MacroVoices Episode 544

Feature Interview with Viktor Shvets

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Viktor: We're living in a disinflationary world. I think Kevin Warsh and, again, I think Scott Bessent are absolutely correct that disinflation is a dominant longer-term trend

Erik: That was Viktor Shvets. I'm Eric Townsend, and this is Macro Voices, the free weekly podcast targeting professional finance and sophisticated private investors.

Episode 544 was produced August sixth, 2026. In this episode, Viktor Shvets and I will discuss everything from Hormuz to inflation signals to precious metals to the K-shaped economy.

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

Erik: Viktor, it's great to get you back on the show. It's been too long, almost a couple of years, I think.

The last time I had you on was in 2024. My question to you then was whether central banks have become too political. Now, since then, the president has installed his own personal Fed chair. So I think we got the answer to that question. But I still wanna come back to it and get your perspective. From a, a 2026 perspective, how do you assess the, the new Fed, I'll call it, the, the Fed under Warsh's leadership?

And I would go so far as to say that it's really the Fed under Warsh's leadership with maybe Bessent tag-teaming a little bit and participating in some of that policy setting.

Viktor: You're absolutely right, Eric, and it's great to be on your show. I think the first thing one has to recognize that compared to 2024, there has been a dramatic shift in the way U.S.

Supreme Court is syncing off or is basically laying the law on a very simple concept of executive responsibility. In other words, back in 2024, there was an argument that U.S. Constitution basically vest all the executive power in the president, and therefore, one hundred years of evolution of the United States whereby there was independent bureaucracy, independent institutions, all of that is unconstitutional.

So in 2024, there was a question mark whether that is going to transpire. In 2026, that question mark is gone. Effectively, U.S. Supreme Court emasculated pretty much all federal institutions, but they did make an exception for the Federal Reserve. And it was not intellectually systematic. It was not intellectually rigorous because there is really no argument why Federal Reserve should be independent.

But Security and Exchange Commission or EPA or many others should not be. So y- you can't justify it intellectually, but what did happen is that U.S. Supreme Court did carve out a niche for Federal Reserve. That basically means that Federal Reserve remains the only independent institution in the United States.

Now, the second point is, of course, y- Federal Reserve does not exist in a vacuum It is part of society, it is part of the legal framework. And so the question is extent to which it is being politicized. My view and the way I look at Kevin Warsh, he's not an inflationary hawk or a dove. He is really a politician.

Now, that basically means that whatever he discusses have to be interpreted very carefully. For example, many things he wants to do are actually things that most people will support The only problem is that they're not viable and not realistic. A classic example is to reduce the degree of communication.

Now, it's a laudable task, but nevertheless, what it means is a higher volatility and emergence of shadow chairs that are still going to drive conversation. The less you communicate, the more other people will communicate. The other thing he was highlighting is that it would be good idea to return risk to the market.

Again I think it's a very laudable task, but it cannot be done. There were-- There are other propositions such as reducing and altering the shape and the footprint of Federal Reserve. Again, a laudable task, but it cannot be done. So to me, a lot of the sayings that Kevin Warsh is discussing, very few people will disagree, and ultimately it might not be a bad idea to do but none of them, as I said, is relevant.

If you wanted to debate the role of the monetary policy, the role of Federal Reserve, the role of financialization, we should have done this debate back in '80s and '90s. Today, that train left the station long ago. So the way I look at Federal Reserve, is it still independent? Yes. US Supreme Court makes sure it is.

Is it politicized? To some extent, all institutions are politicized. Is Kevin Warsh-- Does Kevin Warsh have different ideas? The answer is yes. But as I said a second ago, I think a lot of those ideas are not very practical. And I think what's gonna happen over time is that they will fail the test of time.

Now, the next point after that is to say, if you if you look at the Federal Reserve, does a chair have a dominant voice? It depends on the chair. Certainly, Greenspan was incredibly dominant. You find Bernanke was not dominant, but he did have a degree of respect and following within the Federal Reserve.

You will so-- You, you find, I think Jerome Powell over time also acquired some of that degree of respect. So when you think of untested chair like like Kevin Warsh, does he have a degree of following within Federal Reserve, a degree of respect? Probably not yet. Can he acquire that? Yes. Over time, that's conceivable.

In the meantime, he's only one voice out of 19, and at any given point in time, 12 of them votes. So the interesting thing I find about Federal Reserve today is that there are some good news and bad news. But one of the potentially bad news is that the Federal Reserve no longer speaks with one voice that there is a high degree of dissent, there is a high degree of...

