MacroVoices Episode 543

Feature Interview with Jim Bianco

Recorded july 30, 2026 · Hosts: Erik Townsend & Patrick Ceresna · Feature guest: *Jim Bianco*

Sponsored by Big Picture Trading. Full episode and downloads at Macrovoices.com

Jim: Bond traders can stop panicking when the Fed starts panicking. The Fed didn't panic today, so bond traders panicked

Erik: That was Jim Bianco. I'm Eric Townsend, and this is Macro Voices, the free weekly podcast targeting professional finance and sophisticated private investors. Episode 543 was produced on July 30th, 2026.

Jim Bianco and I will discuss this week's FOMC meeting and how it led the 30-year Treasury note to a 19-year record high print of 5 spot 20. We'll talk about the impact on bond and stock markets, the state of the economy, the Iran conflict, and artificial intelligence in this week's episode. And after the feature interview, Patrick's going to turn Jim Bianco's market outlook into a risk-defined trade.

Patrick: And I'm Patrick Ceresna. Let's dive straight into this interview.

Erik: Jim, it's great to get you back on the show. We wanted to line you up for an FOMC week, and boy, they gave you plenty to talk about. There was no action at the meeting in theory, although there certainly is news out of the meeting. So give us some color on what happened, why it's significant.

Jim: Yeah, so you're right. The market's had a wild reaction to the Fed. Let me start with the bigger picture so everybody understands w- what's going on with this Fed. Trump has been bashing the Fed for two years, and the Fed has been very worried about their independence. And the way that they have resolved their problem with independence is the voters now are starting to act independently.

I know I'm using the word independence a lot here. And so that's why you're starting to see a lot of dissents, and we had three dissents today that were in favor of hiking rates today. So what's changed with the Fed that we're talking about raising rates when you could credibly say, "What's changed with the data in the last two months?

We didn't talk about it two months ago. We d- at the June meeting. We didn't talk about it at the May meeting. Why are we all worked up about inflation now or raising rates now?" Because the voters have always been suppressed under the thumb of the Federal Reserve chairman. He tells them what he thinks.

He tells them how they're gonna vote. He tells them what they're gonna say, and that's what they do. Now, the voters are allowed to act independently, and we're finding out that they are a lot more hawkish and probably were disposed to raising rates a lot sooner than this meeting. And so we're starting to see that unfold.

So that's the first part that's going on with the independence. The second part is Warsh doesn't believe in forward guidance. Again, if you're not familiar with the term, it just means the Fed signals what they're gonna do. I agree with him that forward guidance has been problematic for the Fed for many years.

Why is it problematic? Because it's always taken as a promise. Whenever the Fed says, if the data continues this way, we'll cut rates or hike rates," the market just pencils in that it's a certainty that's what they're gonna do. And since market participants think it's a certainty, they tend to over-speculate and kinda get over their skis, and then we get instances like Silicon Valley Bank not hedging their interest rate exposure and causing a f- potential financial crisis, or the repo market blowing up in September '19, or other, what the Fed's fancy word is, moral hazards.

So those are the two things that are changing about this Fed. So when you walk into this, this press conference, the press conference was designed for a Fed that had forward guidance. That's where they're supposed to kinda give us clues as to what's coming next But Warsh doesn't believe it, so he kinda non-answered every question, and he didn't really offer a whole lot in the answers that he gave.

And, stylistically, my impression was he came off a little bit condescending to some of the reporters on some of the questions as well too, but that's just a stylistic thing that we'll have to get adjusted to. So I think that the market is still stuck with the old thinking. We're gonna watch the presser because the chairman's gonna tell us what the Fed's gonna do, not ready to accept that he's only one of 12 voters, and when he doesn't tell us what we're gonna do, we're gonna get very disappointed.

Now, last thing I'll say, what kinda kicked this all off, in my opinion, is if there was one thing that he talked about at the press conference that might have been problematic for the Fed was-- Let me back up and say, on July 13th, Chris Waller gave a speech, Fed Governor Chris Waller. And in the speech, he had this line that a lot of people picked up on.

"Sternly staring at inflation until it melts before our withering gaze is not an option." Okay? A little rhetorical flourish, but I kinda get it. He's absolutely right that if that they have to do more than just stare at it. And then the problem was that when we got to Warsh, he said, "Here, in today's press conference, my own judgment is this is a period of watchful thinking."

Wow, that does sound like withering gaze is what he just said, that if we just kinda think about inflation and talk about inflation, it'll magically go away. And I think that the marketplace is of the opinion that, no, you have to do more than just talk about it or think about it for it to go away. More, obviously, is raising rates.

And since they didn't raise rates, there's an old adage that I've been using a lot lately that bond traders can stop panicking when the Fed starts panicking. The Fed didn't panic today, so bond traders panicked, and that's why we got the 30-year yield to use one measure at five twenty, five point two percent.

A 19-year high

Erik: Where are we headed? A 19-year high is pretty darn significant. Where are we headed in terms of long-term rates? And step back from this week's news and tell me about Jim's perspective on the longer term.

Jim: Let me go back to September of twenty twenty-four. September eighteenth of twenty twenty-four, to be exact.

That was the day that the Fed cut fifty basis points and started the rate cut cycle. The thirty-year yield on that day was four point two percent-- four point zero two percent, just barely above four percent. And as I mentioned it's at five twenty today, so it's up a hundred and eighteen basis points.

During a period when the Fed was cutting rates by a hundred and fifty basis points, the thirty-year yield went up a hundred and eighteen basis points. Yes, that's very unusual. There's only one time in the last sixty years that we saw anything like that. The Fed cut by over a hundred basis points and yields went up by a significant amount.

And that was the early nineteen eighties, but we also had fourteen percent interest rates back then. So this, if you wanna dis-discount that for the high level of rates, this is really unprecedented. Why? Because I think the market has been trying to tell us it's worried about inflation. It's not panicked about inflation, but we've got an inflation problem.

Sixty-four months in a row, we've been above two percent. We're above three now, right now with inflation. It's not coming down. You can argue all you want about technology and deflation, but the-- none of that is happening and none of that has been happening for over five years. And the marketplace is worried that if the Fed keeps rates too low and too stimulative on the economy, that it's just gonna foster more inflation, and bond investors don't want any of that.

