

Erik: Joining me now is [Santiago Capital](#) founder Brent Johnson. Brent prepared a slide deck to accompany this interview. I encourage everyone to download it. You'll find the download link in your Research Roundup email. If you don't have a Research Roundup email, just go to our homepage, [macrovoices.com](#). Click the red button above Brent's picture that says, "Looking for the downloads."

Brent, I wanna start with three really important questions because I think there's so much confusion in the system and news flow right now. Number one, is the kinetic war with Iran, the bombs dropping and so forth, either ending or winding down or coming to some kind of closure? Yes or no? Number two, okay, what deal actually has been reached between the US and Iran?

Where does it stand? If it's already been signed, why does it still have to be signed on Friday? Why is President Trump saying I think in direct quote was, "Oh you never know with deals. We might have to go back to bombing them if they don't sign." So it sounds like it's not completely done yet, but the question is: where is it?

And then, of course, the third question is: okay, what does it really mean for the outlook to return a full flow through the Strait of Hormuz? So let's take those in order, starting with, is the kinetic war finally ending, winding down? Has President Trump decided to end this thing?

Brent: First of all, thanks for having me back.

This is going to be fun, and I'm not sure if we're gonna be able to cover everything. I think it would probably take five hours for us to do that. But long story short, I think the kinetic conflict is over for now and we're winding down for now, but I do not expect it to last. Maybe it will last for a couple weeks or a couple months.

I, I do not think it is over. I'm more than happy to be proven wrong on that, but that's just my current take. And part of the reason is I don't believe either side. I don't believe what either side says. I think a lot of people are very quick to believe everything Trump says. I think there's a lot of people who are very quick to believe everything the IRGC says, and my advice would be to not believe either one of them, and let's just wait and see what happens.

But have we gotten everything as far as preventing Iran from getting a nuclear weapon? I think, again, for now, right? Th- there, there's two ways to handle this. Just continual prevention over time, every six months, every year, every

couple years, go back in, hit them hard, slow them down, or one final ultimate resolution, and it looks like Trump does not want to do the one final resolution right now.

I think part of the reason is because of the timing of it, whether it's a combination of midterms coming up or the fact that, the strait has already been closed for three months now, and even if they reopen it back up tomorrow, there are still going to be consequences of the three-month closure.

And then the other thing is I think there's so many different versions of this MOU going around, and the ones that I've seen are written in a way that each side is going to interpret them the way that they want to interpret them. I don't think either side will fully live up to what the other side believes they are responsible to do in it.

And as a result, I think we'll probably end up back where we are now at some point down the road. But I also don't... I think it would be impossible to come on here and say this has been an unmitigated victory for the US. I also don't think it's this great, disaster that so many people have come on different programs, including this one, and breathlessly voiced that this is the Suez moment or this is finally the nail in the US's coffin.

To me, it's just another thing that the hegemon always does, and that sounds a little bit callous and casual, but I think that's reality. And then finally, you say, what's the outlook for return of traffic flow through Hormuz? I think it is going to open up some. I don't think it's gonna get back to normal.

I would be surprised if it got back to normal, and again, I would be happy to be wrong on this. And I think, as I said a little bit ago, the consequences are still to be determined. Now there's a lot of people who already thought we would see go- oil at a hundred and fifty bucks or two hundred bucks or whatever it is, or that we would see gold at six thousand or eight thousand or ten thousand or whatever it is.

Instead, they have both fallen precipitously over the last couple months. But I don't think that we have seen the full effects yet, and so I think that is probably... I think the big impact won't be realized for three to six months from now, maybe even nine months from now. So let's call it Q4 and Q1.

And this is a very long way of saying I think everybody's excited to get an answer, but I don't think we're gonna get one. And, where we go from there is yet to be determined. I would encourage everybody to be a little more open-

minded than most people seem to be. Like I said, most people that I talk to seem to either support one side or the other, and it was either a great victory or a great loss, and I think it lands somewhere in between as of right now.

Erik: I couldn't agree more with you that the news flow has been very confusing and it is not deterministic. Something I'm very concerned with is it seems to me that we may be headed toward a real falling out in the next few days because what's happened here is first the deal was supposedly signed electronically, but they didn't release the text of what the deal actually was.

Later, Iran's Mehr News Service, and of course, we've got to assume Iran is spinning things, for public consumption in Iran.

They released a 14-point, here's what the MOU actually says. And immediately after that, President Trump was very vocal and outspoken about the rumors going around as a result of that saying, "Hey, look, it's a bunch of BS, this nonsense about how supposedly US is gonna pay 300 million with an M dollars to, to Iran is utter nonsense.

It's fake news invented by the Democrats." When the US version of the MOU was actually read, it's not 300 million, it's 300 billion with a B, and the US version does acknowledge that's part of it. They're saying that the US wouldn't be the one to pay it, that it would be some kind of deal that's structured.

Okay, wait a minute. So now parties that are not party to the agreement are going to come up with \$300 billion and that is part of the agreement, but the US isn't gonna fund it? How does that work? And then the whole question of the weapons grade uranium Israel has said very adamantly the war is not over until it's physically removed from Iran.

Both the the Mehr Iranian side and the US side of the MOU that's now been read out publicly say downblending on site, which Israel has... And it also says that they've got to have a complete ceasefire, including Lebanon, including Israel standing down from attacks on Lebanon, and Israel has said very clearly, "We don't agree to that.