E-even look at dot plots, for example. There is a massive spread in the dots. What people what the governors think is a neutral rate for the United States is, what are the appropriate policy rates? So whenever you have that degree of confusion, whenever you start setting up committees to review things the way Kevin Warsh have done, you're injecting extra uncertainty.

Now, it's okay if there is no crisises, if there is no emergency. But if you suddenly find an emergency three months from now, six, nine months from now, you do need to have a strong chair to drive the Federal Reserve in the right direction and that the rest of Federal Reserve infrastructure, because remember, it's a very large organization essentially moves in line with what the chair wants to do.

So it will be very interesting in the next six to 12 months how it evolves

Erik: Let's talk about inflation. The last time I had you on, you described a pendulum swing back and forth between inflation and disinflation, but you were really leaning at that point toward disinflation. I believe this year you've made a stagflation call, which seems a little bit out of character for you.

Have you had a change in thinking or what-- how should we interpret this?

Viktor: No, I didn't have a, a change of thinking a-at all. In a sense, what I've been discussing for the last several years actually since COVID, is that we're living in a disinflationary world. I think Kevin Warsh and, again, I think Scott Bessent are absolutely correct that disinflation is a dominant longer-term trend.

The way Elon Musk discussed it is, when he argued that young people should not be saving for pensions, what he basically meant that every single longer term will be equal to zero. Everything will decline to zero. Every human, every part of the labor force will be worth zero. Every product will find a zero marginal cost curve hitting them at some point in time or the other.

And so that technologically driven disinflation is still going to be a very strong backdrop. But what is happening is that we're creating inflationary spikes. So in other words, the backdrop is disinflationary, but we're creating spikes. Where do they come from? They come from our reaction to whatever happens to us.

Things like COVID, things like Russia-Ukraine War, Iran war, things like chaotic trade or immigration policies. All of that creates inflationary spikes. But if we stop doing those things, if we just stop wrecking things, disinflation will take over. Think of it this way. Let's assume Kama-Kamala Harris is the president today.

Now, I think what would have happened is there would still be more protectionary measures introduced. Remember, Biden never took away the tariffs to begin with. I think there will be, but they will not be as extreme or as violent as what we have experienced. I think immigration, Biden was already clamping down on the borders in twenty twenty-four, but I don't think it would have been as extreme.

And at the same time, it's not completely clear to me that there would have been a war in Iran. Now, think of falling inflation during Biden administration. On a three-month moving average, they were already close to two percent anyway. If you did not create the waves of inflation through trade, immigration, and geopolitics, the chances are inflation today will be closer to two percent or less.

But that's not the way it transpired, and the change in the regime to Trump administration, in my view, created waves of inflation. Now, if you just stop back And stop creating those waves, disinflation will take over. And that comes back to the question of interest rates. Is Stephen Miran correct that real neutral rates are close to zero i- in the United States?

Which means if you add inflationary breakeven rates, put your policy rates at about two and a half. Or are the dot plots correct, which are showing closer to one, maybe even higher, one and a half percent real neutral rates, which means if you add inflationary breakeven rates, you're looking at three and a half, 4%, which is exactly where Federal Reserve is today.

Now, what's the difference between Stephen Miran and the dots? The big difference to me is that a lot of the risks in our system have been expelled outside of economic and capital market cycles and been expelled outside the system. Where does the risk come from? Polarization, politics, geopolitics, climate, healthcare, technology.

Now, the chances or the capability of Federal Reserve or any central bank assessing those factors, understanding their timing, and understanding the impact is close to zero. And that is why you can actually take both views as being correct, that the neutral rates are zero or the neutral rates in real terms are one, one and a half percent or even more.

And so that's your volatility, that's your whiplashes that I was discussing last time. That a- as we create those waves, inflation picks up, but then as soon as we stop doing it, disinflation takes control. Now, the next question Kevin Warsh will have to address is that what I describe is a transient inflation.

So COVID was a transient inflation. Iran war, unless we do another war, will prove to be transient. The tariffs that were put in on twenty twenty-five, unless we do more of that as we go forward, will also become transient. But if you create too many transient inflationary periods It becomes part of the not natural operation of how people and businesses think about the business.

So suddenly for them, it's no longer transient, it's permanent. Even though it is transient, but for them it's permanent. Now, if it does become permanent, then you are in a position as the businesses will be raising prices simply because they think other businesses will also do the same. People will start unionizing and raising wages because they think other people are also going to do.

So that's your risk with a transient overlap on top of the other transient, and in the minds of people or investors or businesses becoming permanent. So that's a question mark that they would need to address. What is transient and what is permanent? How do you know whether transient transited, so to speak, into permanent?

There are two ways of looking at it One is consumer and business surveys. Now, those surveys do not really show any degree of unanchoring of expectations, whether expectations of wages or NFIB, for example, expectation of price increases over the next three months. There is absolutely no evidence that it is currently unanchored.