So bigger picture, I've been arguing that rates will continue to go higher until Somebody deals with inflation. Now, the deal is somebody dealing with inflation is either, A, the Fed panics a little bit and raises rates. They didn't do that right now. Or B, the market takes yields up high enough to do it for the Fed, that they will effectively snuff out any inflation expectations or inflation concerns that it has with higher yields.

I don't think we're there yet right now. So this has been the hardest thing I've had to explain to people is if you're complaining about yields going up, and maybe people I'm referring to is the president of the United States, if you're complaining about yields going up, the thing that would stop that is the Federal Reserve raising rates and showing a little bit of panic and everybody calming down.

But you just replaced the Fed chairman and have bashed that institution for years because you don't want them to raise rates. That's why we have a 19-year high in the 30-year yield. So I think they're gonna keep going up until we get to that point that the market can say, "Okay, we've done enough to not worry about inflation."

Either market levels will have to do it or the Fed will have to change its policy.

Erik: Let's talk about what's actually going on in the state of the economy, 'cause there's always the counterargument, Jim, that no, it's not inflation, it's the economy is strengthening and we're seeing this backing up of long-term yields because it's a strong economy.

It's all a good thing. It's not an inflation risk. Is there any potential truth to that in this case?

Jim: Oh, there's total truth to that. I would argue to you, I'm a, a believer in nominal GDP as being the, the driver of interest rates. What that means is that why do some countries have 100% interest rates, others have negative interest rates, others have five?

What is the overarching theme that says one versus the other? The big one is what is your nominal growth? Your nominal growth is your inflation rate plus your real growth, the two added together. Now, in a country like Venezuela, you might have well over 100% inflation, you have well over 100% interest rates.

In a country like Japan two years ago, not now, but two years ago, you added together their inflation rate and their real growth and it was zero, and they had zero interest rates. So if the economy is staying strong, and that's one half of nominal, and inflation is staying sticky, nominal growth is going up What that means is that the fair value for interest rates is rising, so they should rise.

Also, it means the fair value for the funds rate is rising. So if the Fed wants to sit there like they have since December and not do anything, and the economy's doing okay, and it, and nominal keeps rising, they're progressively getting easier because that in fair value number is going higher. Now, of course, the fair value number is a theoretical construct.

There is no Bloomberg symbol you can go get the number to the fourth decimal or anything like that. It's a guess. But the guess is that the fair value is rising and the Fed is not following it higher. Maybe it's political reasons or maybe they don't believe it, but the theory the Fed is getting easier and that is a problem in this type of environment.

Erik: Jim, the stock market didn't take much liking to this event from the Fed. Tell us a little bit about that and where it's headed. Today's red candle put us decisively below the 50-day moving average on the S&P for the first time in months.

Jim: Yeah. If you actually saw the intraday movements in the stock market, it was down this morning, then the Fed didn't move.

It rallied back above, back to green, and it looked like for a moment there we were gonna have a decent day, and then it fell apart all over again with the rise in yields towards the end of the day. I'm gonna interpret that going back to my first comments. The Fed is independent, they vote independently, and a lot of these members have been suppressed hawks, and now they're allowing to show their hawkishness.

And the Fed has to deal with the inflation problem in or-- otherwise, the bond market will deal with the inflation problem. I don't think the stock market's gotten a memo. They still think it's only one guy, the Fed chairman, parse every syllable he says. He will tell the other 11 how they can vote, when they can go to the bathroom, and that's the way the world, the Fed works.

That's the way it used to work, but it doesn't work that way under Warsh anymore. And so I think the stock market is struggling to understand that dynamic right now. That's why you saw that big whip saw in the market today. And as it does understand that dynamic, it's going to have to come to grips with this idea that the discount rate, the cost of money, is gonna go up, and it's gonna stay higher until we do something about this inflation problem that we have.

Might add, too, about the inflation problem. I've been real curious because when you read political polls, the political polls overwhelmingly say the number one issue in the country, bar none, is inflation, cost of living, affordability, whichever phrase you wanna use for it. People are going to vote on that.

The DSA, the Democrat Socialists of America, are screaming that the reason that they're rising to power is the cost of living and affordability and the anger that is pushing into everybody. Okay I understand that But then I listen to my economist friends, and then they'll say, "Oh, the one-year swaps rate or the two-year break-even rate.

Inflation is not a problem, and it's well anchored, and it's under control." We're about to have a political revolution in this country because of cost of living and affordability, and all the economists that I talk to are saying that there's nothing to see here. Move along. So there's a big cognitive dissonance between these two groups right now, and I'd probably put it more on the economists that keep talking about that there is no inflation problem.

Again, let me be clear about the inflation problem. Whenever I say inflation problem, people automatically, I've said this to you before in these calls, people automatically run to Zimbabwe. "Oh, you just said we're gonna have a million percent inflation," or Venezuela or something like that. No. If the world thinks that we're in a 2% inflation world, and Warsh said, "Our target is two.

There is no perceived target of three. We want the inflation rate to be 2%." Okay. It's not, and it hasn't been for over five years. And if you believe that, you better do something about it, or the bond market will. And so I think that they need to get back onto this idea that there's a bigger inflation problem out there than we think.

Inflation problem meaning sticky at around three or four, which pushes yields up, not necessarily that it's gonna go to some kinda hyperinflationary level.

Erik: Now, I agree with you on this, Jim, but just because there's always the, the argument that someone might not, is there a side of this that you can interpret that says, okay, that it's not 2%, it's more three or four?

Is there some way that's not an indication of Anything other than a significant inflation?

Jim: Yeah. If once you start unanchoring inflation and once you start getting it to three or four, and the perception is that the Fed, who is insistent that it's two, is the target, and that the Trump administration is gonna move heaven and earth just like the Biden administration tried to before them to get the inflation rate down, and you can't, and it stays at three or four percent, then you run into a credibility problem.

And then you could wind up having people start to fear that it's gonna get worse than that, and it could wind up spinning out of control. Right now, it still has some... There's still some credibility out there that we can get inflation back to those lower levels, but time's of the essence. You can't, we can't keep waiting and waiting for that to happen.

We're either gonna have to ma- en-enact policies to make that happen or let the market do it for us.

Erik: Jim, let's imagine that this Federal Reserve sees further indications that it ought to be hiking rates in order to battle that inflation that you're talking about. Do you think they'll do it, or do you think they're afraid of the, the president of the United States was making an expletive-laden critique in, in another forum today, swearing at people on national television.

Seems like upsetting him is probably not what Fed officials wanna be doing right now.

