

**Erik:** Joining me now is 42 Macro founder Darius Dale. Darius, prepared as always a slide deck to a company. This week's interview for our regular listeners, you already know this, but for everyone else, the way this works is Darius has a huge slide deck which he shares with his paying subscribers. He's kind enough to share the entire deck with us, with the condition out of respect for those paying subscribers that we have to redact the slides that we don't actually use.

So please forgive any blank slides that you find in the download link. You can search. Certainly get all of it by subscribing to 42 Macro. We only provide you with the slides that are discussed in this week's interview. Darius, I wanted to get you on the show, very first guest of the year because boy, back in 2022, I think we had you as the first, or maybe it was the second guest of the year.

Everybody was bullish. Boy, sounds exactly like today where everybody's all in, running it hot and you actually were bold enough to use the words crash year and say guys, I think there, there's a lot to be worried about. You've nailed that call in 2022. It turned out not to be the very positive year, everybody thought.

Let's start with the real high level. Is this gonna be a crash year or is everybody right to be all in?

**Darius:** Ooh, that's a great question. Way to start us off Hot Eric. So thanks again for having me. It's always a pleasure to be with you and your wonderful macro Voices community. I'll also add just one quick highlight.

We also had the same view coming into last year, 2025. Recall that we thought the Trump administration would kitchen sink the economy from a policy sequencing standpoint. And ultimately we thought the markets would crash to price that in. Ultimately recover very sharply and violently to the upside.

And that's obviously exactly what happened last year. Kudos to the team at 42 Macro for getting that getting into answering your question I'll jump right into sliders, hop right into it. We'll go to slide 115 where we show our the latest refresh of our positioning model, which we refresh daily for our clients.

And right now we're observing a historic degree of crowded bull positioning. Which makes me very uncomfortable as an investor because typically what happens when you get to this extremes, incredible positioning. You tend to have bad outcomes in financial markets. That doesn't necessarily guarantee a bad outcome in financial market, but it certainly increases the probability of one.

So when we look at, the positioning cycle indicators that correspond to the short to medium term time horizon, in which are the AI bulls bear spread and the National Association of Active Investment Manager Stock Allocation survey. Both of those the latest values for both of those time series are breaching their respective bull market peak thresholds.

Going back to the early late eighties for the AI bulls bear spread , early two thousands for the name survey. So that's that indicates that there's a high risk of a correction over a short to medium term time horizon, which in our risk management nomenclature is one to three months.

If you look at the indicators on the far right of that table, on, on the right of slide one 15 where we show the AI stock allocation survey the AI bond allocation survey, the AI cash allocation survey, we use that to proxy investment advisor positioning. We look at the S&P 500 3 month realized volatility to proxy, systematic fund exposure positioning.

We look at implied volatility correlations to proxy the gross exposure of our market, neutral hedge fund clients. And then finally we look at the S&P500 press the next 12 month earnings multiple, as well as investment grade credit spreads, and as well as economic policy uncertainty to proxy various cohorts of the broader buy side and their crowd and their crowded positioning, whether it be bullish or bearish.

And right now, the. The compendium of indicators are enough of those indicators are breaching their respective bull market peak thresholds. That suggest that there's, some bumps likely ahead of us over a short to medium term time horizon and potentially a medium to longer term time horizon as well, purely from the perspective of the positioning side.

And one final thing I'll say on this, on slide 116 if you go back and look at all those indicators and just look at them in terms of the percentile of implied crowd at bullish positioning based on the latest values, this is about the third highest crowd at belows positioning we've ever seen on a median on a mean basis and the second highest we've seen on a median basis.

And that would seem to suggest that we're gonna have to have a lot of good news accumulate for markets to power through this through this dynamic.

**Erik:** It seems to me that there's a lot of parallels here. Going into the 2000 trading year, boy, quarter of a century ago. I guess I must be getting old or

something, the thing that seems similar to me is everybody was betting then on the internet being a really big deal.

They were right about that, but it just got so far ahead of itself that we ended up having to have dotcom bust before we could, a couple of years later get a recovery. And of course they were still right. The internet was a really big deal. It still is. It seems to me the parallel there is AI.

It seems like it's the big driver in the market. Everybody's right that AI is gonna be a really big deal, but it also feels really overdone. So how do you see, and I guess the, the challenge there was. Almost everybody knew there was a bubble, but nobody knew how to time it. So how do you see this crowded positioning that you're describing on page one 15?

Resolving?

**Darius:** Yeah, that's an excellent question. I'm so glad you brought up the early two thousands market cycle. 'cause it's very akin to what we're experiencing here here in 2026. Historically when you have these CapEx bubbles going back to the 19th century railroad, build out the 20th century consumer durable goods build out as well as the 20th and 21st century internet CapEx build out.