The other way to look at it is i- inflationary breakeven rates as well as zero coupon inflationary swaps. They give you slightly-- Those two do give you slightly different answers. And at one point in time at the beginning of Iran war and through Iran war, really one and 10-year swaps really got unanchored.

They were looking at three, five percent inflation. But five by five, five years by five years or 10 years remain anchored. Today, one and two years normalized. They are currently below two percent, and five by five and 10 didn't really move. They remain broadly at two point two to two point four percent.

So to me, I think from a Federal Reserve point of view, this transient versus permanent inflation, your signs will be when consumer and business pricing expectations change and/or where capital markets decide to reprice inflation expectation going forward. So to briefly answer your question, no, I haven't changed.

I still think we're in a disinflationary world, but we do have back and forth of inflation created through our fiscal, monetary policy, and military means.

Erik: In twenty twenty-four, you said that war-style or Cold War-style conflicts are economically manageable unless they displace global supply and demand curves.

I'm guessing that the Strait of Hormuz closure is gonna satisfy y- your definition of-

Viktor: It does ...

Erik: dislocating those things. So I wanna revisit that now. Did the Iran war crisis obviously it cr- crosses that threshold, so talks are now resuming. Oil was down, what, I don't know, more than ten percent in the last couple of days.

Where do you see this headed?

Viktor: The way I look at it, it's like blind leading the blind. In a sense I stopped watching whether oil prices are up or down. Nobody has any ideas, and nobody has any visibility. When the war started, my view essentially was that bombardment, military action, aerial attacks will fail The, the aerial attacks never succeed.

In fact, they bring countries together. Even though people might intensely dislike the regime they're living under, whenever somebody bombs you, almost inevitably it pulls people together, and it actually strengthens those nations rather than reducing their power. That was my first point, to say that if that's all United States is going to do and Israel is going to do, it is going to fail.

Number two, Iran is not Venezuela, it's not Panama. It's an ancient civilization, which by the way, defeated and killed three Roman emperors in their own time. We're not dealing with countries that have a relatively recent history, that don't really have culture to speak of. We're dealing with a very different place.

Incredibly complex society, incredibly complex geography, a huge country over a millions of square kilometers. So we're dealing with a very different stuff. My point number three were lessons of Russia-Ukraine war. I'm not sure, I don't remember whether we discussed it last time, but my view on Russia-Ukraine were similar to the views of Iran.

And so one of the sayings I've been highlighting is the changes in military tactics, that modern technology drastically levels the playing field between sophisticated armies and unsophisticated armies, between large countries and smaller countries. And so my argument was that there is no way out of this conflict that there will be decapita- decapitation of leadership is not going to work, regime change is not going to work.

Unless you put boots on the ground and actually do occupation of significant parts of Iran and try to change regime, otherwise regime will stay and probably will become much more much more extreme than what it was before, before those attacks. My next point was to say is that Strait of Hormuz clearly the choke point but Iran has many other choke points that they can actually use, and that what you saw in the last week and a half was Houthis in Yemen, a- an entrance into Red Sea.

Also remember, as Ukraine showed you can demolish all the infrastructure. You can demolish army, you can demolish navy, you can do all of that. All of that can be replaced these days incredibly fast. And and that's how you use technology, how you use facilities. So my view and I compared Iran war to Vietnam In a sense, number one, there was no clear objectives.

Number two, there was no clear way of getting out of this. Number three, there is no definition of victory. You have one side, which is United States, with objectives that shifts almost on a daily or weekly basis. You have another side, which is Iran, which has a very systematic set of objectives they're trying to achieve, which is not dissimilar with Vietnam.

US had shifting objectives all the way through, but Viet Cong and North Vietnam had a very strong sense of what they're actually trying to do. And so my argument has been, like Vietnam War, it has no solution. It will go on for a long period of time, and regularly there will be hiccups. Regularly there will be closures.

Regularly there will be flare-ups. But my feeling was all the way through that it's going to take time, and both United States and Iran will regularly be overplaying their weak hand in this particular game. Unlike, say, Russia-Ukraine war Which I viewed much more like a Korean War. And what I mean by Korean War, it was very brutal, but relatively short war, and the same with Ukraine.

What Ukrainians want, Russia can never accept, and what Russians want Ukrainians will never concede. And that's a recipe for a brutal war. But the one which ultimately will come to DMZ ultimately and I hope within a year, maybe even less, it would lead to separation of forces. Ukraine will become part of European Union.