Jim: I think they would, and I think they will. And I'd s- I'll point out just for a benchmark, the probability that the Fed will raise rates in September went above fifty percent on June seventeenth, the day that the May CPI report was released.

It was also the day he signed the m- the MOU in Versailles too, but it was mainly the CPI that drove it up that day. And the probability of a rate hike in September has been above fifty percent ever since June seventeenth. By contrast, the July meeting we just finished the day we're recording never got above fifty percent.

It got to forty percent earlier this week, but it never got above fifty. So the market is expecting a rate hike, at least now. Now check back in a week or two or three and that might change. How are you gonna get that? We had three dissenters today in favor of a rate hike. We had Beth Hammack of the Cleveland Fed, we had Lorie Logan of the Dallas Fed, and we had Neel Kashkari of the Minneapolis Fed.

I was shocked that there wasn't a fourth, and that would be, as I mentioned earlier, Chris Waller, Fed Governor, who said that our withering gaze is not gonna be enough to make inflation go down. If I... if he was here with us, I'd say, "Why didn't you follow through on that and vote to raise rates?" I think he's a fourth member that, in my mind, is almost surely going to look to raise rates.

After that, now we only need three more votes in order to get to, or two more. You- It's possible to get a six-six vote, but then the chairman gets to break the tie, but it depends on which side the chairman is on it. But three would do it. And you could see a number of people, Lisa Cook might be in that camp, and some others might be in that camp to raise rates.

So what I'm arguing is, the other thing I've been trying to tell people, too, Fed watching is not a game of parsing the chairman's words. Although we'll keep doing that 'cause that's our muscle memory on Wall Street, and that's all we know how to do. It's a vote tallying exercise. You're gonna have to listen to all the voters, and you're gonna have to put them in the hike holder cut column and figure out which one is a majority, and that's what they're gonna wind up doing.

So yeah, I could see that, and it wouldn't be a stretch For me to say maybe not now, but somewhere along the line, we might see a chairman outvoted, that we might see seven people vote to raise rates, but one of them would not be Kevin Warsh. That, it-- I, I put that at a less than 50% probability, but well above zero which is where I would have put it under Powell or under Yellen or Bernanke.

It was z- that was zero. But it's some non-zero number, but less than 50%. That's happened in the past. It happened to Marriner Eccles in 1939 and 1940. He got outvoted a couple of times by the committee, but it was a far different committee. There was-- it wasn't, big type on the front page of the New York Times that the chairman got outvoted, but it has happened in the past.

So I could see them raising rates, and I could see them doing it without Warsh if they have to do it without Warsh. But at the end of the day, I would argue that he would probably vote to do it, because if you listen to some of the comments he said, although, like I said, mostly tried to say nothing, it sounded like if you was listening to his comments, he was more hawkish than not, which bred a lot of questions people are asking him about, "Why didn't you vote to raise rates?

Listen to what you're saying about inflation. It sounds like you should be voting to raise rates." And that's when he said that comment about, do some thinking about it, and that should hopefully be enough for it to go away.

Erik: Meanwhile, we still have a military conflict going on in the Middle East.

What do you make of the way things have evolved now? We've got this ongoing negotiation. It seems like, frankly, it's heated up again, and it seems like peace discussions are not really the center point for now. Where is this all headed, and how much longer can, how much time do we have before we run out of oil playing this game?

Jim: Yeah. So let me start with about what's going on in the Middle East, and I'll credit my friend Marko Papic over at Bank Credit Analyst for giving me the idea. And that is that we need to understand that oil is the independent variable, not the dependent variable. Now, that's fancy talk. What does that mean?

Trump wakes up every day, he looks at the price of oil on his phone, and if it's $70, he's very hawkish, and he wants to bomb everybody, and he wants to, call in the military, gas up the planes, and let's go. If it hits $100, he then starts saying, "Iran just called me and they want a deal really bad, and, and we're gonna stop, we're gonna stop, and we're gonna talk," and everything else.

So in other words, people have always asked, why isn't the war driving the price of oil? And what I'm arguing, which I think is correct, is it's the price of oil that's driving the war. It's the other, it's the other way around. So we're-- and the question then becomes, does it ever become a dependent variable?

In other words, we last week were pushing $100 on Brent, and what happened when we got to $100 on Brent? If you go back to last Friday, the president called off the airstrikes over the weekend, and they made up a lot of it. "Oh, Iran called and they really wanna make a deal," and he called off the airstrikes.

And then Tuesday, Iran fired a bunch of missiles at American bases in Jordan. And as you pointed out, I was telling you this off-camera, but on Fox News this morning, he said "I'm going to beat the F and S out of those guys." Basically, he's so mad at what Iran did. So the question then becomes, because the price of oil today from yesterday's low was up almost 10% today, the, the question then becomes if we do trace back to $100 on oil and he does follow this pattern that we've seen where he starts to say making noise at Iran called, they want a deal, we'll stop bombing them, hopefully we'll get a deal.

Does it become the dependent variable and the question meaning that no, at this point it stops working now. The price just keeps going up and up even if you stop because inventories are too low, the ships aren't moving fast enough, the demand for oil is not slowing down enough to meet the constricted supply.

And so it then becomes dependent that the strait is not open. Even if you say that they want a deal, that's not gonna work anymore. That's where I think the real risk comes in. And once you cross over that and become the dependent variable, then it's out of control because then at that point, Trump could wake up in the morning, he could look at the price of oil, and he can't do anything about it.

But right now, he believes that he can, and actually, evidence suggests that he has been able to do it. So I think we're at the highest point ever of it flipping over to becoming that dependent variable. The inventories are down. We have no cushion anymore, and demand is still up. As we were talking about, with the economy's doing okay, there's really no signs of slowing demand from around the world on oil.

Yes, China could maybe restrict some of its imports for a while, but they can't do that forever. And so I think the risk is really high that it runs into that dependent variable. And the last thing I'd point out about the war is the elephant in the room is we can't open the strait. And I've talked to you about this as well too, and I've said the modern war in the 21st century is very different than the 20th century.

21st century war is about cheap, expendable, iterative unmanned systems like drones, whether they're ground drones, sea drones, or air drones. They don't cost much. You have thousands of them, and iterative means that you're-- as somebody finds a way to defeat your drone, you just go to version 1.2 and 1.3 and 1.4 almost every other week in order to try and outsmart them with those ver- with those versions.