You always tend to see those mar those CapEx bubbles tend to precede. Secular bear markets, and oftentimes, significantly adverse outcomes in the economy as well. The panic of 1873 led to the long depression. The 1929 stock market crash ultimately led to the Great Depression.

We obviously saw the.com bus lead us to the jobless recovery and then ultimately the housing bubble, which ultimately gave way to the global financial crisis. I think if you take a multi-year time horizon and perspective. Things aren't great, I'll just leave it at that. But from a medium term time horizon perspective, which is set of three to 12 plus months, three, three to 12 months in our risk management nomenclature, we do see this historic degree of bolus positioning resolving itself positively.

But this will probably the last gasp higher in that, from that perspective. If we could turn to slide 24 where we show the latest refresh of our macro weather model, which we again, alongside our positioning model. We refresh six days a week for our clients here 42 Macro. What we find is that if you look at the current constellation of the six key macro cycles that matter, with those being growth, inflation, monetary policy, fiscal policy, liquidity, and positioning.

Four of the six are currently headwinds for the market. Now again, this model is designed to help project the dispersion within and across asset markets, or really mostly across asset markets. Over short to medium term time horizon, which is again, one to three months in our risk manage nomenclature.

And so that suggests that right now we're probably due for a correction and or some violent chop to burn off some of this crowded bull positioning before we can set the stage to a meaningful move higher. And looking at what's currently a tailwind growth in inflation.

They're both currently tailwinds as determined by the the features in the model. But when we look at the things that are currently headwinds. Ultimately, we have to see these things transition to becoming tailwinds for us to, make new highs on a durable basis and really any meaningful and or explosive move higher, which still may be in the cards, by the way.

I don't think the AI CapEx cycle's done. We certainly still see a tremendous amount of fundamental support for the market, aside from this Credis position dynamic. So let's unpack the. Monetary policy, fiscal policy and liquidity cycles independently because those are headwinds that we ultimately expect will transition to becoming tailwinds over the medium term, which will support an unwind, a positive resolution to this current credit bull positioning, which is likely to remain a headwind until this market peaks.

So on the monetary policy side of things we had a strong easing impulse in the Fed funds rate. We had a weak easing impulse in the two year nominal treasury yield. Fed funds rates spread. We have a strong tightening impulse in the Fed's treasury holdings to marketable treasury debt ratio. We have a strong tightening impulse in commercial bank reserves to commercial bank assets ratio.

And then we have a strong tightening impulse in the SOFR IRB spread. So ultimately we think the fed's. Response to the tight conditions in the repo market will ultimately be one that is more balance sheet expansion, more reserve management purposes, and ultimately we expect the structural forms that the, that we've been forecasting at the Fed for years now.

We expect the advent of those structural forms will ultimately push the Fed funds rate lower. And make the market more right? With regards to established policy bias. So ultimately the monetary policy cycle, which is currently a headwind for of risk assets and broader financial market risk taking will ultimately transition to becoming a tailwind at some point over the next three to six months.

So that's why that's one dynamic that could change, that could help this credit bullish positioning resolve positively. On the fiscal policy side of things we that's currently a headwind. We have the strong tightening impulse in the sovereign fiscal balance to GDP ratio. We got a weak tightening impulse in Charlie 12 month federal revenue.

We have a strong tightening impulse in trailing 12 month federal expenditures. We have a strong tightening impulse in the church of general comp balance. The bank reserves ratio 30%, essentially an all time high. The bills. The marketable treasury debt ratio is a weak easing impulse, but not enough.

To offset the current headwind that is the fiscal policy cycle to, to broader risk taking in financial markets. Ultimately, particularly as we get past the kind of late Q1, Q2 of this year, early Q2 of this year, we're gonna start to see these these indicators transition largely as a function of the one big ugly bill and the fiscal stimulus that we're likely to see from that our math has the deficit expanding by, three to \$500 billion.

This year and perhaps doing that again in 2027 as well. So we're in this kind of u-shaped fiscal policy dynamic where we've seen a tremendous amount of fiscal retrenchment in the economy, which we can unpack later. We've seen a tremendous amount of fiscal retrenchment that ultimately more of transition to fiscal easing.

And so the fiscal. Policy cycle, which is currently a headwind for the financial markets, is ultimately gonna become a tailwind, a high probability tailwind at some point. Let's haul it in the next three to six months as well. And then lastly, with the liquidity cycle, which is the other cycle that needs to to, to transition from being a current headwind to a tailwind at some point over the medium term to get us outta this awkward position that we're currently in as a function of the positioning cycle.

