

Erik: Joining me now is Lyn Alden, founder of [Lyn Alden Investment Strategy](#). Lyn, it's great to get you back on the show. Obviously we've gotta start with Iran, which has been the all consuming news. What's your high level take on what's going on and how does this play into some of the writings that you've done in the past about the transition into a multipolar world that we're moving into?

Lyn: First of all, thanks for having me on. And this, it's certainly one of those occasions where we all have to be experts on the current thing. Usually that tendency's overblown, but not really in this case. We all have to be on top of it because it's the all consuming news item that affects, let alone human lives.

But of course, all the investment topics we would potentially talk about on a program like this. And, one of the, the frameworks I've had for a while, and I'm of course not the only one that's had it, is that the world is exiting a peak period of like a unipolar power or, very like a hyperscale, a hyper power in the world.

And for, obviously after World War II and then especially after the fall of the Soviet Union the United States basically became the really the core center of kind of global economy, global military projection power and all that. And that, that's a historically unusual situation for one country to have such a large, relative portion of the rest of the world. Even for example, during the height of the Roman Empire the Han Dynasty in China and other empires of the world were still pretty significant. And so you still, that was a world where they didn't, obviously in long distances they wouldn't connect that much.

But in this kind of post telecom world, this post industrial world where we, we can get around the world very quickly, both digitally and, with. Military projection capability. We, we've been in this kind of hyper power world. And then also of course, that's financial power.

That's the global reserve currency which unlike prior Global Reserve currencies is, it's different because it's not, it's not based on gold, which was the actual reserve currency back for those prior periods. It's all tied to the dollar and the treasury. And so we reach unusual levels of global centralization of multiple types of power really peaking in the late nineties by many metrics. And ever since then there's been a gradual, very gradual shift toward a little bit more of a multipolar world. We obviously saw the rise of China as a massive economic power and then, around the margins.

Obviously financial power, a military power. Especially that, that economic and manufacturing power we saw, to a lesser extent the rise of India. And, other

economies. And so the share of us influence across multiple domains is on the decline still, of course, very high.

Ray Dalio and others have mapped this. I might have different views on him about the relative forward outcomes of the US and China. But he's published research that kind of maps out the different metrics that you might analyze an empire by and by, and they tend to roll over at different paces.

For example, education quality tends to be a leading indicator on the way up, and it also tends to fall early. Whereas something like global reserve currency, because it has network effects that tends to be a later rise. But also one of the last things to decline over time but all this is to say is that we are falling back toward a world that historically is more usual, which is that you have multiple poles of power that are in competition with each other rather than one central world power. And so of course the two biggest polls would be the US and China. The Europe's decisions have reduced their the size of their pole going forward, I think as far as many analysts can tell.

And then there's other large polls of power in India and to some extent Brazil and others. And this kind of battle over the Middle East is I think both a symptom of that which is that empires rarely give up their kind of projection capabilities easily, even when it would potentially be the right thing to do from a strategic standpoint would be the kind of right size from a position of strength rather than kind of fight to always maintain whatever capability you have. But that's where we and so I think this is, this is a milestone to watch for sure. Both in terms of current market impacts, current humanitarian impacts but then also just the. Relative projection might of different entities around the world.

Erik: Lyn, something that surprised a lot of people was that precious metals, which we're used to thinking of as a geopolitical risk hedge, it's usually bombs. Drop oil goes up, dollar goes up, and gold goes up. All of a sudden it's bombs drop, oil goes up, dollar goes up, gold goes down. What happened?

What's causing that? How long does it last?

Lyn: Based on what I can estimate, I think there are multiple factors. One is we can't ignore, of course, the price action that occurred in precious metals before all this happened. We had an unusually strong rise in gold, silver and platinum prices in the year leading up to this event.

And some people have used the word bubble to describe it. And while I think that might be valid on the shorter term, like it's a sentiment bubble around those,

this sheer, the sheer magnitude and speed of those moves is concerning. I don't really view them as fundamentally overvalued. But certainly when something trades that volatile to the upside there's a risk that it just goes volatile to the downside.