No way. That's not binding on us, and as far as we're concerned, this isn't over if the material doesn't get removed." And the material being removed is now apparently off the table, not just on the Iranian side, but on the US reading of the MOU as well. And then on Wednesday, when asked about this whether the signing was going to happen on Friday, which everybody thought was a fait

accompli, President Trump said you never know with deals and we might have to go back to bombing them if they don't sign it."

Doesn't sound like this is a done deal to me. What do you think?

Brent: No. So I, listen, I totally agree with you, and this is part of the reason why I think it's done for now, but it's not done, right? And I think there's a couple reasons why it's perhaps done for now. And listen this may last two more hours, maybe it lasts two more months.

But I think that latter number is a bit optimistic. But a part of the reason I think they pushed to get a deal now is going back to some of the things that you said about, a- and that I have i- inferred, that listen, there are still going to be consequences of this. And we're getting close to a point where, reserves around the world are being drawn down, and while they have been able to keep the plate spinning so far, we're getting close to a point where maybe that is no longer the case.

And I think it's important to remember that neither side wants the whole world to collapse as a result of this, right? Iran doesn't want that, and the United States doesn't want that. And so perhaps the US was hopeful that they could get this wrapped up by early June, mid-June, and now that we're here and it's not wrapped up, they're g- they're saying, "Let's take a pause," because if we don't take a pause, then many things are going to get out of our control.

And I will say this, for all of the criticism that the U.S. has received in this ordeal, and listen, rightfully I'm not saying they don't deserve criticism, but they have kept the plate spinning. And it kinda goes, we've talked about this many times with central bankers.

You can hate them all they want, and you can say they're misguided da. But listen, they have kept everything afloat. And part of the r- I think the process of keeping things afloat is they let things get to the edge, and then they pull it back, right? And I think we were probably pretty close to the edge here, and now they're pulling it back.

And so I think there is some massaging or managing going on. Now, the other thing I wanna say before I forget to say this is for whatever reason that they have decided to pause now, I'm happy that they've decided to pause now. I don't want one of the world's oldest civilizations to be removed from the face of the earth, right?

And, there was threats that could happen. I don't want any more people needlessly killed. So regardless of the reason, I'm glad that this has happened, and I'm hopeful that the strait will open back up. Now, having said that, that is not my expectation. I do not think this is over. I think it is very unlikely that either the United States, Iran, or Israel lives up to their side of it.

And whenever it kicks off again, each side will blame the other side. This is just reality. This is what all three sides have to do. They can't say, "Yes, we broke it, and it's our fault." But so they will obviously blame the other side. The question that I'm dealing with now internally is how long will this truce, so to speak, last?

And what are the effects even if it lasts? Because I think in the best case scenario it lasts, and even in that best case scenario, I still think that there are some significant challenges coming down the road. And then i- if we don't get that best case scenarios, then what happens from there?

And th- this is where I'm at with it. And, g- going back to the nuclear issue, I think they realized that they weren't gonna get to the final answer they wanted right now, and so as a result of perhaps just agreeing to continue talking for the next 60 days, is a way for them to try to avoid these catastrophic outcomes from the strait remaining closed, while also trying to deal with that issue.

I will say this. If at the end of all of this, the United States has retreated back to the Western Hemisphere, and that all the nuclear material remains within Iran, and Iran is in ch- fully in charge of the strait and charging fees to transit, I would be surprised if that happens. And if that happened, I would consider that a huge victory for Iran and a pretty big defeat for the United States.

Now, that is not my expectation. I think there will I do not think it will end like that. But if it does, I'll come back on the show, I'll raise my hand and say, "I got it wrong."

Erik: What's striking to me, Brent, is, and I, it's surprising and frankly very disheartening, but the strait ... president Trump said, "Ships of the world, start your engines.

The, the strait's open starting tomorrow." And actually, that turned out not to be true. The strait is still closed as of today. Both the Iranian and the US version of the MOU say it will be toll-free for 60 days only, and that Iran will c- maintain control and charge user fees. They're not calling them tolls anymore, but it's the same thing.

A dollar a barrel, so two million dollars per VLCC to go through the strait in a service fee payable to Iran. Both versions of the MOU say that's what it goes back to after 60 days. So it seems to me that both sides are now agreeing that Iran has basically been authorized to construct a permanent lifetime tollbooth over the Strait of Hormuz and collect a dollar a barrel for every barrel that passes through it, and both sides say that in their MOUs.

I never thought that I would see that.

Brent: So I, I don't read it exactly that way. Perhaps you've read a different version than I have read. And I ... Listen, I'm not saying you're wrong, I'm just saying that I have not read it that same way. If that is ultimately what happens, I will be surprised, and I will admit that I was wrong on that and so I f- I do not expect that.

But I, I think there's another part of this that, that we haven't really touched on yet, because what we've focused on so far is the United States and Iran, or the, this power competition between the United States and Iran. And it's actually, in my opinion Part of a much bigger plan or a much bigger story.

And I know many people are laughing right now saying, "There is no plan. There, there is no 3D chess. This was a foolish errand that has ended badly, and you have no idea what you're talking about." And listen, if those people want to believe that, they are welcome to believe that. That is not be- my belief, and my belief is based on some extremely good sources that tell me otherwise.