It will be integrated and will reshape Ukraine- European's agriculture, manufacturing, defense sectors, IT sectors, and could actually even become a version of South Korea over time. But Russia is probably now morphing into a milder version of North Korea as we go forward. So to me, both of those conflicts will go on.

One will be long without conclusive outcomes. The other one, I hope even though it's been very brutal in the last four, four and a bit years, I think it will conclude in due course.

Erik: You've said in the past that gold was essentially the insurance premium on expected destruction. But then we've seen gold correct more than twenty-five percent during a war.

It seems like during this Iran conflict gold didn't quite behave the way a lot of ex- people expected it to. What happened there? Why were the usual relationships not in place? What drove this kind of reverse behavior of gold?

Viktor: Two things. One is interest rates, and the other thing is that people decided, or investors decided that because gold is not really a transportable good in any form or shape, they've decided that even though the war was started by the United States, even though there is no clear sign how United States will exit that particular conflict, that it's still USD and Treasuries are the, the, the pools with the greatest degree of liquidity as a protective device.

But I think it's temporary because at the end of the day, to me, gold remains the ultimate safety assets. In a case of an absolute destruction, so to speak where monetary systems melt down where you have a situation where reset social and political systems, where you have multiple wars, I still think gold is the answer.

Not Bitcoin or digital assets. They might just fade away from our psyche. But but gold is an asset I still think will have a premium. But it doesn't always behave, as I said earlier, the way you expect it, and people shift it much more back into USD.

Erik: You said in 2024 that people were not yet mad enough, that the electorates were not yet mad enough to empower at the extremes through elections, and that was keeping economic policy converging.

A couple of years later, I think we've seen a pretty-

Viktor: Yes ...

Erik: pretty significant escalation on that front. So how do you read that situation now?

Viktor: The interesting thing to look at is V-Dem database, which is a variety of democracies database. It's run out of Sweden. It has a database going all the way to early 1900.

And the way they assess polarization, how polarized societies are, is how people, groups of people, parties in democracy relate to each other. Can they talk to each other? Can they exchange views? Can they pass legislation through parliament? Can they form coalitions in some form? And mathematically, they design it a score between minus four, which is very benign, everything is absolutely fine, to plus four, when you basically have a civil war.

And traditionally developed countries and developed economies like Europe, Canada, US, Australia, New Zealand, Japan, places like that, they traditionally have a negative number. Negative one, negative two. More developing countries and emerging markets traditionally have a positive number, like one or two.

Now, if you're saying two years ago, for example or three years ago, because in '24 we would have had '23 numbers, US was looking much more polarized than it did before, but it wasn't really strongly in a positive territory. So if you go back to late 1990s, for example, or mid 1990s, US was always more polarized than other developed countries.

But the score was about minus one. In other developed countries like Canada, it would have been minus one and a half, minus two. In Europe, it would have been minus one and a half, minus two. US was more polarized, but not dramatically. By 2023, US already gone into net positive number. And other countries were becoming more polarized, but not extreme.

If you think of the latest numbers coming out for '25, '26, US is plus 2.3 That's the highest and the fastest polarization in the history of the database that you have seen. Now, other countries also becoming more polarized, especially UK, Germany, France, Central and Eastern Europe, like Poland, Czech Republic, Slovakia, Hungary.

Some of the emerging markets, Turkey at a three point four, it's almost getting to the highest possible level. India have become more polarized. Some countries, however, escaping some of that. Australia, New Zealand, for example, have not really got polarized that much. Polarization in Japan is still much more limited.

Polarization in Canada, much more limited than it is in the United States. So what we've seen in this two to three years is that polarization escalated, and so what you can argue in response to what I've said, in some countries, people are already mad enough, and maybe they could become even more mad as we go forward.

Because remember, when people become mad, they are no-no longer rational because they are suffering. They are suffering because of inflation, because they don't have... they don't see the future, because of inequalities, inequities, lack of progression. They're suffering, and they don't believe the system answers their questions.

That's why when we discussed last time, I compared to Europe in 1930s when people become very polarized and they've gone into two extremes, either communism or fascism. But the interesting thing, of course, between left and right is that they're very similar. They said they share very similar philosophy.

That's why a lot of things Bernie Sanders in the US or Donald Trump says, or Mamdani, our mayor in New York says, and Trump are very similar. Both of them are in favor of eliminating student debt. Both of them in favor of tariffs. Both of them in favor of either taking stakes in companies or creating wealth funds to take the stake and share the rewards on a more broader basis within society.

Both of them want to suppress pharmaceutical prices. Both want to direct capital. In other words, try to facilitate capital flows in a direction that the government believes is appropriate. All of this is so far away from Margaret Thatcher and Ronald Reagan, it's not even funny. It's massively far away.

