I think we are. We're in the early stages of the of the inflation boom. But even with that, the non-AI part of the stock market, which would be more interest sense inflation sensitive is really. Seven, 8% returns a year.

It's not the 15 to 20% that we've gotten used to with the overall index. That's because of AI

Erik: Jim, let's come back to what you said earlier about socialists being elected and so forth. It seems to me what's going on here is in decades gone by, younger generations didn't vote and therefore didn't have much say in things.

They were busy going to nightclubs and partying and having fun and, nobody voted. Therefore the opinions of 20 somethings didn't really matter in terms of electoral outcomes. Seems like Generation Z is voting and they're voting for socialists and there doesn't seem to be any amount of, Hey guys have you looked at the history of this and do you understand the reasons that the United States has been more financially successful than socialist countries? The answer is they're not interested in hearing anything from old people. Okay, boomer, whatever you say, we don't think that your capitalist system is working for us.

We're gonna pick the opposite of it, whatever that means. And we don't really want to think anymore about it than that. At least that's the way I perceive it. It seems to me like that's, they're more than half of the people. They're growing in their numbers. They're going to continue to dominate majorities as long as we have a democracy seems to me we're gonna have more socialists, not just mayors, but congress people and eventually move toward a socialist system in the United States.

Am I wrong to think that's almost inevitable? And if it does, what's the long-term outlook for markets?

Jim: I think you're right, and I think you're right for the following reason, it hasn't been working for them. The widely quoted statistic that a lot of people have been saying is the average age of a first time home buyer's 40.

The reason it's 40 is you need to save for many years in order to buy a house. Prices, as I pointed out, are up 27%. They are finding it at very difficult in order to make ends meet when it comes to prices. Then on top of that, you've got the whole idea about what AI is gonna do to the labor market, the jobs market.

I'm graduating with a degree from a recognized university, in other words, I'm not getting a basket weaving degree, and from a university you've never heard of. I'm getting a degree from the University of Michigan in business or something like that. Good degree. Degree, good school and I'm not being able to find jobs.

And what I've been told is all the jobs I wanna be find I would like to get those entry level jobs are being replaced by a large language model. So they're feeling that prices are too expensive, opportunities are too few. And then here comes a guy like Mandami. We're going to have free buses. We're gonna, we're gonna have cheaper grocery stores.

We're gonna put a cap on the amount that your rent can go up, and the boomers are telling 'em that stuff doesn't work and they're saying, yeah, what you are doing isn't working for me now, so why should I listen to you? 'cause I'm not happy that I gotta save till I'm 40 to buy a house. I can't get a job because I'm being priced out of every job because of a large language model.

I can't afford anything at the store. Now, and you are telling me that if I vote for this guy, it's gonna be worse. It's pretty bad right now is what they're trying to say. And so I understand that. And you're right. Until we can tackle this affordability problem, until

we could show them that capitalism is the way to go, look, I'm of the age that, I came into the workforce in the early eighties.

During the Reagan boom during, after the 82 bottom in the stock market, when the 25 year Ole's all wanted to wear yellow suspenders or yellow ties and suspenders and get a job on Wall Street and make a lot of money because there was opportunities there left and right. That is not the case today. So I understand where they're going.

You might refer to this as a fourth turning type of thing, and that you know that we are in that fourth turning, that winter that we're going to see with the pushback that we're getting. On one respect. I get it. I understand their frustration. I understand that, lecturing them about the evils of socialism and the virtues of capitalism, when they don't see it, is it really gonna help them?

Right now? And yeah, it might get worse until it gets better. Now the way it could get better is we start to attack this issue. Take housing. How do you fix the housing problem? More supply. The problem there is the president keeps yelling that the affordability thing is a con and it's a hoax, and it doesn't exist, and prices are coming down and things are becoming more affordable.

That's not the way to answer that question about affordability, that you're wrong. Everything's fine, is really what is what his answer is. So we're not gonna address it and we're gonna have a pushback. So I hope. We're going to start to address it. We need more homes built, being built. The number that I've seen that I believe is from 2009 to today, there's been about 21 million new households formed in the United States.