And I think there have been some things that have been accomplished that are not even talked about. And what I mean by that is a lot of things, we have found out a lot of things over the last three or four months as a result of this. One thing we found out is that Iran has capabilities that perhaps we weren't sure that they had, but now we are sure they have them.

There is value in knowing that. We also found out that they have a missile that can reach Europe. That was suspected, wasn't sure. Now we know for sure that they do. There's value in knowing that. We also found out that Russia and China will not come into the rescue of one of their biggest allies, despite the fact that they need Iran, and so there's great value in knowing that.

We also know that, the rest of the Gulf countries did not take out their frustrations on the United States and have in fact grown closer to the United States as a result of this adventure or whatever you wanna call it. There's value in knowing that. OPEC in many ways is on its way out.

There is value in that. And the other thing that has not been discussed at all, but I think is important to understand, is that the pressure that has been exerted on Iran by cl- You know for all the stra- all the saying that it was a brilliant move for Iran to close the strait the US closed the strait too.

And the point is that if the US doesn't want oil to go through that strait, it's not going through that strait, right? Now, does Iran have that capability? Yeah, they have that capability. But it can't be a great move for Iran, and then when the US does it, it's a horrible move. Like it's either a good move or it's a bad move, but both of them have shown that they can do it.

The other thing is that as a result of doing that, it has put the rest of the world under extreme pressure. The reason that's important is the US is not only negotiating with Iran, they are negotiating with the rest of the world. And when the rest of the world is under pressure, the US can exact better terms on whatever deals that they're negotiating.

There have been a number of extremely large long-term energy contracts that have been signed over the last four months since February 26th, I think, was the first one, and there was another one with Japan just signed, I think, four or five days ago. And there, the, and there, there's many other things like that.

And, again, while not everybody has come rushing to aid the United States in this effort, nobody has run and sided with China and Russia as a result of this. There is value in that. And so I think it's important to keep the big picture in mind as we're looking at the as we're focusing on, the Iran and the United States conflict.

Erik: Brent, you make excellent points, and I definitely agree with you that the role of other players in this is really important, and something that I've really been struck by is China's role in this. Certainly, Xi Jinping is not outspoken and prominently, talking with strong words on the public stage, but China's actions to reduce their oil imports, I think played a huge role in averting runaway oil prices.

And it, it really struck me in terms of how much power China has because of their much larger commodity stockpiles, including compared to the United States. Any comment there?

Brent: Yeah, so there's a couple comments. A- and the first thing I wanna say right off the bat regarding China is I think many times my opinion of China has been mis- misinterpreted in that I think there's some people that believe that I

think China is a paper tiger and cannot stand up to the United States and is not a big player in this, and that is not the case at all.

I think China is a very formidable adversary. I think China versus the United States is largely what this is about. And so to your point, China has done a good job of not only preparing for a moment like this and building up their stockpiles, but then managing it while it was going on. Now, having said that, I don't fully believe their numbers.

I think it's very healthy to be skeptical of all government numbers, whether they are published by the United States or China or Iran or Russia or whoever it is. So I'm not fully believing the numbers coming out of China. But I do agree that they have helped in, in managing this long process.

Now, interestingly, I don't know if people have thought about this. Perhaps they have, and perhaps this isn't as big a deal as it, I think it might be, but it is something to consider. Now, why would the United States want the strait to be back open, and why would... if some of these things that are written in the agreement turn out to be true, why would the United States want Iran to be able to export oil back through the Suez Canal and have waivers given by the Treasury Department in order to sell the oil and use, the SWIFT system and, the banking license, or the, the, to have the re- the removals that the Treasury put on so that they can, facilitate these transactions?

Why would the United States want that to happen? Part of the reason is it opens up energy back to the United States. After putting pressure on the rest of the world, now it's gonna give a little breathing room. But further than that, Iran is now gonna be able to sell that oil, at least for the time being, for full price and in dollars.

Now, why is that important? Because for a long time, a lot of their export was going on the black market to China. China was paying anywhere from a 20% to 30% discount and using, guess what? Not dollars, but yuan. So if you don't want China to be able to be- continue importing oil in large quantities at a large discount in their own currency, but instead have to compete to buy it on the open market, this would be one way that you would accomplish that.

So again, I don't know exactly how this is all going to end out, but I think there's a lot more to this than what is initially read into these the MOU bullet points. And I think it's way too early to say, who has gotten the better end of the stick here. It's a very fluid situation.

I don't think it's over, but the- these are the types of things I'm thinking about as I'm looking at this type of stuff.

Erik: Let's dive into your slide deck. Page three, you've got conviction versus confliction. What's the story?

Brent: This is something I talk about quite a bit, and this is one of the... I think it's something that a lot of people struggle with.

I certainly struggle with it, and it's essentially talking about we all have a way that we want the world to be and that we wish things were, and that we would perhaps even work towards having. But then there's the way that the world actually is. And when I am allocating capital, for not only myself, but for clients for whom I have a fiduciary duty, and who didn't hire me to be a social justice warrior or a political commentator, but instead in- hired me to be an analyst of what's actually going on in the world and place capital, I have to consider the way the world actually is.

And that can be difficult at times, and I think one of the hardest things you have to understand is that trying to change the world for the better and growing your portfolio might not be the exact same thing. They might be, but they might not be. And in fact, sometimes they may be the exact opposite of each other.