And what makes that work is the mass quantity of them. There's way more of them than we have of Patriot missiles or THAAD missiles to shoot down their drones. They've got more of them than we do. Even if our ability to shoot them down is 100%, we still don't have enough of them, and so we can't get the strait open.

It's a stalemate, and it causes the cost to go up, and then oil becomes the dependent variable. The last thing I point out to you before we, shake our head and go, "Boy, did Trump mess this up," and there's an argument to be made with that, so did Putin in Ukraine, and I'll quote University of Chicago Professor Robert Pape, who I think has been making some compelling arguments.

China better be taking lessons because if China thinks that they can attack Taiwan, they could lose. How could China possibly lose? Because there are ports, Chinese ports, that are 10, 15-minute drone flights away from Taiwan to mainland China They can't win, they can't push them off the island. They could make the economic cost of them trying to attack Taiwan so prohibitively expensive that even though they might have their soldiers in Taiwan, they might even be the installed government in Taiwan, the cost that they will pay won't be worth it at the end of the day.

So this is what 21st century war is about. 20th century war was big, exquisite systems like aircraft carriers and fighter jets and bombers and cruise missiles.

Those have a purpose in the 21st century, but that purpose is narrowing. What do you do with them? W- less and less. And the fear is what Trump, when Trump gets angry, he keeps talking about, "We're gonna bomb bridges, and we're gonna bomb power plants."

And the quip about 20th century weapons like cruise missiles and F-35s is all they're good for is creating war crimes and human rights violations. But you're not gonna stop the, you're not gonna stop the Iranians from keeping the strait closed or at least driving the cost up of using the strait so much it effectively gets closed.

If you wanna bomb their bridges and power plants, you've just created war crimes and human right violations, and you still haven't solved the problem because we don't have the right tools yet. Hopefully, we've learned our lesson. Hopefully, Europe has learned this lesson. Russia has learned it in a hard way.

China's probably paying attention. So yeah, you could say you shake your head and say Trump really screwed this up, and I wouldn't disagree, but somebody was gonna do this somewhere down the line, and it's not that we screwed it up. It's really do we know we did and what are we doing to rectify the situation?

And hopefully, we are moving as fast as we can, and that this window where we're vulnerable in 21st century war only lasts a couple of years before we get beyond it.

Erik: Jim, this is a topic that I don't think we're talking enough about. It seems like the big lesson that we learned here was not just what you said, but also we thought or we assumed that the United States beating Iran was gonna be easy.

It turned out not to be easy, and it seems like we're learning that, a-as you said a few minutes ago, the nature of warfare has changed. You have gigantic, super expensive, previously thought to be undefeatable military assets like an aircraft carrier battle group, and then somebody figures out if we have a large enough number of really cheap, inexpensive drones, we can beat that thing.

Have we just hit a moment in history where we're realizing that the balance of power isn't what we thought it was? And if so, what are the economic consequences of that?

Jim: Yeah, I think we are hitting that moment now that we're starting to realize that's the, the, the problem that we have The problem is you see it on social media all the time, right?

And you hear it from, you hear it from a number of people that you know, the president and I'll pick on him because he's an easy target, he refers to them as paper airplanes or toys. He's right. They are. An individual drone might not do a lot of damage and an individual drone might be easy to shoot down, but when hundreds of them come at you and they just never stop, that's when the problem starts to occur.

And why can they do hundreds of them? Because they only cost a few thousand dollars each. You don't need a gazillion dollars to build a, an air force of all of these drones in order to do it. And so I hear that and that there's this, this dismissiveness and I won't just throw Trump under the bus.

Armin Papperger, who is the CEO of Rheinmetall. Rheinmetall is the biggest defense contractor in Europe referred to these drones dismissively in an Atlantic article as made with 3D printers by a bunch of housewives in Ukraine. He's right. Ukraine can't make them in a traditional factory 'cause Russia would bomb it, so they've decentralized it so that they're made from house to house.

You make your part, send it to your neighbor, they make their part, and you just keep moving it down the line, and it's impossible for Russia to know how do you get rid of the supply chain when it's decentralized like that. So yeah, it is a bunch of housewives with 3D printers next to the refrigerator making these parts, and they're defeating the Russian army with this.

And so we really need to understand that it is that way. And you hear a lot of people also talking about we've got these great bombers, and we've got these aircraft carriers and these cruise missiles, and they can blow stuff up." As Trump said today on Fox, we're gonna beat the effing S out of them.

Yeah, 'cause we've got the kind of tool that can beat the effing S out of somebody, but that doesn't stop a decentralized, highly iterative warfare style. It, like I said, all it really does is create a war crime at the end of the day because you've attacked the civilian population, but you haven't stopped anything in terms of them having the ability to open the strait.

So I think they get it at this point. The problem is the bureaucracy of moving along to try and fix it. Pepager at Rheinmetall is in the business of making tanks and airplanes and big, expensive, multi-billion dollar systems on 10-year contracts. He doesn't wanna hear that the world wants to move to cheap, iterative parts, drones, most of which are made with commercial parts to keep the prices down low, so you're not even making military grade.

You're actually using commercial parts because that's a threat to his business. And so that's gonna be the, the thing is whether or not the bureaucracy's gonna allow us to change before it's too late.

Erik: I wanna move on to artificial intelligence, a subject that I've really been looking forward to talking to you about, Jim.

It seems to me that we've reached a point where AI is a fire that we cannot put out, and it's because of the military argument. We c- can't let our enemy get something that would give it an advantage that, that we can't tolerate them having So we can't give up on this. We can't stop. We can't decide that AI is not the fad anymore.

It has to continue. But at the same time, I see the spending and the CapEx just looking unsustainable to me. Are we headed for some kind of, you know it does have to continue, but it's gonna crash along the way anyhow? If you think about it, that's kinda what happened with the, the internet boom. We had the dot-com boom.

The people who thought the internet was gonna be a really big deal were not getting it wrong. They just got a little bit ahead of themselves.

Jim: Let me start bigger picture here. The AI is the most transformative technology of the last 100 years. I've used the example that it is going to transform this country like nothing else has been since the railroads.

And the railroads were hugely transformative. It used to take you four months to go from St. Louis to California in a covered wagon, and then when we got the railroads, it took five days. And that really changed everything about the very nature of our country when we got the railroads. AI's gonna do that too.