If you look at our global liquidity proxy that's a strong positive impulse. Our 42 macro net liquidity, that's our US liquidity model. That balance sheet, T-J-A-R-P that is a strong negative impulse. Now we got a strong easing impulse in the move index, which is biomarker volatility. We have a strong tightening impulse in the 10 year treasury term premium.

And then we got a weak tightening impulse in the broad nominal dollar effective exchange rate. We got a modest head wind right now, the liquidity cycle. Ultimately we think that'll transition to becoming a tailwind over the

medium term if we're right on the transition on the inflections in the monetary policy and fiscal policy cycle, which we see as high probability outcomes.

**Erik:** Darius, so many things I wanna dive a little bit deeper on, on this slide 24. Let's start with the monetary policy aspects of this. Something our regular listeners know I've been stuck on for the last several weeks is it seems to me that a dovish policy error by the Fed is a near certainty this year.

And the reason I say that is President Trump is being extremely heavy handed in terms of just demanding that anybody he allows onto the FOMC board is going to have to. Vote for a reduction, a continued cutting of policy rates. And as Jim Bianco has warned, at some point if you cut too much, you end up having that blow up in your face.

I don't think the president fully understands that. And you end up with the back end of the curve revolting as the bond market starts to get afraid of runaway inflation. How does that thesis fit into your model and how does that jive with what you're thinking?

**Darius:** Yeah, that's, I think that's one of the key risks in financial markets.

However, I think that risk is dissipating at the margins. If you look at slide 54, where we show trends in, in, in key inflation operates, we've been declining for, a couple quarters now across the one year, two year, five year, and 10 year tenor. Of these these inflation swap rates, which suggests that the bond market is getting less concerned about the prospect of a federal reserve that is ultimately makes a dovish policy error that reignites inflation.

If you look at slide 55 where we show various estimates of our various market based estimates of neutral and R star, if you look at the second panel on this chart here, where we show the floor Fed funds rate. At three spot 11% 3.11%. That's the market in our view.

That's the market's estimate of the neutral policy rate, which is again, the minimum value on the OIS curve about five years. Given that we're in a, given that we're in an easing cycle, we'd be using the terminal rate if we were in a hiking cycle. And if you look at that value relative to the effective Fed funds rate we're still about 64 basis points north of that in effective fed funds rate terms above neutral.

So it's highly unlikely that the Federal Reserve creates any sort of meaningful inflation without at least getting the policy rate to a easing bias. Right now

there's at least a couple, two to two and a half rate cuts, if you will between the current effective Fed funds rate and neutral.

So it's very likely that the Fed is still actually applying downward pressure upon the economy and labor markets and ultimately upon inflation. And if you got one final thing I'll say on this is the, if you look at the bond market. On slide 57 the bond market is not overly concerned about sticky inflation either.

So right now the 10 year treasury yield is currently about 4.15%. Historically with data going back to the early seventies, the 10 year treasury yield tends to be about a hundred, 120 basis points above the fed funds rate. So that's essentially saying the bond market is, it thinks the Fed funds rate should already be somewhere close to three three and a quarter.

Right now would be totally fine with that outcome based on its current pricing. And so that kind of leads me to the next few slides which says, okay, what could actually go right on inflation? We're also concerned about tariffs, which. Our math and our analysis has always suggested that tariffs were a, regressive hit to aggregate demand that would ultimately wind up in lower aggregate demand and ultimately lower inflation.

The San Francisco Fed eventually published a paper confirming what we had already signaled to our customers back in April when we were telling them to get along. The, if you look at on slide 58 if the middle panel on slide 58 where we show Zillow rent index, strong positive, a strong negative impulse in the Zillow rent index.

With the three month annualized, we had a change of 1.8%. That's gonna continue to drag down shelter inflation and housing, housing, PC inflation to the levels that are below. Trend. They're already modestly below trend currently, and we ultimately think the trend of disinflation in shelter and housing inflation is likely to remain ongoing.

And then finally, on slides 59 and 50 and 60, we have to remind ourselves that this is a labor market, but the unemployment rate is still gradually increasing. And a labor market where the unemployment rate is gradually increasing. And you have on slide 60, super depressed low labor market turnover is evidenced by the structurally depressed private sector hires rate of 3.5%.

Below the pre COVID trend, the structurally depressed private sector quits rate at 2.2% below the pre COVID trend. And then the the structurally depressed private sector layoffs and discharges rate at 1.2%. That's below the pre COVID

trend. We know that this is a labor market that has a very limited turnover, is a labor market that also has a gradual increase on unemployment rate.