And so I have a pretty high conviction o- of how I think things are going to go in the future. Now, I don't have certainty. There's a lot of people that have certainty. I don't have certainty, but I do have conviction. But it doesn't mean that I like it, and I'm really conflicted by the way I think the world is going to end up versus the way I would like it to be.

And I th- I... The first probably 10 or 15 slides of this presentation are really not specific to any one thing other than th- it's more of a philosoph- philosophical thing that I think people need to think about, and it's things that I think about when allocating a portfolio.

Erik: Brent, let's skip ahead to slide eight, which kind of gives a summary of the various dimensions that, of things that you're talking about.

Brent: Yeah. I th- I think we've talked about this before, and I know you you've discussed this with many other guests on your program. I think a lot of us are now familiar with the fourth turning concept, right?

And that we have this kind of upheaval. We're going through these big changes. And, I see this in so many different things whether it's political, whether it's economic, cultural, geopolitical. And even within the markets, we're seeing dramatic changes. One of the points that I have made with the commodity markets is that they themselves have changed a lot since I first started in this business 26 years ago now, 27 years ago.

The law of one price ruled most of my career, and what the law of one price basically said is a commodity traded in the world, regardless of whether it's traded in the United States, South America, or Europe, for the most part trades at the same price. Now, there might be some small changes, due to taxes or import costs or whatever, but for the most part, they traded at the same price.

And as a result, people like me, our job was basically just to find who can supply the widget at the cheapest price in the, most efficiently and in the shortest amount of time. But now that's no longer the case. Commodity prices over the last year have started to diverge based on where they're traded or where they're used.

You can now have a different price for a commodity in the United States than you do in China, than you do in Africa. And I think that's a huge change because that no-- you can no longer just go with the low-lowest cost. You have to consider supply chains, you have to national security issues, you have to consider tariffs.

And you have to consider national security needs. And so this is a dramatic change from the world that I started in. And I th-I think that, that's probably the best example I can give of how the world is changing and why you have to think about things differently.

And then somewhat related to this, a-and this kinda goes back to the conviction versus conflict, is that I find all of this stuff absolutely fascinating. It's like being in the Super Bowl for people who like macro and who like markets. And I actually consider it a privilege to, to be managing capital through this time But the flip side of that is that it's also tragic.

Like real people are gonna pay the price for this, right? I think more wars, more conflict, more non-cooperation, to put it politely, is probably in our future. And when you talk about these things like a game, it obscures the human cost involved in all of this.

But that's the world we live in now, and so that's that, that's what we're dealing with.

Erik: Brent, as I page through the slide deck, I can't skip over 14 through 16. You got some pretty strong comments here. What's on your mind?

Brent: This kind of goes back to the fourth turning again now, and I think there's a lot of people out there who are debating a- and have a belief one way or the other of whether the United States is a rising power or whether they're a falling power. I, it seems to me most people are just assuming that the United States is a falling power and its best days are behind us.

And so the opinions on this I think are very split. I think it's probably gonna end up a lot different than most people do. First of all, the United States has completely changed the way that they deal with the rest of the world and I think it's really important to understand this.

And it's also important to understand that I don't know for sure that this is going to continue. I think it will. But it's important to understand the two different models. Now, under both models, the United States wants to remain the global superpower, in charge of things and, set the rules, so to speak.

But these are two very distinct ways o- of accomplishing that same goal. And subsequent to World War II, the United States and its allies set up the rules-based order and, that's a funny term, but it's an actual real thing. There was a very specific way that the world dealt with each other and solved its issues post World War II, and that was done in order to prevent further large scale wars.

And it was... But it was also done as a way for the West to control things, right? And that worked for a long time. There were some very good things that came out of that, but there was a lot of bad things that came out of that as far as, inequality, what did the elite get out of it versus what did Main Street get out of it?

And so the United States has, a- and as a result of that inequality, that kind of led to the rise of Trump, right? Or the America First. And America First is a dramatically different way of dealing with the world than the rules-based order. The rules-based order was, for the most part, a greater good strategy.

We are going to do this, and we are going to do multilateral negotiations. We're gonna do this for the whole world. We're gonna have the United Nations. We're gonna have United Nations. We're gonna have the World Bank. We're gonna

have the World Trade Organization, and we're gonna negotiate these things on an overall basis, and we will do this for the greater good.

That kind of ran parallel with the rise of Keynesian economics. Keynesian economics, you could argue, is a greater good strategy. And But the rise of Trump and the rise of America First is dramatically different. They are now saying, "We are no longer going to do things for the greater good. If it is not for the good of the United States, we are not going to do it.

We are gonna negotiate bilaterally. We are not gonna negotiate multilaterally. This is what we are going to do. You're either with us again or against us, and, we're the biggest guy on the block, and if you don't like it, tough." Now, again, this goes back to conviction versus conflict. Do I like this?

Not particularly, but this is the way it is now, and I don't think that's going to change, and I don't think it's gonna change dramatically even if Trump was no longer president because I think in many ways the world is fracturing. We are moving from a world that was globalizing to a world that is now de-globalizing, and I think as that happens Despite the numerous problems that the United States has, and I could spend hours and hours going over all the problems the United States has and the mistakes the United States has made, despite all of that, I think the United States is still relatively in a better position than virtually anybody else on the globe.