Why? Because most of us in the digital world of 2026, we spend our day... Let me explain the day that most of us have, my day, your day, everybody's day. I spend my day in front of a screen, and I have all these different software products open. They don't talk to each other, and I'm the glue that makes everything work.

I'm taking stuff out of here, out of an email, putting it into a spreadsheet, ref- you know transposing it into a spreadsheet to put it into a, a, a PowerPoint presentation, and then making a PDF and then sending it to somebody, and I'm doing all of this stuff. And it's very time-consuming, and it's very expensive.

Now, maybe if I don't do it, I'm paying a lot of assistants a lot of money to do it for me as well. The promise of AI, if you want me to put it s- bluntly, is you won't need your keyboard anymore. You'll have a contacts window, and you'll just tell it to just do it for you. And, look through my emails, which ones do I need to answer?

Tell me about which ones are important and which ones aren't. That's it. You won't have to open out Outlook and search through them, all your unread emails or anything. It'll be very straightforward. Imagine like you had an assistant. So I do believe that this is a hugely transformative technology.

Where are we gonna get the money to pay for all of this AI buildup? Two places. First of all, the most of the estimates I've seen Are that about 2% of the workforce is using AI in a productive capacity. We got 98 to go. 100% of the workforce uses a computer, and what AI is gonna be is the way you're gonna use your computer in the future.

So we're eventually gonna have to go to 100%. If you wanna continue to be old school and use Microsoft Office and Outlook and PDFs and everything else, then you're going to be old school. You're gonna be looked at that old guy from 20 years ago that was still sending faxes when email became very important.

So there's a lot more growth that's gonna come from it. Where's the money gonna come from it? The average corporate computer spends, and I'm talking about corporate computer now, spends more in software in a year than the cost of that computer. If you think about security software, customer relations monitors, productivity tools like Microsoft Office or Word or Outlook and the like, you add it all up.

And if you are in the financial sector, which a lot of us are, you might have a Bloomberg or a FactSet or an S&P Global subscription, and those aren't cheap.

You're spending more in a year on software than the cost of your computer. If a lot of that gets diverted to, "But an AI can do a lot of this stuff, I don't need a lot of this software," which is why we had the SaaSpocalypse, all the software stocks getting crushed, then that's where the money could come from.

Is there an example in the f- past? Yes, your phone. Why do you pay $1,100 for an iPhone when you very rarely make a phone call on it? Because an iPhone is about 18 products all rolled up into one. It's a camera, it's a video recorder, it's a tape machine, it's a c-- it's a flashlight, it's a GPS machine, it's a communication device.

You don't have to buy those other 17 products anymore, especially a camera and a video recorder. You do it with one purchase of a tele-- o- of a mobile phone, an iPhone or an Android phone, and therefore it, y- you... it's very cost-effective, and that's where the money came from to make Apple again now the most valuable company in the world at over $5 trillion.

So we're gonna divert a lot of our spending to it. That's where the optimistic part comes from. That's why Larry Page said in late 2024, "I would rather Google go bankrupt than lose the AI race." Meaning all the Google products that we love, Search, Maps, Sheets, w-- Documents, and the we're not gonna be using those in the future.

We're gonna be using AI to do all that, and y- they're... it better be, according to Google, it better be Gemini, their AI, or Gemini better have a place in it, otherwise their business is just gonna get eaten away from them. So that's the optimistic argument of where it's gonna come from. Now, where does it run into trouble?

Every technology, every single one of them, always ends in a bubble. This one will be no different. I would argue, though, as we understand it today, we are not in that bubble yet. We're building the bubble. We're creating the bubble. We're not ready to pop the bubble. Why do I say that? Because every metric I read is compute is at a deficit.

We don't have enough of it. We only have 2% of the public or the p- population using this stuff, and you're gonna need a lot more compute. That's why we're building data centers like crazy, and that's why we've got this whole, political fight about data centers. I'll say to my friends, if you're not sure about this- In two to five years, you won't be using a keyboard.

You'll still have one, just like you had a fax machine, and you'll barely use it because you won't need to. You'll just talk to your computer and just tell it what you want, and it'll give you the output that you need. You won't need to bang away at your keyboard for thirty-five minutes to do something.

It'll take two minutes by just asking your computer to do it for you, and that's still coming. Now, eventually, we'll get to that overcapacity point when we build too much. The example I've used in the past is Global Crossings. Global Crossings was the fiber optic company that was laying fiber optic cable around the world because in the late 1990s and early 2000s, we perceived the demand for the internet as being infinite, and there was no amount of cable that they could lay that was too much.

And right now, by the estimates that I've seen, by 2001, Global Crossings laid more fiber optic cable than humanity will ever need to use. But investors were still throwing money at it to this just insane overcapacity. We'll probably do that with AI. Now, the one caveat I would give you is, does that mean we gotta build another ten thousand data centers before we get to that overcapacity?

Maybe. Or maybe coming out of China or maybe coming out of the labs here, we find a technological way to say the data centers that we have now can do ten, twenty, thirty x more compute with the same footprint and the same number of chips than we're currently using, and that creates the massive overcapacity.

That's why when things like Kimi K three come out of China or DeepSeek from last year, everybody gets very nervous because they think, "Oh man, we just flipped over into massive overcapacity because of a technological advance." I don't think we're there yet. So I'm fairly bullish on the AI sector, and the reason I say fairly bullish is I think it's gonna go up.

I think if you're gonna invest in it, it's gonna be a wild ride. It's been a wild ride. It will continue to be a wild ride. But you also have to remember, it's gonna end in a bubble, and that's gonna be very dangerous. Maybe that bubble is three or four years down the road, or maybe it's three or four weeks down the road.

That's gonna be the trick in trying to play this game. But this is just the way all technologies work right now. But I don't think it's too early, and I think that if you're skeptical of what I'm saying, I would humbly suggest you're not fully Realizing the power that a lot of these large language models and these harnesses that you can use with these large language models, and just what you're capable of doing by just asking a question and getting an answer.

And by the way, when I say asking a question and getting an answer, create me a spreadsheet with this. Create the chart that does this. Make that line blue and then send it to Eric on an email. That's it. I'm done. I'll go walk the dog, my computer will grind away, do it, and send you the email. I don't have to open eight programs and spend forty-five minutes doing all of that work.