But the left and right have a lot of similar views in economic area. Where they differ is in social area. Right tend to be xenophobic. They tend to be more racist. They tend to be more exclusionary, us versus them. They tend to be socially more conservative, while the left is the opposite of that. And so there are difference in social areas, but in terms of underlying economic policies, this is a famous horseshoe why communists and fascists quite often got along.

Because in many aspects, they do not trust free markets They believe that the government should be the primary driver. They believe that they know the best what needs to be done. It's almost like religious cults in some ways. And in every case, they are in favor of greater government, not smaller government.

Not in terms of ownership of assets, but in terms of direction. This is what we need to do. And so when I look at it, I've been arguing that if midterms, for example, if Democrats take Congress or Senate, people say will the United States return back to normal?" No, it won't. It will not happen until Americans are less polarized, and the only way to achieve this lower polarization is either you have to blow things up and that's your equivalent of civil and other wars, or you have to introduce specific policies, especially redistribution policies, both in terms of wealth and income, recognizing that humans are no longer as relevant input to production and everything else as humans used to be in Industrial Revolution.

Alternatively, you have to hope and pray that productivity increases will be so fast that you can actually fix all of these problems without paying. Now, I'm not a believer. Longer term, I'm a great believer in productivity, but to me, that lies away at least 10 years out, not longer. So if I'm not a believer there is going to be sustainable rise in productivity in the next five to 10 years, then the only other alternative is violence or redistribution.

It's hard to see what else. So when I look at every country, whether it's UK, whether it's France whether it's US, as I said, right has some similarities like anti-immigrant or whatever they are. Left doesn't have that. But in terms of economics, they're actually pretty similar.

Erik: Let's move on to AI, which has become not just a thematic trend in the market, but almost the entire market.

You've written in the past some about the difference between rolling bubbles and bursting bubbles. What did you mean by that, and how does it relate to this AI story?

Viktor: The way I look at it, when people ask is AI a bubble, I basically say, "What is AI? Tell me." Is it data centers? Is it chips? Is it LLMs? Is it robotics?

Is it automation? Is it 3D printing? Is it metaverse? Is it biotech? Is it quantum computing? What is AI? And the answer, AI is everything. There is no difference between tech and non-tech, and increasingly, as we go forward over the next couple of years, those differences will disappear. And so I prefer to say everything, as Jurek says, everything is AI Except what you need to do is to look at a stack.

It has different derivatives. The bottom of the derivative chain is usually commodities that you require in order to create the new technology, especially if it's general purpose technology like AI. Now, different GPTs require different commodities. For us, it's more energy, it is more copper, nickel, cobalt, rare earths, lithium, things like that.

I'm not a great believer in commodities for a very simple reason. In human history tells you that we're very good at finding this stuff, but e- we're even better by using technology to optimize it So for example, today LLMs using less than one third of the energy that we thought we need three years ago.

Just wait another four years, it's gonna be like 10% of energy. And by then we get to quantum computing, a lot of data centers will become playgrounds for children because we just simply would not need it at that magnitude. So the first derivative are commodities needed, but this derivative has some choke points at irregular intervals, but it doesn't last terribly long.

The second derivative are infrastructure that you need to build for that particular technology. Now, that has a longer lifespan. For us, it is data, it is chips, things like that. Now, again, have we already maxed out on that? The answer is no. I don't believe so. There will be a declining rate of increase at which hyperscalers are investing, but other countries will be investing more, whether it's China, whether it's Europe, whether it's India.

So overall, I'm not a buyer of the argument that infrastructure has already reached the peak. I don't believe that's true. In commodities, I think we have, but not in the infrastructure at least in the next two to three years, if not longer. But ultimately, we'll run out of that road as well.

Now, as soon as we run out of road as well, you have to remember that there are businesses that need zero. So if you think of software, LLM's been sitting eating software. Now gradually, LLM's starting to cannibalize itself, not only through China, but also through its open-end systems. There are closed weight system and an open weight systems.

I think the future clearly is open-end, which means that most of the open weight--which means that for most LLMs, the, the value will be nowhere near the values that are being ascribed to it. So LLM is already starting to commoditize and starting to cannibalize. Eventually, as I said, we run out of infrastructure, but there are businesses that need zero to progress.

In other words, very low cost of infrastructure, very low cost of LLM gives them an opportunity to grow and prosper. Now, what are those businesses? Robotics, humanoid robotics, automation is one. Think of biotech, another one. Think of Facebook, Meta. Changed the name too earlier, but now will be the time for metaverse.