So as a long-term, nearly decade long, precious metals bull they hit the price targets that I had years ago. And so my position in my research for months now was. I'm not turning into a bear on precious metals per se. I'm not calling them a bubble, but they no longer have that asymmetry that was available, at 20 something silver and at, 2000 something gold or, before that even lower for the book of those metals.

And that now they were in a more kind of balanced range, which is, I wouldn't be surprised by a big sell off, nor would I be surprised by a, a continued march higher because they have been pretty resilient. And. One is just that price action becomes unreliable when you have such a massive move.

And to, sentiment that's almost unbeatable compared to where it was. So that just opens the door toward more unusual situations because as you point out, blank sheet of paper if you ask people, what would you think precious metals would do during a war of this magnitude?

You'd think they'd be flat to up at least. And they haven't been. The other factor I think and I'm not the first to bring this up is that, in times of crisis sometimes entities have to sell what they can, not what they wanna and gold is a source of liquidity for many market participants, including potentially sovereign participants.

In this crisis. And the other side of the coin is that, molt, usually when we have a crisis occur we usually see Bitcoin not do great. We see, we usually see do gold do pretty well. The other side of the coin is that Bitcoin is held up oddly well in this environment. There are some that are arguing that it's like showing signs of, risk off finally.

I wouldn't go nearly that far because, bitcoin had the opposite price action of gold going into this. So Bitcoin had a particularly rough several months leading into this. So it was already largely de levered. It already sentiment was already very washed out. A lot of the fast money was out and a lot of the coins were held by pretty strong hands.

And so we, I think we've seen a sentiment shift. And then if you wanna add a fundamental component, if people find themselves wanting to move. Portable

scarce money. It has, some certain advantages compared to, more eternal scarce money that is maybe harder to move across borders or jurisdictions.

So I think that there's a fundamental component there, potentially, but I wouldn't, I personally don't read too much into this kind of multi-week action of gold doing poorly, silver, doing poorly, Bitcoin doing well just because the price action for both of them was so significant in the months leading up to it.

Erik: Lyn, let's move on to the effect of this war and higher oil prices on the economy. Obviously, the experts have told us that, there's really no limit to how high oil prices could go if the strait of Hormuz stayed closed indefinitely, well over \$200. I would think cripple the global economy question is, okay, how do you put a number on that?

If it, if let's say, a thousand dollars oil would clearly cause a massive global crisis is \$150 oil, something we can tolerate without the economy collapsing. What's the number, what's the threshold? Any thoughts?

Lyn: Yeah, it's a good question. I think there's a couple ways to look at it.

One it's, you can inflation adjust it and say, okay, what prior oil price levels damage the economy? And of course, we can't just take those nominal figures because, it, depending on how far back you go, money supply has doubled over more. And just the, the size of the stock market's bigger.

The average income's bigger, the average house price is bigger. Just the amount of money going around is bigger. So Just because you get back up to hundred 50 oil which historically has, been awful, that kind of, anything well over a hundred has historically been awful for the global economy.

I do think that the economy is resilient enough to handle those types of similar nominal numbers of the past. I think where it runs into danger is when you get into these kind of unprecedented levels, like something approaching new inflation adjusted highs. As you mentioned is you know, potentially that 200 plus barrel range, which according to the oil experts that I follow.

If the straight stays closed long enough and or if these shut-ins. And, the worst case scenario is these severely damaged energy production, infrastructure if a multiple of those things together gives us, a another month or more. A nearly closed strait.

Then those, the analysts I'm following are saying that those 200 plus numbers are quite possible, if not probable. And that does start, I think, become crippling for the economy. Now there's kind of two. Threshold to consider. The first one is, what is painful for the economy and painful for say, lower income consumers or even middle income consumers?