And as a result, as we go through this fourth turning, I think a lot of people are assuming we're gonna have this great calamity in the winter, and then when the spring comes around, some new power is going to be in charge. And I think it's possible a new power is going to be in charge, but I don't think it's gonna be some other country.

I think it's probably still gonna be the United States, but I think we will potentially will have transitioned from a republic to an empire. Now again, conviction versus conflict. I don't necessarily like this arc that we're on. I don't know that this is going to be a good thing. I hope that it is. I hope it works out well.

But I think that is the more likely path than the alternative because if the rest of the world had kept their house in order during the last several decades while the US made mistake after mistake, I think it would perhaps be a different story. But from my analysis, they haven't, and they have many of the same problems.

Many of the problems they have are bigger than the problems the United States has, and the United States just has so many advantages that most people quite honestly just don't even understand, that I think more likely than not, the United States will use every single asset they have, and every asset that they have, to remain atop the global order.

So I think it's more likely we see the fall of the republic and the rise of the empire than the fall of the empire and some new power takeover. And the last point I would make on this is I know there's a lot of people who think that the United States already is an empire, and it has been for a long time, and that its best days are behind it and the empire is dying I think, and listen, I can be wrong on this, but it, my interpretation of this is that people believe this because it's been a long time since we've had an empire running the world, and most of the people who are analyzing it aren't familiar with how an empire actually asks, acts, and rules things.

And I think that as we move forward in time, we will become reacquainted with how that happens, and this gets back to the, real world versus the world we would like. For most of h- history, there were dictatorships, there were monarchies, there were empires. The last 100 years, in my opinion, is the exception to the rule, not the norm.

And as we move from globalization to de-globalization, I think we probably start to move back towards the norm rather than staying in the exception.

Erik: As we think about how all of this is going to affect markets and the economy, it seems to me one of the primary core assertions of *The Fourth Turning*, the book that you referenced written in 1998, was that toward the end of a fourth turning, people lose faith in institutions.

It results in them electing extreme leaders and often f- going back and forth from one extreme to the other, because what's really the underlying force behind it is people get so fed up that they just want to vote for the opposite of whatever we've got now. I wanna see it change to the opposite of what we have 'cause I'm so fed up with what we have.

And that's what leads to something like Obama, Trump, Biden, back to Trump. It just swings one direction or the other. It seems to me, Brent, that obviously this Iran conflict could go either direction. It could turn into some grand success. But if it blows up in President Trump's face, it seems to me that probably Gavin Newsom would be the heir apparent if we were to swing the opposite direction in terms of the electorate wanting the opposite of Trump.

What would that mean to your analysis in terms of what's coming if we were to see the next president have a completely opposite political leaning than President Trump has?

Brent: So I think what it would mean is that there's a short-term swing back in the opposite direction, as you say. And at first of all, I totally agree with you.

I think it's very possible we get into these things where things are swinging back and forth because people just want the alternative. But I think by and large, the arc of history is now moving towards a de-globalized world. And I have a hard time seeing, even if the Democrats come back to power, I have a hard time seeing us going back to the rules-based order, and I have a hard time seeing the, going back to a system of globalization rather than de-globalization.

And the... We may have talked about this in previous times, Eric, so I apologize if I'm repeating myself 'cause I've talked about this many times. But there's a great book called *The Storm Before the Storm*, and it takes place from 130 to 60 BC, so it's like a 60, 70, 80-year period of time in Rome.

And it basically documents the fall of the Roman Republic. And during that, there was many of these exact things that you're talking about, political factions that swing back and forth from one political party to the other. A lot of the same things that we are experiencing now, they experienced over the 70 to 80-year period.

But what ultimately came out of it was not the failure of Rome as a power, it was the failure of the Republic. But what came after the failure of the Republic was the rise of the empire, and that is when things had gotten so bad and they have swung so many times back and forth, that a strongman eventually showed up and enforced his will on everybody else and said, "We're not gonna do this anymore and this is the way it is. Now, I don't know that it's gonna happen exactly like that in the United States, and I certainly hope that we don't go into this an evil empire stage.

I don't think, we get back to that conviction versus conflict. But I have a hard time seeing the United States surrendering hegemony to some other power, regardless of whether Gavin Newsom's in the White House or Donald Trump Jr.'s in the White House. And I think the problems in the world are gonna necessitate more nationalism as opposed to less nationalism.

And that typically, once that process starts, it typically lasts a long time, and it can swing back and forth, for a couple years this way or that way. But on the overarching, pendulum swing I think that has many years to go.

Erik: Let's jump ahead to page 21 in the slide deck and talk about some of the market opportunities that you see opening up as a result of all these things that are going on.

Brent: Yeah as I mentioned when we were talking about Iran specifically I think a lot of these things are going to play out regardless of whether the strait fully opens tomorrow or not. They might not play out for another six months. I think largely this is a Q4 and a Q1 story. But the four kind of different opportunities that I see are in the food space based on the fact that many ships did not get out during the planting season.

That wasn't just a factor for energy, although that contributed to it, but also fertilizers, chemicals, other additives that would typically help a planting season yield a higher crop. I think the fact that didn't happen to the same extent that it typically does sets us up for a potential food cascade later this year or next year.