Think of 3D printing. Started 10, 15 years ago, far too early, but now could be the time for 3D printing. We can go on and think of further down the track within the next five, six, seven years, quantum computing Now that's going to completely unscramble almost everything we do. And that's what I call rolling bubbles, that there will be a bubble in the commodities, there will be a bubble in infrastructure, and then there will be bubble in robotics, and then there will be bubble in other applications.

In other words, every business, every industry will restructure themselves on the back of AI. And therefore, there will be bubble in metal bashing, there will be bubble in I don't know, barber shops and hairdressing. There will be a bubble in pharmaceutical companies. There will be bubble in insurance companies.

There will be a bubble in the banks. So that's what I call a sequence of bubble. Now what it basically means Is a concentration of returns for shareholders will always stay high. So in other words, 10 stocks at most will deliver you 50% of performance maybe in some years. So something that investors are not very comfortable with, high concentration of returns, I think is going to endure.

So the overall index might not change that much, but within this index, there will be very violent rotations from one bubble into next bubble and then into next bubble. And if you as an investor identified the right theme you want to be investing in, it's like I run a portfolio called replacement of humans, so augmentation of humans.

I run portfolio called bullets and prisons, saying basically we're gonna fight wars. Or I run another portfolio, opium of the people. We need to entertain people in various ways. You might identify the right theme which has lags for 10, 20 years going forward, but you might be investing in the wrong end of the derivatives of that theme, and that is what's so discomforting for investors, that you need to be agile you ha- you should have no confidence in what you're doing and you should always watch out for the new breakouts as they happen and try to minimize your exposure to past winners that are being derated.

Erik: You've written and talked quite a bit about the K-shaped economy in the past. Let's tie that in with this AI race and everything that's going on because it seems to me like we have a setup here where a whole lot of people are going to feel, whether they're correct or not, they're going to feel like AI basically sabotaged their prosperity.

They don't have any career future. It's, there's no point in trying. Entire generations are giving up on life because they figure that AI is gonna take over. How does that societal change or that public opinion change potentially have a reflexive effect that, that could even be bigger than AI itself?

Viktor: In fact it's not just could, it will. Part of the reason we have such erratic policies, part of the reason we have such a low degree of competency in what we do right now, part of the reason we're swinging from left to right is exactly that anxiety. Now a lot of people say, "But we don't have an ap-apocalypse in job."

That's missing the point The, there are two things to say. Number one, it's all about marginal utility, not average. You don't need to lose a job to feel that you're falling behind. You don't need to lose a job in order to be disappointed in your life. It's just your marginal utility and marginal rewards are decreasing, and that's what most of the younger generation feel right now.

The other thing to remember is the technological and financial revolution. The first steps are, of those revolution usually involves transfer of value from labor to capital. It always has, it always done, and today it's exactly the same thing. So if you think of share of wages in the United States relative to GDI, we are now at the lowest point since 1947.

Now, share of profit, we're at the highest level ever. It's about 16, 17% of national income, whereas traditionally Warren Buffett said anything more than six or seven is too high. We more than doubled that level already. And if you think of wages, as that we're below 1947 levels. There, there'd never been that we're that low.

So what you're seeing is now also transfer of value from labor to capital. Eventually, there is a transfer back, and it works through productivity. But all I'm saying, there is this hiatus that sometimes lasts a decade or two where passions are incredibly high because people don't see the answer.

Think of it this way. If you're a young person and you say to yourself, "I want to go from the bottom 25 percentile to the top 10." In the past, if you work hard and if you save, it could have taken you 20 years and you would have achieved it. Today it's almost infinity. If you think of 0.1% of households in the United States, which is only 135,000 households, their average net worth is almost $200 million.

That's average. And not only that, they control almost 15% of national wealth. If you go back to 1980s, that number was eight not 15. And it's not just the bottom feels it. It's anybody between 0.1 and one. Their share is also falling. So what you have in a position now that, A, a lot of younger people feel that their marginal utility is declining and their marginal usefulness is declining.

At the same time, they feel no matter how hard they work They won't be able to make it. And so that explains two or three things. It explains why the later millennials and Gen Z, anybody born after sort of 1985, why they're not becoming more conservative when they age. The traditional demographic star guide tells you that you start liberal and then you, as you age, you become more conservative.

With this generation, it's the opposite. They're actually becoming even more liberal than what they were when they were younger. And the reason it's happening, as I said, is that they don't see their way out, and so they're willing to take a gamble. And so number one, they are more gambling individuals anyway, so younger generation gamble more because that's the only way to get ahead.

Or they try to swing for extreme answers, sometimes transferring their loyalty to somebody like Donald Trump and taking it away and putting an extreme left like, Mamdani or AOC or or Bernie Sanders or Elizabeth Warren. So to answer your question, remember we discussed how you can solve it, violence, redistribution policies, or fast productivity.