So ultimately the labor market that should, if you look at slide 59, have slower wage growth. Workers who change jobs tend to experience faster wage growth, which by definition workers who do not change jobs tend to experience a slower wage growth. So we're essentially replacing workers who are changing jobs with workers who are staying put and or being fired and put into the ranks of the unemployed.

And so ultimately we think their, the wage growth dynamic is disinflationary, the housing inflation dynamic is disinflationary and obviously we continue to see a disinflationary impulse across. The energy complex which is which is deflationary as well.

**Erik:** I wanna come back to slide 24 now and talk about some of these short to medium term outlooks, the one to three month traffic lights that you have in the center of the slide there.

I appreciate these are. Short term outlooks, one to three months. I'm very curious on some of these asset classes, how that compares to your longer term outlook. Because I certainly I don't have any reason to, to dispute what you say in terms of short term cycles, but it seems to me something like commodities, a lot of notable people who I respect feel that.

In the bigger picture, we're at the, maybe the ending stages or final stages of an equity bull market and the beginning of a secular commodity bull market. Obviously you've got a red light here on commodities, at least in the short term, so I'm curious about longer term. And then I look at something like gold.

Okay. It does feel like it's up an awful lot recently. Maybe it's overdue for a bigger correction than we've seen. At the same time, if I look at the fundamentals, it depends, on the reason that you think gold has been so strong. A lot of people think it's been so strong because central banks are losing trust in the US government.

And they want some independence from US Treasury paper as their primary reserve asset given geopolitical developments of late I, I don't see that trend reversing anytime soon. The other reason that. People will cite for buying gold. Is that it's really just about the size of the debt.

Reaching a point where it's unserviceable and you've got a serious concern about the long-term viability of the US treasury market. I don't think that argument's going away either. So how do these short-term signals jive with your longer term views?

**Darius:** Yeah, great question. I would invert them. From a longer term perspective, not even necessarily a longer term.

So just from a perspective of the median term, which again, in our risk management nomenclature is three to 12 months. Yeah, I think the next few months could easily be choppy because we don't have enough accumulated good news from the perspective of each of these six key macro cycles, namely the five that aren't the positioning cycle to cause the markets to, make us a meaningful move higher over a short to medium term time horizon.

However. If we're right that the monetary policy cycle will to inflect from a headwind to a tailwind, if we're right, that the fiscal policy cycle will inflect from a headwind to a tailwind, and ultimately both the confluence of those two things. With the ongoing tailwinds and the growth in inflation cycle persisting, then it's likely that the liquidity cycle will inflect from a headwind currently to a tailwind.

So ultimately if all that it becomes true, where you have five of the other six key macro cycles, exposition cycle all being tailwinds for asset markets, then you're obviously gonna see an inversion of the the traffic lights in the middle of the page There. You can have green light for stocks, green light for gold, green light for bitcoin, green light for commodities, and red lights for the bonds and the US dollar.

So that, that. That is what our fundamental research summary is currently anticipating. If you go to slide six in this presentation, we don't have time to unpack the, everything on the fundamental research summary, but one thing I call out on slide six is the words the color coding of the words is associated with dynamics that are bullish for risk assets being green, and dynamics that are barriers for risk assets being red.

So from a fundamental research perspective. And this slide on slide six summarizes everything in this 160 plus slide presentation. Most of the stuff that we're, pitching to our clients and have been for since since late April, since we altered the paradigm C theme in late April of last year.

Most of the things have been bullish and are likely to become increasingly bullish over the medium term. And so that's why we have so much conviction that the monetary, fiscal, monetary policy, fiscal policy, and liquidity cycles on slide 24 will inflict from headwinds to tailwinds. Answering your question, going back to this you touched on something briefly on slide that, that is near and dear to my heart and is the guiding principle for our.

Research it has been for a few years now which is this geopolitically driven supply demand imbalance in the treasury bond market. If you go to slide 73, where we show the approximate next 12 month marketable treasury debt supply as a percent of global savings. You can see that we have a meaningful deviation from the long run mean of this time series in terms of the latest value of 39% of global savings in terms of how much percentage of the flow of global savings that the US government is capitalizing itself at.

From the perspective of rolling over maturing debt the the annualized fiscal year to date budget deficit, as well as the annualized divestment for the Fed's portfolio, which obviously is since is now actually a tailwind from that perspective. But a very modest tailwind in terms of 40 billion a month of arm.

It's about 223% of us the flow of us savings. And so obviously both of those are about a double relative to their long run means. So we have all this debt supply. But we don't necessarily have the same demand dynamics that we used to throughout the great moderation. And ultimately the period of time that, we created the that created that, that featured the conditions, that created the dual broad performance of the, let's say 60 40 portfolio.