We've already touched that. This, let's focus on the American consumer for a second. We're already in what other analysts are calling a k-shape economy or a two speed economy. And all the data I look at that at, fully confirms that. So if you're on the right side of AI CapEx or you're on the right side of fiscal deficit spending, the healthcare, the social security the defense sector those areas are receiving the, the majority of the deficits. And they're on average doing pretty well. So on average, older, wealthier Americans are generally doing fine and people that work in certain industries are doing fine.

If you're a new college graduate looking for a white collar job in a world of stalling total payrolls and AI optimization to cut costs on the backend for companies all across the country, and of course in other economies as well. It's rough. Same thing as if someone is looking for a home.

Especially, if they're on the low to medium income side they're gonna finance it. They're not gonna buy it in cash. The combination of somewhat high mortgage rates and still high average price levels puts that out of reach for a lot of people. And we had insurance prices going up higher.

Were already rough for a lot of consumers. And gasoline even before it gets to all time high, just the fact that it's gone up considerably in a matter of weeks already puts pressure at a time when the shields are down when you have flat. Non-farm payrolls for the better part of a year.

Even though you don't have high initial claims yet even though you don't have any sort of acute signs of issues, you just have a stall speed type of economy outside of those really hot spending areas. So it's already that's already a painful element to the US economy, let alone.

Obviously in develop countries it's often even worse in Egypt, for example, where I actually plan to be in a number of because I there year. They've already announced that, because their natural gas import bill effectively tripled from somewhere in the ballpark of 500 million a month to 1.5 billion a month.

They've already, effectively had to have rolling power issues kind of curfews on certain types of businesses that, close cafes, other things like that at 9:00 PM at

night to try to conserve electricity because a lot of that is, is derived from natural gas.

And that's just one example. Obviously in, countries in the world where. They can't quite bid as much as the wealthy nations for energy. These pain points are already there, especially when they happen so quickly. But I think that there are, because of spending of large fiscal deficits as well as high income spending we've generally seen that the US economy in particular, but also to some extent the global economy is more resilient than many bears think. Which is why I think that just because you have \$150 oil doesn't mean the economy can't function. It just generally means that changes have to occur when we're back in a high energy environment. So I think that after a period of friction, the global economy could function on 150 oil because that's not the same thing as inflation adjusted.

It's not all time high oil. I think that can be sustained. You just have to adjust to it. But yeah, once you get a, once you get into 200 plus oil, a lot of things start breaking down.

Erik: Oil is an input cost to the price of everything, and therefore a very important inflation driver. At what point let's say we get a really big inflationary pulse out of this war, and then the war gets wrapped up in a couple of months, does that inflation pulse come back out of the system or has it already started a self-reinforcing process that can't be unwound at that point?

Lyn: From data we have available, the most persistent type of inflationary pressures, when you have a growth in the money supply, usually, they create more money. There's various mechanisms. They get that money broadly out into the public, which is why, for example, 2020 was very different than 2008.

We didn't just recapitalize banks. If look at broad money supply during 2008, 2009, it just stayed on its normal trend. Whereas you look at the money supply in 2020 and 2021, it spiked because not only did the fed print money, but that, that funded direct fiscal injections out to the broad public.

And and then it took years for that increased money supply to trickle out into various types of prices, which is why we have, five plus years of inflation from what was effectively. A hyper for two years. And but when you have a something that's caused by a supply disruption.

That part shouldn't be as persistent. Like how the energy price spike we had in 2022, while very damaging for that it, it gave us less persistent effects on

inflation. I would argue all those quote unquote transitory types of inflation that. Policymakers kept saying things would be the transitory things did go away, or at least diminish in time.

It was the persistent increase in the money supply that really solidified the higher price that we see across the board. We saw massive increases in, home insurance and health insurance and all sorts of things that have nothing to do with supply chain issues or very little to do with supply chain issues.

And so at the moment. Let you know, let's call it the next couple months, there's no particular sign that we're gonna get a massive increase in money supply in the US or certain other major economies. And so because of that, should this be resolved starting with some sort of peace talks in the coming days and weeks, and then it still takes time unfortunately, for all that shut and energy to come back.