Erik: It seems to me, Jim, like this AI thing ultimately has to come down to energy. Who's got enough energy to, o-once you deal with the CapEx problem to build those data centers you still gotta actually power the data center somehow. As you said, maybe there's some magic technological breakthrough that hasn't happened yet that somehow allows the data centers to run on less energy than they've required in the past, so all of a sudden, the data center that used to require a gigawatt now only requires a few megawatts.

But I haven't read anything about any breakthroughs like that. Have you? And if not, what do you think about the seemingly unavoidable conclusion that whoever wins on the energy race side is gonna win this AI race?

Jim: Yeah, I think you're right. J- keep in mind, as you pointed out, the way we measure data centers is in energy, right?

A gigawatt. That's the metric we use to measure these data centers. And so a lot of the compute constraint I was talking about is an energy constraint, and the disadvantage that we have in

the United States over China is that we are at an energy deficit for these, these data centers. They're not. They have the ability to scale data centers into... with energy. Now, the advantage that we have is people don't trust China. And what I mean by that, why does China put out these open weight models?

Why does China basically create a Kimi K3 and just give it away? Here it is. You could download it. You could run it on your own server. Yeah, you need some serious hardware to run it, but if you're a big corporation or a bank or an insurance company, you've got that hardware to run it, and you can have it on your software.

Yeah, you could search it for bugs or anything. There's not gonna be any bugs in it, but you could model it yourself and then it doesn't cost you anything in token usage to run queries on it. Why do they do that? Two reasons they do that. One, they wanna be disruptive, I think, in terms of the AI race.

And two, if they were to bring online a bunch of data centers and they were to say, "Hey, for 20 bucks a month, you could sign up and use our model like you do with ChatGPT or with Claude," I think a lot of people would be very resident to say, "I'm not gonna do that with China. I don't trust them." So that's why they have to wind up giving it away in any great degree.

But you're right, energy is that measure. We don't have enough of it, and China does, and when we try and alleviate that problem, we run into all kind of problems because when data centers are built, everybody comes in and says my electricity bill's gonna go up." And they say, "No we'll build a gas turbine power generation generator right next to the data center to power the data center."

And everybody looks and goes that's gonna take five years of EPA and state reviews to even allow you to do something like that." So yeah, we are constraining ourselves with this, and the fear is that if we wind up losing this race, it could be very detrimental. The computer is the central nexus of all business, and what makes it work for us is we are the dominant player with the computer, whether it's the hardware, the software, or anything else associated with it.

If we lose an important part of that to China, then we are at their whims and their beck and call, and that, that context window that you depend on doing your job with, you might need permission from China to use it, and we don't wanna be down that road.

Erik: You say that as if it's a future tense, but haven't we already lost some edge to China?

If I look at China's new models that they're introducing, seems like they're making an awful lot of progress awfully quickly, and it also seems that progress is aimed and targeted toward saying, "Look we can do things that these other bigger companies are not doing, and we can do it with an open source model that allows anybody to run it anywhere."

Kinda hard to beat that.

Jim: Yeah, it is. But I would say that is a concern, but let's remember, when did Anthropic first develop Mythos, the-- which is now Fable 5? February. It was February. And then they decided that it was the doomsday machine, and then they sat on it for a few months, and then if you remember, they gave it to a bunch of select corporate customers to play around with it, including the Treasury and the Fed.

And then they rolled it out, then they banned it for three weeks, and then they rolled it out with a bunch of guardrails on it as well too. So I still think we're six months ahead. We're just not allowing ourselves that when we make a breakthrough to immediately capitalize on it. But even if I, even if you accept that The, in six months or in a year, the Chinese will be where we are right now, and we have to be ahead of them.

And the problem you're gonna face with that is that in six months or a year, if they've got a free version of the full-blown Mythos model, for 95% of customers or for 95% of corporate users, man, that's good enough. I'm not trying to cure cancer, or I'm not trying to fly, the, I'm not trying to fly the Falcon 9 into outer space or doing something really complicated like that, that requires severe, s- major horsepower.

I'm just trying to get my life organized, get my inbox organized, getting my answers to my customers and everything. That model might be good enough, and if the answer is I'll just use the Chinese version of it," then they might still win this race at the end of the day. And so that is a real risk.

It absolutely is a risk.

Erik: I think we're coming to a social conversation about AI, which is probably going to lead us toward, I don't know if it's universal basic income or what, but I think that the people who are complaining about AI stealing their jobs are gonna expect some kind of, you know, AI has to pay a tax in order to right this wrong.

I disagree with all of that. I don't think there's a wrong to be righted there, but I think that's the sentiment that we're dealing with. How do you see that resolving?

Jim: I was listening... I read a piece by Jonah Serra on the Free Press yesterday, and he made an excellent point that he said, if you look at the complaints that everybody has about AI, power usage, dirty water, noise pollution, all that other stuff, these are exactly the same arguments they were making 15 years ago about fracking.

It's almost like they took the fracking playbook and they just applied it to AI. And the thing about AI is even though Serra said, look, for every one of those complaints that you have, there's, there is a solution, right? If you're complaining about groundwater usage, they recycle the water. They use-- They have a certain amount of water they use for cooling, and they just keep recycling it.

They don't use any of your groundwater. If you're worried about your electric bill, they have... They'll bring their own power. If you're worried about pollution, there, there's not really a whole lot of pollution with them. If you're worried about noise or, on blightness, they'll put them in out of the way places, and oh, by the way, they're r- more than happy to pay really nice, real estate taxes to your county or your city in order for you to fund your schools and your fire departments and your de- police departments as well too.

So I think at the end of the day, a lot of this pushback is once we start to understand it, once we start to see the need for it, it'll become like the fracking argument. We tried to ban fracking in Pennsylvania, just like New York State is trying to ban data centers right now. We went down that road, but where are we right now with fracking?

We're the number one producer of oil in the world right now, and it's largely done because of fracking. We kinda worked through a lot of those issues with fracking, and we found a happy medium between the public's concerns and what the industry needed, and I think we could do the same with data centers as well too.

Erik: Jim, I can't thank you enough for a terrific interview as always. Before I let you go though, please tell our listeners a little bit more about what you do at Bianco Research, what services are on offer there, and how people can follow your work.

Jim: So we have two businesses. We have our institutional research business, biancoresearch.com.

Find out more about us there or on the socials @biancoresearch on Twitter/X, on YouTube, my name, Jim Bianco, on LinkedIn. And our second business is we manage a fixed income total return index under the website Bianco Advisors, and there's an ETF that tracks our index with our partners at WisdomTree under the ticker symbol WTBN.