If you go to slide 95 where we show some of the foreign dynamics in the treasury market we've been losing foreign ownership for over a decade now. Foreigners peaked out at 56% of the total marketable treasury debt market. Back in back in June of oh 08'.

We're now at 31%. Currently if you look at slide 50, or sorry, my apologies, slide 102 where we show, these various cohorts of the marketable treasury debt market. We see that the fed, the blue line of the fed's share of the marketable treasury debt market has been declining for a few years now, it's now down at a lowly 14% from peaking at a route 25%.

In mid 2022 we see commercial banks. Share of the marketable treasury debt market has been pretty stable over the past couple of years, but it's still at a very structurally depressed level of 15%, which is down from a, a high in the early

two thousands of around in the low thirties. And then obviously the black line, which is foreign official sector treasury holdings.

So foreign central banks their reserve management that's declined from about 40% to 13% since peaking out in oh eight. And so the residual of all that declining flow from these price insensitive buyers. Because central banks manage buy treasuries for reserve management purposes. They buy treasuries to implement monetary policy via QE or some other form of a large asset purchase.

And then they commercial banks, they buy treasuries because of regulation, banking regulation, you are losing all these price insensitive buyers and replacing them with price sensitive buyers, which are the light blue line in this chart which are now at 58% of the total marketable treasury debt market up from 36% in late 2021.

So this is not a good dynamic and this is a dynamic that is likely to sustain this structural uptrend in term premium on slide 103 that we highlight if you had a normal level of term premium in the bond market and normal being somewhere around, let's call it just five 2%. If we had a normal level of term premium, the bond market, the 10 year treasury yield will be five and a quarter as opposed to 4.15%.

And so ultimately the excess yield that we should ultimately be having in the bond market is being replaced by gold, by the capital appreciation by gold. And this is something we explicit, explicitly forecasted and called out and helped our clients position for starting in the summer of 2023 when we first authored this fundamental research view, this geopolitically driven supply, demand and balance in the treasury bond market as part of our investing, doing a four turning regime framework.

And ultimately this is why you saw my fellow Yelly, Janet Yellen. She pivoted to dovish ne financing policy in the summer of, in the shortly after this presentation was printed. And then you had our fellow Yelly treasury Secretary of Scott Besson get on the job after you 18 months of lambasting the Dovish Financing Policy actually rubber stamp it and promise to keep it going for the foreseeable future.

Now that he's on the job. In our view, we think we're right on this supply demand. I balance and as a function, as that supply demand, I balance, we're seeing institutional investors, which is something we called for. Institutional

investors increasingly adopt gold as a diversifier away from the treasury bond market.

**Erik:** So if I can just assimilate everything you've said so far, it sounds like we should interpret your view as saying, look, there's some really good reasons to be cautious about, oh, let's say the first quarter of 2026, maybe as being a choppy time time for some overdue corrections to, to play out, but.

Beyond that longer term. If we go back to page six, which is your longer term fundamental outlook, really it's almost all green. So you're very much still long-term bullish, but also feeling like we're overdue for some corrections before that can continue. Is that a fair summary?

**Darius:** That is an absolute fair summary that the relative frequency of green words on the page in slide six in our fundamental research summary relative to the red words in the page, implies that from a fundamental standpoint.

Based on everything we know today and could forecast today with any reasonable degree of precision, suggest that we have an incredibly positively skewed return distribution. With regards to the medium to longer term time horizon. Doesn't mean the market has to go up every day between now and then, or even has to go up.

It just implies that unless something changes in a material manner to, to alter the relative, frequency of red and green words on that page, it's highly likely that this. Current crowded bull positioning that we're all very concerned about right now gets resolved in a meaningfully positive manner.

When you look out, let's call it six to 12 months.

**Erik:** Darius, let's talk about President Trump, who has been, let's say, not bashful about implementing policies that are quite bold and non-consensus. He doesn't seem to be going too far out of his way to keep the opposing Democratic party happy.

They're getting more and more upset, it seems as we near the. Midterm elections later in the year. It seems to me the closer we get to the midterm elections, the more markets are going to start to get sensitive to, Hey, wait a minute, what happens if the Democrats take the house in November? And that really starts to weigh on the President's ability to continue to press some of the bold policies that he's been pressing.

How do you think about how politics and fiscal policy plays into the whole outlook for the next year or so?

**Darius:** Excellent question, Eric. I think the outlook for bold fiscal policy is one that requires a rear view mirror. If you go to slide 91, we already passed the one big ugly bill, and the vast majority of the impact has yet to be felt in the economy.

Most of it is likely to occur in 2026 in 2027, where we're likely to see a one to two percentage point positive fiscal impulse in both years. And that's a meaningful delta relative to consensus expectations. Transition from slide 91 to slide 26 here. If you look at slide 26, the our consensus short run potential real GDP growth estimate that's the blend of 26 and 27.