We have to see what, what's gonna happen with the insurance markets for these ships. We have to see how quickly, the straight will fully open just because it's, partially open. So even in the best of scenarios this seems to, looks like it's gonna be quite a while. But if there's no kind of massive increase in the money supply we should over time expect this to mostly go back to baseline.

Now, it doesn't change the fact that a consumer would've spent more on gasoline. During a number of weeks or months that they're never gonna get back. It doesn't change the fact that farmers because of, sharp changes in fertilizer prices and things like that they're not necessarily gonna get a season of profits back.

So it's not that those things don't have permanent issues on certain parts of the economy. I wouldn't expect a broad and permanent increase in prices just because you have a multi-month spike in energy. Unless we, we get some sort of stimulus to help people pay for that energy, that's where you start to get that broad money supply growth.

And that of course is all. All what I'm saying there is compared to the fact that we already have inflation, we already have money supply growth occurring we already have price, aggregate price levels going up. We're still getting permanent inflation. But then I'm taking your question to mean will this energy price spike give us a, like a permanent sharp increase inflation above that baseline?

A answer would be that, generally speaking, only if we get that money supply growth accompanying it, that's above the current baseline.

Erik: While we're on the subject of monetary policy, let's talk about Kevin Warsh, and I guess he hasn't actually been confirmed yet. That's on hold.

Pending criminal investigation of Jay Powell. What a crazy world that we live in. Do you think there is a question as to whether or not Walsh will be confirmed? And is there a question? I think Powell's term is set to expire on May 15th. Does worst definitely take over at that point? We're only a little more than a month away.

Lyn: Yeah Powell's term as chairman expires he still has the option to remain on the board, which ironically, he might increase the odds that he might stay on it based on recent comments he's made because of some of these investigations I've been operating with the assumption that the new Fed chair can be in place by mid-May.

But I'm not a, I'm not, deep in the weeds in Washington politics to that could, give you a precise answer on that. But I, he's certainly a candidate that in isolation should be, is likely to be confirmed by the Senate. He's not an outlandish candidate or anything like that.

And then this criminal investigation adds a new element to it that I'm not really in a position to, to judge. But yeah, my, I've been operating with the assumption that mid-May or, maybe with some delay we would have the new chairman in place. But obviously we live in very unusual times, so I wouldn't be high conviction on almost anything, but I think my main focus would be that I don't really perceive a giant difference.

As we get the new chairman because, as listeners know you know that the FOMC at any given time has 12 voting members in it. And some, they rotate over time. And so while the chairman is a significant force on setting fed policy and kind of controlling the microphone, the biggest microphone in the central Bank it's by no means a dictatorship.

In addition, mean, you know, I, I've come to analyzed his comments around balance sheet reduction while there are certain levers that he and other can pull

that potentially give commercial banks the ability to provide a little bit more liquidity which would, reduce the need, the Fed to provide a little bit of liquidity. A lot of these things are, at the end of the day, liquidity neutral and

not that big overall. So I generally favor his comments on balance sheet reduction.

Other than maybe around the margins. And then, I do expect all being equal, he would be more dovish on interest rates than Powell would be. But, to a moderate extent. And what I don't think changes either way is that anytime you have an acute liquidity stress, either in the treasury market.

Or in inter, interbank overnight lending market. The Fed's gonna step in when needed either, starting with their standing facilities but then also including purchases if needed. I, while leadership changes do affect the Fed, I think majority of it is locked in.

I do expect the Fed rotation to, to happen, at least roughly on schedule. It's not really like a thing that any of my investment decisions are gonna massively hinge on per se.

Erik: There's one aspect of that I'm a little curious about, which is my thinking on this was pretty much consistent with yours, except that I thought that Jay Powell was really not wanting to give President Trump the rate cuts the policy rate cuts that he wants, and it seemed like Warsh was lined up very loyal to the president and likely to champion those cuts. It seems to me like it's impossible for any Fed member to champion rate cuts with what's happened with the Iran conflict, unless there's a complete reversal of the inflation signal that's coming from elevated oil prices. Would you agree with that or do you think that it's still, Warsh comes in and starts cutting rates?