Erik: And now it's time for our Macro Voices Trading Desk with Patrick and Massil. Patrick, where's the trade?

Patrick: Thanks, Eric. Jim Bianco's core warning was that inflation remains too persistent for the bond market to relax, and that either the Fed tightens further or long-term yields do the tightening for it. As the old bond market saying goes, bond investors can stop panicking when the Fed starts panicking.

Jim's point is that the Fed still has not shown enough concern to give the long end an all clear. The cleanest way I'd express that view is through the iShares twenty-year Treasury bond ETF, symbol TLT, trading around eighty-two dollars and fifty-five cents. This trade can be used in two ways. For investors who believe yields are headed higher, it is a defined risk bearish position designed to profit from another decline in the long duration bonds.

At the same time, for investors who already own TLT or other long duration Treasury exposure, it can serve as a short-term protective overlay to reduce portfolio losses if bonds sell off further. What makes this setup interesting is that the implied volatility on long duration Treasuries remains relatively inexpensive.

The Fed announcement lifted volatility by roughly two points. But it is still on the lower end of its year-to-date range. So the goal is to use that relatively cheap optionality to create asymmetric downside exposure without committing substantial capital. The structure is a bear put spread. You buy downside protection near the current market price, then sell a lower strike put to reduce the cost.

If you are bearish, the spread pays off as TLT falls. If you already own bonds, those same profits help offset losses in the underlying position. It does not eliminate all downside risk, but it creates a defined protection band at a known cost. Now, using the August twenty-first, two thousand twenty-six expiration, twenty-two days out, I'd buy the eighty-two dollar put for eighty cents and sell the eighty dollar put for thirty cents.

That creates a two dollar wide bear put spread for a fifty cent net debit. The maximum profit is a dollar fifty, giving you a three-to-one payoff if TLT finishes at or below eighty dollars by expiration. And that's how we accomplish the goal, a capital efficient bearish trade for investors expecting higher yields or a low cost protective spread for investors looking to hedge existing long bond exposure.

And that's where's the trade.

Erik: Patrick analyzes and trades the markets every day over at Big Picture Trading. Macro Voices listeners can sign up for a free two-week trial at bigpicturetrading.com. Now back to Patrick and Massil.

Massil: Before we get into the major asset classes, Patrick, Jim said something about the long bond that lines up almost perfectly with what I'm seeing in this week's positioning data.

But I'll pick that up in the positioning pulse at the end of the Market Desk. So first on equities, Patrick, what are you watching?

Patrick: Mass, the week began with optimism that the pause in hostilities could reopen the path toward an Iranian agreement, briefly pulling oil lower and supporting equities.

That optimism quickly collapsed as Iran resumed missile attacks and the United States retaliated, sending oil sharply higher and putting renewed inflation pressure back into the market. So equities entered the FOMC already vulnerable, trading near one-month lows as the global AI and semiconductor trade continued to unwind, led by an extraordinary route in South Korea that South Korean cost speed was down over forty percent in just over a month, and the SOX semiconductor index in the US down almost twenty-five percent over the same timeframe.

So then we got the FOMC meeting yesterday where the Fed then delivered a hawkish hold. Three policymakers preferred an immediate hike, but Warsh provided little forward guidance, leaving the market with tighter financial conditions and greater policy uncertainty in what many are calling the biggest non-cut surprise in decades.

In the aftermath, the decisive stress came from the bond market. The thirty-year Treasury yield broke to approximately five hundred and twenty-four basis points. It's the highest level since two thousand and seven. Tightening the valuation pressure on equities, having the S&P five hundred break to a fresh one-month low.

The Mag Seven earnings last night reinforced the market's growing sensitivity around AI spending. Microsoft was rewarded for delivering credible growth and cash flow, while Meta fell sharply as rising costs and capital expenditures overshadowed its revenue growth. This will put all the focus on Apple and Amazon that report after today's closing bell.

So the technical breakdown was not caused by one headline, but from a perfect storm of disappointments. But what compounds this is that we've now walked right to the edge of the systematic selling cliff. With the S&P 500 beginning to trip the short-term CTA triggers near seventy-four fifty-five. These strategies are not making a discretionary call on fundamentals.

They are responding mechanically to price, and Goldman estimates that they could sell roughly thirty-one billion globally in a downtape over the next week, rising to as much as a hundred and eighty-four billion over the next month if the decline continues through additional trend level triggers. That does not guarantee a major market break because the medium and long-term signals remain positive.

But it does mean the bulls are now fighting an additional headwind. Every move lower risks creating forced selling that adds fuel to the decline.

Massil: And Patrick, I want to show you what's happening in the data here. So I'm looking at the Commitment of Traders report, which is the CFTC's weekly snapshot of future markets positioning.

And I'm looking at the latest report here, which was released on Friday, July 24th, and reflects positions held as of Tuesday, July 21st. So remember, this is a positioning snapshot rather than real time. Now, what happened in the market here in the past week? The S&P is down two percent and the NASDAQ at four and a half.

Now, looking at the cotsignal.com data charts, that's under the market deep dive, large speculators are now only net short twenty-one thousand contract. But let's actually break that down and see what it means. So I want to go back to that June peace deal gap higher that we saw in markets because we saw here that gross shorts collapsed from roughly four hundred and sixty thousand contracts to two hundred and seventy-two thousand, while gross long position remained broadly unchanged, right around two hundred and fifty thousand contracts.

So in other words, the recent rally that we saw here since the June peace deal was driven primarily by short covering rather than aggressive new buying. But the important thing to know about what's happening today is that while equities are breaking key technical levels, like we're seeing the S&P here breaking its fifty-day moving average, a sustained decline lower would force systematic funds to start selling and speculators to potentially rebuild their short positioning.

Now let's turn to the dollar. What's going on here?

Patrick: The US dollar entered the FOMC pressing against its fifty-two-week highs and threatening a significant bullish breakout. That advance had been supported by rising oil prices, renewed inflation concerns, and expectations for tighter Fed policy.

Instead, the Fed held rates steady and failed to validate the market's hawkish expectations, triggering a sharp reversal in the dollar and front-end treasury yields. Technically, the dollar has backed away from resistance, but has not yet suffered enough damage to invalidate the broader bullish structure.