Right now, it's only at 2%, and I'll tell you. We're gonna go to slightly, maybe slightly above two here in or back in 2025 with a, three to \$400 billion tariff shock with the highest average annual level of economic policy uncertainty as measured by the Baker Bloom Davis Index with time series back to the mid eighties ever in the time series.

And oh, by the way, a guy who can't stop tweeting changing policy every five to 10 minutes. I don't know how we don't grow at least three, perhaps even 4% in 2026 and 2027, 4% seems a bit much, and we probably need to see some sort of productivity boom, which I think we should touch on after we hit on fiscal policy.

It's very likely that we're gonna grow three, at least 3% in 2026 and 2027 as a function of what we highlighted on slide 91. And we're already starting to see it. If you look at slide 88 where we show our fiscal policy monitor if you look at the impact that the tariff policy.

And the tariff really largely, the tariff policy has had in terms of reflating the federal tax revenue tax revenues up 9% on a calendar, year to date basis through November in 2025. Whereas expenditure's only up 1%. So you've had this significant fiscal retrenchment that, led us to minus 5.4% budget deficit versus in 2025 on a calendar year to date basis versus 6.8% for 2024.

So we've had 130 ish percent basis point fiscal retrenchment in, in, in 2025, which is pretty meaningful. It's very meaningful. The thing about, looking ahead with, in, with regards to the impact of the one big ugly bill that's going to reverse and reverse meaningfully in 2026 and 2027.

If you look at slide 89 where we show the our fiscal policy monitor on a fiscal year to date basis. So we have a couple of months of fiscal 2026 in the data already, we're gonna, at the bottom there that one of the bottom rows there, a federal budget balance. We're going from a 5.8% deficit to GDP ratio in fiscal 2025 to a 9%.

Deficit to GDP ratio in the first two months of fiscal 2026. Now, it's not gonna say at 9% it's gonna go down from 9% to something that's probably closer to 7% or maybe even seven point half 8%. But this is a meaningful fiscal expansion that's taking place. As a function, partially as a function of the one big ugly bill, but also as a function of what our friend, our mutual friend Luke Groman, over a forest for the trees caused the the true interest expense.

The runaway freight train that is true interest expense. If, and that's for those who may be new to the framework. That's the aggregated sum of Medicare national defense, debt interest and social security. Together, they're about, on a fiscal year to date basis. They're about, four point \$7 trillion annualized two thirds of the federal budget.

They're 16% of GDP and they've been compounding growing at about nine 10% per annum. Whether you look at, on a, a fiscal year to date basis on a calendar, year to date basis, so we have double digit growth in two thirds of federal expenditures. Which we know are, have a low probability of ever being legislated down, let alone flat, or, sorry flat, let alone down.

In fact the signal that we got from the one big ugly bill legislative process was that these things are untouchable, and then when they do get touched, they go up faster. And so in our view this is a runaway freight train from a fiscal policy standpoint from a messy and uncomfortable fiscal policy standpoint that will ultimately require some very creative solutions and erosion of a further erosion of central bank independence, which is something we've been explicitly forecasting since we altered.

That investing doing. Afford attorney regime presentation back in the summer of 2023, which featured that geopolitically driven supply demand imbalance in the treasury market. Analysis.

**Erik:** Let's continue on that topic around central bank independence and go more into monetary policy since we've been talking fiscal policy here.

It seems to me like there's a lot of room, especially as we get to potentially a changing mix. If the Democrats take the house, if there's confirmation

difficulties after that of the President not getting his way with who he wants to put in various, FOMC positions and so forth what could happen with respect to fiscal policy if we have a revolt, if you will, against some of the president's bold policies.

**Darius:** Yeah, look, in our view, it's highly unlikely that we get a revolt partially as a function of our jobless recovery thesis. We are of the view that AI is productivity enhancing and ultimately will be job replacing maybe not at a, at an alarming rate, at least in 2026, but on a multi-year, taking a multi-year time horizon.

And it's very likely that this technology causes some meaningful societal disruption in the form of a higher unemployment. And if we're right on that view, or even partially right on that view, you're talking about a federal reserve that's going to see a just a consistent and persistent threat to its maximum employment mandate in a way that essentially forces it to do what the president wants.

If you throw slide 79, pre fed chair, Powell already started alluding to this at the December FOMC press conference. Where he highlighted, some of the structural changes in the economy. He didn't say what I just said, but I'm not even sure the fed chair or anybody the Fed is allowed to say what I just said.

But the reality is, what I just said is, in my opinion, in our opinion of, 160 slides of research that we pump out every month to our customers it's a high probability outcome. So let me walk you through that thesis here over the next couple of slides. So the slide slide 80.