Now again, th- these are not certainties I- but I think there's a higher probability than there would've been otherwise, and I think there's a number of other factors that contribute this. So I see opportunities, i- in the food industry. The other one that I think, that I haven't heard anybody else talk about is the MRO market, which basically stands for maintenance, repair, and overhaul, and this i- th- this impacts the aviation industry.

And the fact is that the Gulf region has become a v- very important part of this MRO global industry. And the problem here is that, if, i- if you end up getting a problem in that industry, it ends up potentially impacting all these other industries because it is another supply chain disruption.

So in other words, one supply chain disruption ends up impacting another supply chain a- and creating another supply chain disruption. National defense is, I think, probably going to be the biggest investment opportunity any of us have ever seen, or one of the biggest opportunities any of us have ever seen, both in the United States and abroad.

I think every country is going to have to re-arm themselves, and I think money will be spent regardless of whether they can afford it or not on national defense. So I think that's, that, that's an area. And then as I mentioned the last time I was

on your show, I think stable coins are going to be a revolution that many just don't yet understand.

And I think not only is it going to help to solidify the United States dollar as the global currency, but I think there are some pretty interesting investment opportunities associated with those as well.

Erik: I couldn't agree more that stable coins are really important, probably more important than most people understand.

One place I kinda see it differently is I think you're right that US dollar stable coins are likely to be the saving grace, if you will, for the US dollar as global reserve currency. But the way I interpret that is that puts a target on their back. That means that China and Russia primarily probably are doing everything that they can possibly think of to engineer a different competing stable coin, a, a global south stable coin, a BRICS coin or something.

I haven't heard anything about that actually happening, but then again, if I were them and I were doing it, I'd keep it secret. So do you think that the US really has a monopoly on this stable coin idea, or do you think it's going to come under challenge?

Brent: I don't think they have a monopoly on it.

I think countries, companies, different organizations around the world are free to launch their own stable coins. But the market, the actual users of the stable coins have definitively spoken, and 99% of all outstanding stable coins in the world today are US dollar stable coins. Now, that 99% was not forced upon the masses.

That was the issuers responding to demand in the market And the market has spoken extremely clearly that the dollar stablecoin is their preferred stablecoin. Now, that doesn't mean that there won't be other s- successful stablecoins. Doesn't mean China can't launch one, and it w- doesn't mean it won't work.

Russia could do the same. I think many other countries will launch coins. But at the end of the day, the United States dollars has the most utility on the global stage, bar none. And as a result, I think that will continue to glean the lion's share of the flows. And as that happens, as citizens from around the world choose to hold a US dollar stablecoin rather than holding their local currency, the transfer of sovereignty, monetary sovereignty, starts to leave that local jurisdiction and that local government and get transferred to Washington, DC.

And that is an extremely powerful tool that if we had a treasury secretary who happened to understand how markets work and had a history of manipulating markets or investing in markets or even causing currencies to fail, he could use that to his advantage. And it just so happens that we have a t- a treasury secretary who has done those exact things.

So I think the rise of stablecoins is vastly misunderstood. I think it's massively mis- underappreciated or underapp- whatever the right way of saying that is, is underappreciated, and I think is just another and a newer arrow in the United States quiver.

Erik: Brent, let's jump ahead to page 26, The Band.

Dude, you're putting the band back together. Most people probably don't even know that quote. It's a 46-year-old movie that one comes from, but it's also a 46-year-old story that you're writing the next chapter in. Tell us what The Band is about.

Brent: The Band it's about the United States dollar, and the reason we wrote this is I have talked a lot about the dollar over the last seven or eight years.

You know this better than anybody because I think the very first time I spoke about it publicly, I think, was at your conference. So you've been around for kind of the whole ride here. But I've never written a lot about it, and what I wanted to do is write a paper that kind of explains the mechanics of the US dollar system in a way that kind of the average person could understand and that would explain why all these evergreen predictions of the dollar's death or its rejection or de-dollarization or this new dollar killer app that's gonna be launched or this new Libra coin or the new E-won or what- whatever it is, why they always fail to gain traction and why they always fail to take on the dollar in any meaningful way.

And I got the idea for writing this when I was watching this TV show called Landman, and I'm not sure if you're familiar with the show Landman, but it's basically Billy Bob Thornton, and he's a fixer in the oil patch in We- West Texas And there's a scene where he talks about why oil has to remain within a band, and I don't remember exactly what band he said.

I think he said it needed to stay between 65 and 90. If you get above 90 the cost of energy starts to crush the profit margins of industries around the world, and it actually becomes even though the input is inflationary, it starts to create

deflationary pressure on the global economy, and the global economy, goes into a recession.

The flip side is that if the price is too low, and if you get outside the band to the low side and oil trades at 40 bucks or 30 bucks, now the producers can no longer s- afford to stay in business, so they shut down their wells, they go bankrupt. And then when the demand comes back, the production is not there, and then you get the price spike that sends things the other way.

But if you can stay within that band, the producers can make enough to stay profitable and it's... But it's cheap enough that industries and citizens and workers can fill up their car, can power their industries, and the global economy can es- c- can expand And the exact same thing applies to the dollar index.