Lyn: I would roughly agree with that. So if you asked me a month ago, I would say that all is being equal. War should be slightly less growth oriented on the balance sheet and slightly more dovish on interest rates would be my kind of base case. And, but now that we have this war and we have higher energy prices and inflationary pressures in multiple dimensions here.

I wouldn't say it's impossible for him to cut. It'd be historically very unusual and he would, again he'd have to convince other voting members to decide with such unusual policy. So I wouldn't quite say impossible, especially because we're in this age of like impossible headlines being true.

Oftentimes, I do think that, the war actually does narrow the choices they have. And narrows the difference between Powell and Warsh which I already don't think was huge to begin with. And I think that, to your point, further narrows it because it ties the Fed's hands a little bit.

At least until they see more employment damage. As long as overall employment levels unemployment levels are still on, on the lower side. Even when they have softening and total payroll numbers and some of that's. Net migration, some of that's demographics. They're not they're really looking at the unemployment rate more and those numbers are still fine.

Jobless claims are still fine. And so if they do have this kind of inflationary pressure from energy I think it puts them in somewhat of a holding pattern almost regardless of who's in charge, as long as someone who's semi credible I is in charge. And I certain, I certainly think he, he's a credible candidate.

Erik: Lin, let's continue on that multipolar theme and talk about some of the other polls. As this war continues, it seems like one of the effects that it's going to have is that it's probably worsening the the conflict between the United States and Russia, which is an ally of Iran. What does that mean in terms of the resolution of the Ukraine conflict and what does it mean with respect to energy and energy policy for Russia's sale of oil, both internationally and particularly with China?

Lyn: All us being equal, this has been a positive development for Russia. Their energy prices are higher. The sanction pressures less on them. And it's also, they're also a major fertilizer producer. So they're potentially gonna get benefits in that department as well. And as listeners know, the vast majority of the energy that comes out of the Persian Gulf heads east toward China and the rest of Asia. And, because these markets have varying degrees of fungibility to them the economies that we're not getting that particular energy source are, especially the we, the wealthier ones, the bigger ones are gonna be bidding pretty aggressively for any other sources they can get.

And while not all oil is the same there's many spots that get similar types of oil. Natural gas is, one of the least fungible of the energy markets because LNG is so limited and the transportation costs are higher compared to the pricing which is why we see bigger and more persistent.

Pricing spreads between, say, North American Gas and say European gas back when that war broke out between Russia and Ukraine. So all has been equal. This has been positive for Russia. It's I would generally consider it. Negative for China. They generally benefit from stability.

They benefit from having fairly cheap energy as an energy importer. But, I much like the US economy is often more resilient than bears think. It's also true that China's economy is often more resilient than bears. Think they're very

flexible in terms of how they are able to keep functioning on average Chinese citizenry, they're this, their experience over the past decades has given them higher economic pain tolerance than Americans because they have a more of that uni uniparty system. Political polarization is less of an issue over there.

That obviously comes with massive downsides of freedom of speech and stuff, but it's just that, it's a reality to, to take into account when we see how these things respond. And so I, I do think that China's gonna be quite resilient. as these other, inputs get scarce, there they are one of the powers that is capable of bidding pretty aggressively to get much of what they need.

And so what, this is a conflict that is, is. Good for very few entities and bad for most entities around the world. On average it does, I think it's significantly bad for Europe. It is bad for China, but like I said, China's quite resilient. I would argue more resilient than Europe on average economically.

And Russia has been one of the outlier beneficiaries now from. Military experts that I'm somewhat familiar with. I think one of the negative showings was that some of the military equipment that Iran had from Russia and China has not necessarily operated as well as they would've hoped.

So if there's a downside to Russia, that might be that. But that's, that's outside of the scope that I'm able to comment on in any sort of I, like I certainly don't have an edge on that topic.