That's your three answers.

Erik: And do you think that the violence scenario is going to come into play now? We've certainly seen an escalation in recent months.

Viktor: Unfortunately, yes, because for very simple reason People are not ready for redistribution policies. People are not ready for things like universal basic income.

People are not ready for changing social and welfare system. So neither political systems, nor individuals and people, nor businesses are ready for any of this. And so the most obvious policies to apply in order to define the extreme are not being implemented. The other set of policies you can introduce, and that's regulating AI and technology, and that basically saying, "Let's just develop it, not just at a slower pace, but let's develop it in a way that it augments humans, not replaces humans."

Again, there are very few takers apart from academia and some places that actually agree with that. So to me, do we have answers outside of violence? Yes, we do. Unfortunately, we're not really embracing it. And it do- doesn't just apply to United States. As I said, it applies to everyone. You find level of violence is less in the countries that less polarized.

So Australia started less polarized. Today it's less polarized. You don't have quite the same level. Japan started less polarized. Today it's less polarized. You have less. Other countries who already were polarized before and become even more polarized, like US or India, you do have a lot more of that occurring.

And I said unless polarization have come down, we can't come back to something that we would regard as normal.

Erik: It seems to me that the big geopolitical or social political risk would really come into play if you had a large number of unemployed men that had nothing better to do with their time than have a riot, basically.

So it seems to me that we need to watch unemployment rates carefully. Am I on the right track there, and how do the numbers look?

Viktor: To some extent that's correct, because when I talk about marginal decline, that's what kills you Because your perception of yourself, how you value yourself, how you respect yourself depends on how other people look at you.

If you know that you're no longer contributing anything much, and if you know that other people also know that you don't contribute much, you don't feel very good about yourself, and you don't feel very good about your children because you understand that they're probably facing even harder time as they go forward.

So the killer to me is not unemployment, but drip by drip, like a Chinese torture chamber, of declining marginal utility and usefulness and marginal rewards that are being placed on individuals. It's the Karp from Palantir he was quoted saying that "Average person might get a little bit more money as you go forward, but I will be, or anybody involved in AI, is going to be 100 or 1,000 times richer."

That's a problem because that opens up the gap that no matter what you do, you will never be able to succeed, and that drives anger. But ultimately, you're correct. It ne- it has to translate into unemployment. I don't believe month-by-month figures mean anything, and besides, the way BLS is computing it is completely out of kilter.

I actually agree with that with Scott Bessent and Kevin Warsh. It's out of kilter what the real life is. I think the situation is worse than what what BLS is saying. In other words, we have a lot more gigs. We have a lot more multiple jobs where people are trying to find a way of getting ahead and for most, in most cases, failing

Erik: Viktor, final question.

Let's talk about China and China's role in the global economy. Something that really caught my attention is during this conflict with Iran, at least in my perception, China basically stepped in and said, "Hey, look, we've got plenty of assets, reserves, and procedure in place that we can easily manage this whole situation with Hormuz," and, by cutting back on their imports and so forth, they completely changed the outcome of that crisis.

To me, that really showed us China has more power than everybody understands. Am I reading that right? And where do you think things are headed?

Viktor: The answer is yes and no at the same time, which is unusual, but there are two answers. Answer number one: is China much stronger than what people expect? The answer is yes.

America already lost el- electrification stack completely. That includes not just EVs and batteries, but solar panels, wind, and everything else. So electrification stack is already lost to the United States and to Europe. Now, you gotta go beyond that because from electrification test stack, you start building robotics and automation.

That's only one more step forward. Again, China is already gaining control over that as well not just electrification. Now, the third area where US traditionally leads, which is science and technology. Again, US is, relatively speaking, falling behind. China is accelerating. And you can see that in LLMs.

You can see it in their ability to try to bypass technology restrictions, particularly in chips. So China is building the world and not deriving return on equity. That's why Chinese equity is not necessarily the best investment. Americans are delivering return on equities, but they're losing the world.

And so the two are incompatible. So that's your yes answer. China is much stronger. China is building a Sinosphere around their borders, including Russia, Central Asia, and many other places. On the negative side, however, China is a prisoner of their very high national saving rates. They've been running a saving rates of forty-five percent for more than three decades.

Now, if you run saving rates at this level, that means you invest too much and you rely too much on exports. And so the problem is China misallocating capital at a faster space ever in human history. Now, US is not misallocating capital, but China is. Now, what it does, it pressurize inflation. That's why China is the biggest disinflator on a global basis.

But eventually they'll run out, will run out of room because China is investing every year eleven to twelve trillion dollars. That's almost triple GDP of Japan invested every single year. Eventually, planet Earth is going to be too small for China for China's exports. So China has to change the economic model.