If you get too low, it causes problems. If it gets too high, it causes problems. And so in this, in this paper we, we did a k- we paraphrased Billy Bob Thornton's, comments about the price of oil to the price of the dollar. And the, th- this was our effort to make that clear to people and to explain why if the dollar is ever going to die, it's going to die of strength, and it's not gonna die because it got inflated away and went to zero.

Erik: Brent, you've got a whole series of slides here starting on page 27. Walk me through the whole story of putting the band back together.

Brent: Yeah, so one of the things that we did in this paper, the other reason the band works, is we equated it to the Rolling Stones because the Rolling Stones came to prominence about the same time the euro dollar market started to develop.

And despite the many predictions of the Rolling Stones breaking up or Keith Richards dying of a drug overdose or the egos getting too big and writing checks that they could no longer cash, the same thing had been said for the dollar. And so a lot of the chapters in this report, and so I should say, th- this report, a lot of the chapters are titled after Rolling Stones songs.

But essentially on, on slide 27, if people are looking at the deck, what we've shown is that despite all the talk, despite all the academic papers, despite all the blog posts and the Twitter rants, de-dollarization is largely a myth. Now, reserves have fallen over the last 30 years, but that's largely a function of oil or gold prices going up and dollar falling versus gold.

But all-- but if you look at things like FX turnover, if you look at cross-border lending, if you look at trade invoicing, they're all as high now as they have ever been, and they're higher than they were 30 years ago. And, the fact is while the dollar as a reserve has fallen, it hasn't fallen versus other foreign or other fiat currencies.

It's fallen mainly versus gold, which is not a big surprise to us. Over probably since I first started talking about this in two thousand and eighteen, many people said that the era of the milkshake was over, that it had already happened. And my point was that the dollar was not going anywhere.

It was gonna remain strong versus foreign currencies, and that capital would get sucked up into the United States. And if you look at the financial assets that foreigners hold of the United States assets, it's almost doubled in the eight years since people told me that it would no longer happen, and it continues to go higher.

Now, will that ever change someday? It probably will at some point, but it hasn't yet, and part of the reason is what we try to explain in this paper. The other point that we would make is when we refer to the band, and I said you get problems if you go outside of that band, either to the upside or the downside.

This is not just theoretical. We went back and looked over forty years at sixteen different emerging markets, and on page thirty-one, I kinda make this clear that seventy-five percent of the time, whenever we've gotten outside of that band, within a very short period of time, sovereigns around the world went into distress, and they had a dollar funding crisis.

Now, when it stayed inside that band, didn't have the problem. So this is not just theoretical. This is real-world examples. And part of the reason is what I try to explain on slide thirty-two. There is a dual carry trade that the rest of the world has to deal with. And what I mean by that is a carry trade is when you borrow money in one currency, and then you go try to place it in another currency and invest in some project in a higher-yielding currency, and you make the spread.

And that works as long as the one currency is cheap and the other currency is higher yielding. The problem is that the rest of the world, because they have both a local carry trade in their local currency, and they have a global carry trade in the dollar, they always have one of these carry trades is going against them.

It never goes their way on both of them, and the reason it never goes their way on both of them is because currencies trade relative to each other. Now, as long as we stay inside the band, even if one of those carry trades is going against the other one, it's manageable. But if you get outside that band, one of those carry trades really starts to bite, and that is something that the United States doesn't have to deal with because they only have to deal with the carry trade in the US dollar, and that is a structural difference that the US has that the rest of the world has been trying to overcome for 50 or 60 years.

But it is also why, for 50 or 60 years, despite all their predictions, the dollar hasn't disappeared. The other part of the reason the dollar hasn't disappeared is that the United States knows that this dual carry trade exists, and as such, they know they can use this dual carry trade to put pressure on the rest of the world.

And this is the chapter we titled Paint It Black. And I'm referring to slide thirty-five here. The United States knows that if they want to, they can put the rest of the world under pressure by using the dollar as a weapon. They can take off this global white hat and being the bright, shining city on a hill, they can put on the black hat, and they can put another country into crisis.

This has been done many times. It's been extremely effective. The most recent example, Secretary Bessent just talked about this a few months ago, where he said very specifically, they used their tools to create a dollar shortage in Iran, which caused their currency to fall very dramatically, which caused inflation to pick up dramatically and caused their local citizens to go out in the streets and protest.

And it put the Iranian regime's revenue under extreme pressure. So this is just one example that if they choose to do it, the United States can weaponize the dollar. Now, the other point I've made is when you switch from the white hat and you put on the black hat and now you're the bad guy, the rest of the world doesn't like it.

So of course, they're going to try to get out from underneath it. And that's a big reason why central bank gold purchases have gone up dramatically. On slide thirty-seven, we show the net buyers era and then how it jumped dramatically after Russian reserves were immobilized in twenty twenty-two.

I don't think that's an accident that central bank gold purchases jumped dramatically after that. But there's a consequence to that as well, because to operate on the global stage, you still need dollars. And there's no better evidence than that than page thirty-eight. If gold is now going to be a reserve asset, gold is

going to be used when those countries need to tap their reserves to get dollars to operate on the global stage.

And I think this is perfectly represented in the fact that from the moment the war broke out in Iran to the moment that it looked like we were getting this deal signed last week, gold fell twenty percent. The reason it fell twenty percent is those countries who had gold or who had purchased gold started selling it.