Erik: You mentioned fertilizer in passing there. Let's come back to that because one of the things that several experts have predicted is maybe the oil price inflation shock that we're feeling right now is the first wave, but the bigger and.

Potentially more crippling. Second wave comes from food inflation, and a lot of people don't understand that the straight of ous is not just an oil passing lane. A lot of the fertilizer in the world goes through the straight of ous if that stays closed. We get to a situation where farmers can't grow their crops, food becomes more expensive, and that doesn't go away the day that the bomb stop dropping.

It continues for a full crop cycle. Would you agree with that outlook, first of all? And if so, what are the implications of that food? Price inflation. How does it affect different economies?

Lyn: So I agree, of course a lot of raw inputs to, to make fertilizer come from the hydrocarbon industry. And then even other things, even like helium and

other components that are used for chip making and stuff there's a whole assortment of things that are now at risk of price spikes and or outright shortages rather than just oil, gas and, other liquids.

And while price of the pump is the first sign we see and, potential shortages of LNG shipments coming in as expected in certain economies that that's all hits first. But I do agree that food inflation is a significant risk. Should this be prolonged.

My understanding at the current time is, as we see already fertilizer prices go up, farmers are squeezed because they haven't really seen the sharp of a move up in, their. Cash crops yet. So they have higher expenses, but not necessarily much higher revenue. But that obviously that situation only lasts so long.

And un until you, either, until the situation resolves itself and those expenses come back down or they, the prices for their crops starts to increase. And food inflation's one of the, obviously one of the most damaging types of inflation you can get. In a developing country.

The two things policymakers have to try to not mess up are food inflation and energy inflation or shortages. That's how you get revolutions. It's, when people just can't put food on the table or they, they can't get to work or they just can't function or they can't keep their lights on, that's when they go out in the streets.

And in the developed country. Food inflation, there's less of an acute risk of shortages and people literally unable to eat just because the overall environment's wealthier. But it does squeeze people especially on the lower half of the income spectrum. So you do get more anger, more, we're already in the US nearly record low consumer sentiment.

We're, we're off, like the absolute lows we were on, but it's still very low and a prolonged, gas, gasoline spike combined with over time, potentially just higher food prices is damaging. And so I, I do think that's a significant risk and it's gonna, if it's prolonged, it's gonna show up in, in energy food, as well as things that

People are not looking for supply chain for making things often requires gases or other feedstocks that come out of the Persian Gulf.

Erik: What are the implications for emerging market countries that don't have access to a lot of alternatives? It seems to me that there, there are some countries, I know you, you spend some time every year in Egypt.

There are places around the world where the entire economy depends on certain kinds of imports, and if they get cut off. There's really no backup plan in a lot of cases. What are the potential risks? And I hate to take a humanitarian crisis and turn it into a trading opportunity, but where are the trades there in the sense of emerging markets?

Should we be, worried about emerging market economies taking this harder than the rest of the world? Is, are they a short, what? What's the outlook?

Lyn: I would argue that a decent chunk of it has been priced in, but that, of course, it depends how bearish an investor is on this outlook. The longer and more severe they expect this to go on, the more that shorts become reasonable for.

The more vulnerable spots of the world from a purely financial perspective. I got questions from family in Egypt asking why did the Egyptian pound suddenly jump from, 47 to the dollar to 52 to the dollar? In kind of the. Weak leading up to the war, and then especially after the war.

And it's in large part, I think because, FX traders are looking at this saying Egypt is more vulnerable than, the US and other safe haven currencies. Like I mentioned before they, I mean they, long time ago they were an energy exporter, but now they are an importer.

They're not a wealthy nation on a per capita basis. And, they're out there bidding with everyone else. Like when we saw, for example the natural gas price spikes in Europe back in 2022. And it really, they started in 2021. Europe suffered, but we also saw developing countries like Pakistan were, would often suffer even more because they would get outbid by, comparatively wealthier European buyers that can scramble to get the energy that they need more easily than a poorer country.