2009 to 2025. There's been 18 million new homes built. So we have a deficit of about 3 million homes plus. Probably another 2 million existing homes have been condemned and torn down because they were just old and not out in disrepair. So we might have a deficit of about 5 million homes. We need to loosen up, say zoning laws, building laws, land use laws in order to let contractors and let builders and developers build more homes.

Problem is the the boomers that own the homes don't wanna hear that because that sounds like more supply, more competition. My house might fall in price. So yeah, we've got real issues we gotta work through. If Neil Howell was here, I think he would probably say, yeah, and that's exactly why we have fourth turnings and maybe we're getting very close to one right now.

Erik: Isn't it true then? The fourth turning usually breaks down and replaces all of the biggest trusted institutions and so forth. Seems like we are indeed. Very definitely in the late stages of a fourth turning. 'cause they last for about 25 years. The expectation would be sometime in the early 2030s, we start the first turning with newly constructed systems that the younger generation is in charge of designing.

And, it would be the millennials are in charge and Gen Z is doing all the work in order to usher in new systems to replace what we have today. I don't know. It's, it feels to me like. The the feelings of Generation Z are completely understandable, but I think about, I don't think they really understand the consequences of socialism.

What do you do? You could try to reach out to them and communicate with them, respecting their views, trying to engage them in a respectful debate about the benefits of different economic models and maybe why socialism isn't the solution. Thing is Jim. The last guy who tried that was Charlie Kirk, and it didn't really end well for him.

Jim: I agree. What you have to do is instead of lecturing them about the evils of socialism, do what I saw when I was 23, 24 years old, in 1983, 1984, and that was. The opportunities that capitalism was presenting, that you can get these jobs that could give you decent careers and get you moving along to being able to afford nice houses and nice things, and do the things in life that you wanna do.

Show them the opportunities. Instead, we tell 'em, socialism bad. Save till 40. And don't complain about the prices at the store. I'm sorry. That's just the way it is. That's not a solution for them, so they're gonna need to have something more than that. So hopefully we'll get to that point. You are right in the first turning, maybe with large language models and AI being the transformative technology I am a big believer that technology is a net creator of jobs

I've seen the studies that say 50 million jobs will be displaced by AI of 160 million in the United States. So roughly a third, maybe about 30%. Okay. I think that might be right, but I also think that AI might create 70 million new jobs and those new jobs it's gonna create. Are currently in industries that don't exist. And so maybe we could get to the point where we turn to the millennials and the Gen Zs and say, those 70 million jobs in those industries that don't exist, go create those.

Go create those industries, go do that, and you will make, and that's the wave that your generation will ride. In order to become more financially secure and not wait for the boomers to do it, or the boomers won't do it or the Gen Xers to do it. 'cause the Gen Xers are now starting to approach 60 years old anyway, and the older ones are at least.

And so that hopefully could be where they're gonna go with this in the first turn. And I actually think they will. And I think that, like I said, at the end of the day, technology is a net creator of jobs. The problem is. I can identify the job that's gonna go away, the job that it's gonna create doesn't exist.

So it's always a concept that it's out there and but they usually are. And those jobs, go make those jobs reality. And so hopefully they will do that.

Erik: Jim, I can't thank you enough for a terrific interview. As usual, before I let you go, let's talk a little bit about what you do at Bianco Research.

You are not actually running an ETF. You manage an index, which WisdomTree follows with an ETF. So people who want to invest around your views and your strategy have a way of doing so. Tell us more about it.

Jim: Yeah, so I do manage, I'm a fixed income guy, by, by, by training and by practice. And so we do manage the Bianco Research Total Return Index.

You can find out about it at BiancoAdvisors.com, we set the parameters on the index and WisdomTree as an ET TF that tracks our index. I've used the example, think of me like the head of the S&P 500 Index Committee and SPY tracks my index. That's the setup that we've got. WTCN is the ticker symbol for the wisdom Tree Bianco fund, and my day job still exists is that is as being the researcher of Bianco research. You could find out more and more about us at the words Bianco research, either BiancoResearch.com is our website, Bianco Research on Twitter, Bianco research on YouTube. Either Jim Bianco or Bianco Research on LinkedIn.

And so you could follow me on any of the socials. I try to stay active on the socials as well too, or check us out on our website.

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