Russia sold it, Turkey sold it, the Gulf States sold it, and the reason they sold it is because they needed more dollars to buy oil on the global stage. And not only that, their gold reserves had gone up a lot in value over the last couple years, whereas their treasury bonds had gone down in a lot of value over the last couple years.

Now, some people say that's a negative. See? Nobody wants those treasury bonds because they're falling in value." Fair enough. As I've said for a long time, I didn't think that treasuries would hold their value. Part of the milkshake initially was saying interest rates would rise and treasury bonds would fall.

But there's two ways to look at that. That's another way the United States can weaponize the system against the rest of the world If raising interest rates causes bond prices to fall, and then the rest of the world has to sell those bonds to get the dollars they need, that's essentially the same thing as an early withdrawal penalty being put on their U.S.

dollar reserves. And you can see that on page 39. This is we kinda did an estimate of losses that the rest of the world took on their treasury bonds when the United States raised interest rates in 2022. Now, the genius thing about this is that the U.S. can say, "We didn't do this on purpose.

We weren't doing this to you. We were doing this to fight domestic inflation. This had nothing to do with us trying to put an early withdrawal penalty on your reserves. We're sorry that happened." But the s- the effect is the same. And so I think the point I want people to make is it's not that the United States can't make mistakes, it's not that they can do this stuff without having any consequences, and it's not that some of this stuff doesn't blow back and hurt them.

It absolutely does. But the reason we wrote this paper is because we want to show people that it doesn't work the way many people think it does, and just because the world doesn't like something doesn't mean they have the ability to get out from underneath it. And the United States, for all its problems, has many

advantages, and we tried to explain what those advantages are, specifically through the dollar lens, in this paper.

Erik: Brent, we've been recording this interview late Wednesday afternoon during that period between 5:00 PM and 6:00 PM Eastern when the futures markets are closed. During that period, some news broke that I'd like to invite you to comment on. What was announced, and this is Axios reporting, which is not always the most accurate, although I just see a couple of other newswires confirming the same story.

Previously, the story had been U.S. and Iran had already digitally signed this MOU, but they were gonna get together on Friday and sign the final version. It's now being reported that the final signing has occurred remotely. It's... I thought they had already done that previously, so I'm not sure what's different.

But it sounds like the previously scheduled signing ceremony in Geneva for Friday is not going to go ahead, not because the deal is off, but because they're saying the deal has already been signed. To my surprise, no great reaction just in the... As I've been speaking the futures markets opened. I don't see any big reaction on crude oil in response to this.

What do you think about this? All of a sudden they don't need to get together in person to sign this after all? Does that make sense?

Brent: It does if you take the opinion that this is all much ado about nothing. So what I mean by that is I'm not surprised by this. I didn't think we were gonna have the c- the current Ayatollah and Trump get in the same room and shake hands and sign this deal.

I think this is a very tenuous deal at best, and as I said at the very beginning, I don't expect it to last, and I don't think it has changed a whole lot other than perhaps it's bought some time to hopefully re-liquefy the world from an energy perspective long enough that we don't have a major disaster later this year.

But as I, also mentioned, I'm-- I think that is more likely that we have some problems down the road as opposed to not.

Erik: Brent, I can't thank you enough for a terrific interview. Before I let you go, tell our listeners a little bit more about what you do at Santiago Capital and how they can follow your work.

Brent: Sure. I appreciate you having me on again. It's always fun to talk with you, Eric. I can be found at Santiagocapital.com. You can find our research service at research.santiagocapital.com. That's where you can find a link to the report that I just talked about. And my overall business is managing money for high net worth individuals and families.

We do it on a customized basis. We do everything specific to each individual family. And one of the things that we've been working on recently is in addition to the separately managed accounts that we manage, is we have a private fund that is taking advantage of the opportunities with the Office of Strategic Capital and investing in national defense.

And so it's been a pretty interesting time period to be doing that. So if anybody wants to follow along, go to one of those two websites. You can also find me at Twitter. Those of you who know that I like to mix it up on Twitter quite frequently, and my handle there is [SantiagoAUFund](https://twitter.com/SantiagoAUFund).

Erik: I can't thank you enough, Brent. And sure enough, your prediction that things will remain in a state of conflict is already coming true. Just in the last minute, Iran's parliament speaker has announced that the Strait of Hormuz will never return to the pre-war situation, adding that Iran has the right to charge fees for transit and will assert its right to do that didn't take very long and is very much consistent with your prediction. Congratulations on the call, although I'm not sure if it's really good for the world, and we'll look

Brent: forward to seeing you- Can I say so... can I say one last thing?

Erik: Sure

Brent: you can. I would I would encourage people to go listen to an interview that you, that Eric moderated last night between Jeff Curry and Anas Alhajji.

I thought it was one of the better episodes on this particular topic that I had listened to. I thought both sides were very respectful of the other. I thought each side had extremely good points. I tend to agree with Anas as far as the overall effectiveness of what's happened, but I certainly cannot discount the points that Jeff made, and I thought you did a very good job of moderating both and keeping it as a very good and very informative discussion.

That was on Zero Hedge, so I don't know if, I don't know if, I don't know if that's appropriate for me to bring that up, Eric, but I thought it was very good, and I meant to tell you that at the very beginning of the episode.

Erik: I'm glad you reminded me. We'll make sure that we have the link in the Research Roundup email to that replay of the [Zero Hedge video](#).

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