And I don't treat emerging markets as the, as just one big group. China's still classified as emerging market. Even that has many characteristics that wouldn't put it in that category anymore. There are also emerging markets that, of course are, energy sufficient or exporters or fertilizer exporters.

But for those that are more tech-based and more tourism based where they, they have to import their energy people fly in on very energy consuming jets and things like that their economies are at risk the longer this goes on. That can impact their currencies, that can impact, like I said, in Egypt.

They're already planning for that rationing stage, not just, higher prices at the pump and pain there. It's just outright, just portions of the city shutting down hours earlier. So that impacts everyone. And I you'll see that in, in multiple countries the longer this goes on.

And you asked before about the topic of kind of permanent inflation, like if spikes for a Number of months and is not going back down, the countries at risk of kind of permanent inflation are the weaker ones because when you have an already vulnerable country have that kind of energy price spike and it's got its debts denominated in a currency it can't print.

And other issues like that, they're more likely to have a big kind of money supply spike. after this happens. So they're more likely to actually lock in a lot of that inflation because they're more likely to get a persistent and like a higher plateau of money supply resulting from this not necessarily after these weeks, but after some months.

Erik: Lyn, I wanna change the topic now to something that we haven't really covered a lot on macro voices I've been looking forward to asking you about, which is the private credit crisis that is also breaking out. It's not in the headlines as much because of the war, but it's a big deal as I understand it.

Basically, there's a whole lot of private credit was loan to software companies. Then Claude Dot code came along and made it. Very easy to to write software almost automatically, and it creates a threat. So this is the first time we've really seen AI pose a threat to jobs and to businesses, but not quite in the way a lot of people expected it.

Is that what's driving this private credit dislocation or is it something else? And what do you make of the situation?

Lyn: So I think that's part of it. That is a topic I've been focused heavily on since last year. Especially my research service. I've generally been in the camp that is not too alarmist on private credit at least in terms of its contagion effects.

So I, I think it's, without question that is obviously a lot of issues in private credit. For all the reasons you've said. I think even before the AI and software issue just if you just look at the total credit creation that was happening in that sector it was very rapid.

And whenever you have a, a very quickly moving quickly growing part of the financial economy the odds are that's where the next issue's going to be. Just

because that's where the most exposure is. That's where, generally speaking, you're gonna get looser lending standards just because there's so much money sloshing around.

It's not a tight area. Banks on average have been pretty tight. But non deposit financial institutions, a, AKA private credit and other types of equity or credit based lenders they've been, looser regulations to take more risks. And so I do think that. For private credit investors it's likely gonna be a rough while I think that's true for private equity as well.

Basically you have a lot of illiquid investments on the private equity side. Then you have just the risk of bad loans in the private credit side. But one thing I noticed is we already see search activity like Google trends and stuff for private credit. Is like roughly as, as high as subprime mortgage crisis was, during the peak of 2008.

So it's already getting a lot of attention. And of course, what investors are really asking outside of investors that are directly invested in private credit funds, what broadly speaking investors are asking is what are the contagion risks from this, should we have. Multi hundred billion dollar losses in private credit, what does that do to the banking system and what does that do to the broader economy?

That's, so after all that kind of bearish talk, the part that I'm not quite as bearish on. Is the ability for losses in private credit to severely hurt the aggregate US banking system? When we put some numbers into it, perspective, banks have collectively lent something like 1.9 trillion to non deposit financial institutions of which a subset.

Is private credit. And that sounds like a giant number. And it is because we all macro stuff's in the trillions these days. But that's in, in relation to about 25 trillion of total bank assets which gives you seven to 8% of total bank assets are held in the form of loans to non deposit financial institutions.

And then from there, a typical private credit fund. Would have to have rather massive losses for its investors before it would come back and hit the bank, that lent some money to it. So it's not as though, as soon as private credit has losses it's the bank having losses.