Shows the blue line in slide 80 shows labor share of national income where we show nominal employee comp compensation divided by gross domestic income. That's down at an all time low of 51.3%. We show capital share of national income at the red line, which is corporate profit using corporate profits as a proxy for that as a share of gross domestic income.

That's up at 13.2% an all time high. We've had a secular downtrend in labor share of national income. Without AI, a technology that can replace people. Just due to globalization, just due to among other things, the neoliberalism era and the various forms of tax treatment that caused this, that, that have contributed to this dynamic.

Obviously things like NAFTA and China joining the WTO as cause of this as well. We've had a secular bear market and labor share of national income

without a technology that can literally replace labor. It's already replacing labor. If you look at the youth unemployment rate, it's already replacing labor.

If you look at slide 41, the bottom panel is slide 41, where we show the long-term unemployed as a percentage total. We're up at a structurally elevated 24.3% which compares to a long run mean of this time series of 16.4%. When you get fired now or you lose your job, for whatever reason, it's very difficult to.

To find a new job. And this is because every company in the world is incentivized to wait and see, to see how much of their biggest cost expense. The biggest, expense in most businesses is labor. To see how much of that expense they can take down with the with the development and adoption of ai.

And so ultimately, if you go to slide 81, where we show how this is likely to impact the economy. Know this top panel shows the the time series of non-farm productivity in, in, in, through meth annualized six month annualized, and you rated change terms. And then in this kind of the third to fourth panel show, the third panel shows the time series, the same dynamics of unit labor costs inflation.

The light blue horizontal line show, the pre COVID trends of each and you, we somewhere around 2% for both. The promise of AI is that we go from a trend 2% productivity economy to a trend. A 3% productivity economy, which ultimately implies that we're going from a trend 2% unit labor cost inflation economy to a trend 1% unit labor cost inflation economy.

And so ultimately we're talking about a significant tailwind for corporate profits. We're talking about a significant headwind for inflation in terms of how in productivity has historically impacted both of those cycles. And every company, whether they implicitly understand what I just said or what, they all inherently understand this as business owners and as business operators.

And so ultimately we just think this, low, higher low fire environment, whether unemployment rate continues to gradually rise, particularly as more and more companies that throughout the economy adopt ai and find creative ways to use AI to, to hold back labor their most their biggest expense.

We think this dynamic is gonna be ongoing. It's a secular dynamic that will ultimately require. The Fed to implement dovish monetary policy regardless of how politicized they may appear to be in the context of what the signalling that's coming outta the White House.

**Erik:** Darius, let's pull all of the things that we've talked about together into, okay, where are the trades for our investor audience?

Because we've talked about monetary policy, fiscal policy, there's so many different things you're talking about. Really, a very Bullish longer term outlook with some serious cautions about the next three to six months. So how do we position for that?

**Darius:** Yeah, that's a great way to put it. I, maybe not even the next three to six months, I think by, but certainly by six months and probably by three months, we're, it's likely that we could be resolving our way through this uncomfortable setup from a crowded bull's positioning standpoint.

But again, that does imply we're probably gonna chop around perhaps violently in the interim, if not even correct. Again, when you're in this. When you're at this extreme in terms of incredible Bullish positioning terms, it doesn't take much. A squirrel could get hit by a bus and markets could correct.

So I want investors to be aware that, just because the, frequency of green words relative to the frequency of red words and the fundamental research summary on slide six is over overwhelmingly positively skewed from a return distribution perspective. It doesn't necessarily mean that, we're outta the woods yet.

However, when it comes to how we think investors should be positioning for these emergent and developing market risk, the fundamental research has no bearing on that answer for us at 42. Macro as you know from our previous discussions, Eric, we're systematic investors.

We rely exclusively on our institutional grade risk management overlays to help our clients and myself as someone who uses our KISS model portfolio to manage his entire liquid net worth. We rely exclusively on that as it relates to what investors should be doing in their portfolios at any given time.

I'll just briefly touch on kiss and ultimately touch on the KISS system itself. And then I'll conclude with where KISS is currently allocated. So if you jump to slide eight, just real brief kiss, there's three core elements of our KISS model portfolio, which is short for keep it simple and systematic.

Number one is our factor selection. So this is a 60 30 10 quantitative trend following strategy that is designed to expose investor portfolios to productivity growth. And it's also designed to help investors outperform outrun financial oppression and monetary debasement via allocations to gold and bitcoin.

And where KISS really shines is in its risk management. We use our market regime now casting process to incorporate volatility targeting into the strategy. And then we use our volatility, just momentum signal to incorporate dynamic position sizing into the strategy. And the, anybody on the buy side understands that, volatility targeting and an AM position sizing.