The next few sessions are critical. A recovery back toward the highs would suggest that this was merely a post-FOMC positioning flush. On the other end of that, continued weakness would indicate the meeting has interrupted the advance and opened the door for a deeper mean reversion correcting back to retracement zones under the hundred dollar handle.

Massil: All right, nothing new on the dollar week over week, Patrick. Technically speaking, we're seeing the dollar breaking above a key 15-month trading range, but the positioning still confirms that large speculators remain at one-year high. All right, now let's turn to crude, Patrick. Lots of volatility here.

What's happening over the last week?

Patrick: When talking crude oil, it has become again the geopolitical headline market. The failed diplomatic pause and renewed US-Iran attacks have put the Strait of Hormuz and roughly 20% of the global oil flows back at risk, causing the markets to rapidly rebuild the disruption premium.

That risk is colliding with an increasingly thin physical buffer. US crude inventories fell 7.2 million barrels last week to roughly 6% below their seasonal average while the SPR continues to be drawn down. With inventories tight and refineries running near capacity, any supply interruption now has an outsized impact on price.

Technically, July delivered an extraordinary 40% advance from trough to peak before the hopes of diplomatic progress triggered a sharp correction back towards $80 a level. When those negotiations failed, buyers immediately returned, and crude oil resumed its advance, suggesting the pullback was corrective rather than a breakdown in the trend.

Now oil is back above its key moving averages. Dips continued to attract demand, and the broader bullish structure remains intact. The key technical question is whether this marks the beginning of the next impulse higher, one capable of carrying crude toward that psychologically important $100 level. For now, the market has room to extend.

The test is whether momentum follows through or another administration headline interrupts that advance.

Massil: All right, Patrick, I'm actually excited to take a deeper dive on crude oil here because of the divergence we're seeing in positioning. Look at this. I invite everyone to look at the market deep dive section of the cotsignal.com page, and that's on the WTI.

And just like you said, crude advanced 40% in just three to four weeks, and the net positioning graph shows large speculator shorts near a five-year extreme, around 228,000 contracts, while gross longs have fallen from around 380,000 to just over 300,000 today. Isn't that crazy? Look, prices rising without shorts meaningfully capitulating or the longs even aggressively joining the move higher, and that's why I think oil still has fuel to run for another leg higher as shorts will be forced to cover and longs begin rebuilding exposure.

Now let's just watch what happens over the next few weeks. On gold now, Patrick, what are you seeing?

Patrick: Gold has spent the past month consolidating between roughly four thousand support and forty two hundred resistance, with neither the bulls nor the bears able to force a decisive resolution. The principal headwinds remain a firm

US dollar and rising real yields, which increase the opportunity cost of holding a non-yielding asset such as gold.

Gold rallied following the FOMC as the dollar initially weakened, but the move has not yet broken the broader trade range. What is notable is gold's resilience. Despite ten-year real yields reaching their highest level since late two thousand twenty-three, the metal continues to defend the four thousand level.

That suggests substantial macro pressure has already been absorbed. The Middle East creates a two-sided influence. Geopolitical instability supports safe haven demand, but the higher oil prices also threaten renewed inflation, initial Fed tightening, and still higher real yields, which would work against gold.

Technically, four thousand is now the critical dividing line. If bulls continue to defend it and gold can clear forty-two hundred, that would suggest that the market has absorbed the dollar and yield headwinds and is beginning a new advance. Conversely, a decisive breakdown below four thousand would complete a downside measured move down towards the thirty-seven to thirty-six hundred level, a further decline of another three to four hundred dollars.

Point being that there is no clear technical breakout to yet suggest a new trend move, but we'll be watching this closely.

Massil: Now look at this, Patrick. Gold has gone down twenty-six percent from its Feb highs. That's almost fifteen hundred dollars, yet neither gross longs nor gross shorts have changed materially.

We flatlined on positioning all year. Now, the question is, what kind of move in gold we will need to see those large speculators to meaningfully reposition? And most importantly, which side breaks first here? Now, listeners, if you want to see what I'm seeing, don't forget to visit cotsignal.com, so you can start following the data along with us.

Patrick: All right, it's time for the Cott Signal positioning pulse. Mass, at the top you were teasing with something that you were watching. What's on your mind here, bud?

Massil: Patrick, Jim made a critical point earlier in the show, which is that in a persistently inflationary world, the long bond doesn't need rate cuts.

It needs the Fed to restore its inflation-fighting credibility. Now, if investors believe the Fed is behind the curve, easier policy actually pushes long yields higher. Effectively, the market demands more compensation for inflation and duration risk. And we just watched this happening live yesterday. The Fed talked tough at the Fed meeting.

There was three dissents for a rate hike, and the thirty-year still hit five point two percent. That's the highest yield we've seen since two thousand and seven, so it's definitely not something to ignore Now here's what positioning adds to Jim's story. Large speculators have pushed shorts roughly 187 contracts net short.

That may not seem like a lot, but that's near the bottom of the last five years' range. So we're definitely on an extreme there. And the bearish bond thesis isn't just a consensus view anymore. It's fully expressed in actual positioning with real money. So here's the one thing to watch. The day bonds stop falling on bad news, whether it's a hot inflation print, or it's an ugly auction, or it's a hawkish Fed speech, and listeners will definitely want to follow that September Fed meeting closely for that.

If you start to see the long bond refusing to make new lows, that's when I would expect a short covering reversal in the long end. Until then, if you want to track all this by yourself, go to cotsignal.com's webpage. The first graph under the market deep dive will show you when that short covering starts week over week.

That's it for the positioning calls for the week. Back to you, Patrick.

Patrick: That does it for this week's Trading Desk. I'm Patrick Ceresna.

Massil: And I'm Massil Beguenane. We'll see you next week.

Erik: And a reminder, as a Macro Voices listener, you're entitled to a two-week free trial of Big Picture Trading, where you can watch Patrick analyze and trade the markets live every single day at bigpicturetrading.com.

No credit card is required to sign up, and there's nothing to cancel. I'm Eric Townsend, and this is Macro Voices. We'll see you next week.

Announcer: Macro Voices is presented for informational and entertainment purposes only. The information presented on Macro Voices should not be construed as investment advice.

Always consult a licensed investment professional before making investment decisions. The views and opinions expressed on Macro Voices are those of the participants and do not necessarily reflect those of the show's hosts or sponsors. Macro Voices, its producers, sponsors, and hosts shall not be liable for losses resulting from investment decisions based on information or viewpoints presented on Macro Voices.