This is the mechanism where banks have exposure to the space, but they have this risk reduced exposure to the space compared to the investors that are on the front line investing in those private funds. And let's say, you, let's say you have

multi a hundred billion losses you'd have a much smaller percentage of that hit the banking system.

And they've, they've got 25 trillion assets and then even their capital buffer. While, a small proportion of that is large enough to absorb, just by any kind of reasonable default scenario for private credit now there's always a case that you have individual banks that are like oddly exposed to a given sector.

So you can see individual bank failures but across the board of the bigger banks they seem to have their exposure. Protected. So I, I'm in the camp that while private credit is a problem especially for investors in that space I am less worried about contagion risks. Now, of course, when you have multiple crises together, the issue is that one can feed into another.

So for example, I was on Fox Business with Charles Payne, and he you put a list of crises on the board and said, okay, which ones are the worst ones? And I said the one I'm most concerned by far about is what's happening in the strait of Hormuz because, energy shortages, raw component shortages.

If they persist are like one of the worst risks in the world. And I, I say compared to that, I'm not worried about private credit contagion into the banking system nearly as much. With a caveat that, one of the catalysts that can damage private credit is interest rates going up because of these stagflationary issues.

So these pockets are not in isolation, like how. High energy prices, in a way led to the subprime mortgage crisis. Now it wouldn't, the high energy prices wouldn't have been nearly as bad. It like that recession wouldn't have been like so severe if the banking system was not so highly levered back then.

But basically that was the that more inflationary environment, the higher interest rates that followed that's what kind of popped that particular financial bubble. And so there are risks, of course, that high energy prices will pop any number of other bubbles. But I don't view the banking system as being in the US nearly as vulnerable at the current time as it was back in 2007, 2008.

Erik: Lyn, I can't thank you enough for a terrific interview, but I've got one last question I cannot resist asking because I think the best advice I've ever heard on Macro Voices came from you when you said, do not write a book unless you can't help yourself. Now, in fairness, that was advice on business books.

Tell me about [The Stolguard Incident](#). What happened? You couldn't have, couldn't help yourself.

Lyn: Yeah, I've cutting out myself. That's my new sci-fi book that's out. We all have to have hobbies. And although I, I analyze markets and financial systems for a living. My initial background was engineering.

And like many people, I'm a big fan of fiction. And I've had this story in my head for a while and I decided to write a kind, a sci-fi thriller, The Stolguard Incident. In a world of bad news I figured. It's a good time for it to come out so people can buy it on Amazon or elsewhere.

And it's a dark story it projects some of the technological trends explores some more farfetched areas because that's what sci-fi is good for. But yeah, people can check it out if they wanna. And I think in general, I would say that. In certainly don't write a book for money.

Like I said it's like you only do it if you can't help yourself, and that was certainly my case here. But from a perspective of reading books, I think that especially in times like these were of course glued to the news headlines. Many of us are, our jobs make us have to be and then even other people just trying to figure how to protect themselves.

But over time, of course, on average, we are more glued to the current thing and headlines and social media. Reading is one of those things that's slowly on the decline. And I do think that there's still much to be gained from reading fiction of multiple genres in addition to the nonfiction reading that people do.

While I've benefited a lot from reading, nonfiction books, business books and history books and, technology books and all that. I've certainly also benefited over the years from reading fiction. And I think it's it's important.

Erik: I'm hearing fantastic things about the book, so congratulations on that.

Let's get back to our usual format closing question, which is tell us about the services on offer at Lyn Alden Investment strategy, what you do there and how people can follow your work.

Lyn: Sure. So that's at [Lynalden.com](https://lynalden.com). I provide public articles and newsletters so people can sign up to the free newsletter.

Where I provide research every six to eight weeks on the broad macro picture. And then I have a low cost research service for individual investors as well as institutions. That comes out every two weeks and provides a little bit more

granular detail on what's happening, both macro as well as specific investment ideas.

And of course people can also check out my nonfiction book, [Broken Money](#) which is about the intersection of money and technology. Thank you,

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