These are the two of the core hallmarks of institutional risk management that KISS uses. To create a positively or skewed return distribution in investor portfolios and in my own portfolio. So if you look at, jump ahead to slide 12. A couple numbers I'd hit on in this, on this back test is rolling out a sample back test.

If you look at KISS relative to 60 40 60% stocks, 30% gold kiss has an upside capture ratio of about 300%, and a downside capture ratio of about 60%. So you're essentially getting. 60% of the downside of 60 40, 300% of the upside effectively. If you wanted to compare KISS to a naked long portfolio, 60% stocks, 30% gold, 10% Bitcoin, which is what KISS is when it's maxed out, it's not always maxed out, but that's what KISS is.

When it's maxed out you'd have an upside capture issue of about 90% and a downside capture ratio of about 50%. So you're essentially getting 90% of the return you would have in these high beta asset classes. With only about half of the downside which obviously creates an incredibly positively skewed return distribution from the set of investors with a very minimal max drawdown, particularly relative to the frequent crashes that we've seen in 60 40 and 60 30 10 stocks go Bitcoin naked long.

So where we are today in Kiss. Kiss is 10% cash on slide 13. It's at 10% cash. It's at a hundred percent of its maximum exposure of 60% stocks. Both the top down and bottom upper manage and overlay are giving it a green light to be fully invested in the equity market here. Gold. It's at a hundred percent of its maximum exposure of 30% in gold.

Both the top down to bottom upper percent over there, giving it a green light to be fully invested in gold as well. And then it's at 0% of its maximum social of 10% in Bitcoin. Neither the top down risk manage overlay's, giving Bitcoin the green light, but the bottom up risk manage overlay, which again, we use to feature dynamic position sizing into the strategy that's giving it a red light.

And right now KISS is, more or less, let's call it 90% invested. We think that the gold position can do reasonably well in a choppy market environment.

Obviously if stocks are choppy and or correct, that's not gonna feel so great. But ultimately we think the kiss is.

What markets, what the risk management systems that feed into KISS are likely looking ahead to is where we started this conversation on slide 24, which is four of the key six key macro cycles that influenced the momentum and dispersion within and across asset classes are currently headwinds.

Ultimately we think based on our fundamental research, which again is summarized on slide six, based on our fundamental research, we think three of those four which are currently headwinds, will eventually transition to tailwinds and ultimately make Kiss right over a medium term time rise of perspective, which again is three to 12 months.

And our risk manager nomenclature, I think all bets are off when you get beyond 12 months. Like I said, when we started this conversation, it's highly likely that this bull market. Concludes or transitions to a secular bear market as we've seen historically at following all these major technological revolutions that you know, that feature CapEx bubbles.

**Erik:** Darius, I can't thank you enough for a terrific interview. As we close, tell us a little more, this slide deck that our listeners have seen a snippet of that's actually more than 160 pages. You send this out to who this is for, what kind of investor, who's your service for how do people find out more about it?

**Darius:** Yeah, I wanted Eric thank you for this brief opportunity to embellish what we do. I'm, one of the things I'm most proud of in my entire life is the breadth and depth of our customer base. When we started 42 Macro, half a decade ago, it was done, designed with the express intent that, I just, I don't we don't believe that the gatekeeping exercise that is institutional insight and institutional risk management process.

That is either kept via prime brokerage gates, or, two and 20 or three and 30 accredited investor gates. We just don't think those gates are appropriate in a kha society, of which, I come from the very bottom of that K-shaped society. So we, we built 42 macro to break down those gates and supply an institutional grade insights and more importantly, institutional grade risk management of portfolios to every investor on the world.

In the world, and we do so at price points that meet people where they are in terms of what they can afford, as opposed to what we would prefer to charge, what could, what we easily could charge if we wanted to, gate this thing up and

turn it into a hedge fund. And we're very proud to say that many of the world's top financial institutions across the asset manager, pension fund, insurance fund spec cyber wealth fund space, or customers of ours in so much that, the your barber could be a customer of our, your Uber driver could be a customer of ours. And they very likely are we're very proud to say we work with some of the best investors in the world, and we work with many of the ver more, most novice investors in the world.

They're all here benefiting from built. And I'm incredibly proud of that. As someone who, like I said, comes from the very bottom of the bottom. I wanna make sure that, we're lifting everybody up with these insights and these risk management signals.

**Erik:** We'll look forward to having you back on later in the year after.

We see how the this choppy period that you're anticipating plays out Patrick Ceresna and I will be back as Macro Voices continues right here at [macrovoices.com](http://macrovoices.com).