They need to lower the national saving rates, and the only way to do it is to increase consumption. The problem is it runs against three things. Number one, central control In other words, China doesn't want to give up government and central controls. Number two a very classical economist or Marxist view of productive forces, that consumption is not an independent variable, but arises out of your investments, and that's why they're investing as much as they do.

And three, geopolitical reasons. So those three reasons are precluding them from making adjustments, and I've been discussing it for well over ten years now actually even longer than that, and China still are not addressing this issue. So is China very strong, much stronger than people expected? The answer, absolutely.

Is it also has a weak foundation in terms of capital allocations? Absolutely.

Erik: Viktor, I can't thank you enough for another terrific interview. But before I let you go, please tell our listeners a little bit more about what you do at Macquarie Investments, what services are on offer there, and how people can follow your work.

Viktor: Thank you, Eric. I'm a global strategist at Macquarie Capital. We are a large investment bank. We're clearly very large in Asia and Australia, but we also have a very significant presence in the United States. Unless you're a client of Macquarie, you can't really follow my, my work. But I am reasonably active on social media, and so I occasionally do post things there.

I'm also an author of two books where a lot of those issues been discussed. One is The Twilight Before the Storm that we published in twenty twenty-four, and the other one is The Great Rupture we published in twenty twenty. Both of them discuss the role of societies, economists, as well as technology, and how financial-- what I call Fujiwara effect, the merger and reinforcement of two hurricanes, highly disruptive information age and a deep financialization, how it impacts societies, politics, economics, and markets.

Erik: Thanks, Viktor. Now it's time for Patrick Ceresna and Massil Beguenane to join us for our Macro Voices market desk segment, which begins with Patrick turning Viktor Shvets' market outlook into a risk-defined trade. Patrick, where's the trade?

Patrick: Thanks, Eric. The most interesting implication of Viktor's rolling bubble thesis is that the next AI trade may not be in the chip and infrastructure names that have already captured most of the capital Robotics and automation could be the next destination.

And unlike the market leaders, that group has gone through a substantial reset. For this week's trade, I wanna express that through the Global X Robotics & Artificial Intelligence ETF, ticker BOTZ, B-O-T-Z. The ETF went through a three-month, twenty percent correction back towards its year lows. So much of the prior excess has already been cleared.

That gives us an interesting asymmetry. We can establish exposure before the next momentum wave, but we need to respect the possibility that the entry is early. The simple version is to buy the underlying shares, which are currently trading around thirty-seven fifty. Now, to protect that initial entry, I'd pair the position with the August thirty-seven protective put, which has sixteen days till its expiration and costs about sixty cents.

Think of that put as a short-term insurance policy while the trade proves itself. If BOTZ turns higher, we retain the upside in the shares. Alternatively, if this was a false breakout and the ETF breaks below thirty-seven, the put begins offsetting additional losses dollar for dollar during that window and gives you an exit strategy.

So the goal is not to call the exact low. It is to establish early exposure to the next potential rolling bubble while limiting the damage if the first entry is premature and preserving capital for a second attempt. 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: Hey, that's an interesting setup, Patrick, and definitely one we'll be watching as it develops. Now, we had a pretty huge week across markets, so let's jump straight into equities. What's on your radar this week?

Patrick: The big story in equities this week is that the market did not just grind back to all-time highs. It was effectively launched there. The setup coming into the week was that investors had spent months crowding into the AI enablers trade, semiconductors, memory, power, networking, infrastructure, while using the hyperscalers and mega cap tech names as funding shorts.

That trade had become overowned. Then it reversed hard. The hyperscalers stopped being the drag on the index and started leading again, which was a critical step because the S&P 500 and Nasdaq were never going to make substantial new highs without those mega cap weights participating. But the more interesting point was what happened in options.

SPX call option volume eclipsed four million contracts on Tuesday, easily the highest level ever recorded. The premiums were not priced for the size of the move. The rally blew through what the daily options market was implying. And once that happened, old upside calls that looked out of reach suddenly came back to life.

Those calls picked up delta, forcing dealers and investors to chase the market higher. So this was not simply bullish investors buying stocks. It was a mechanical liquidity event higher. This was compounded by positive geopolitical headlines around the potential Iran ceasefire and reopening of the Strait of Hormuz.

It knocked crude oil lower, easing inflation pressure and calming rates volatility. Now, earnings played a key role in all of this with strong earnings per share and revenue beats across the S&P 500, but particularly sharp reactions in some of the key Mag 7 beats. Now, looking at those technicals, the S&P 500 cut through all short-term upside targets like a hot knife through butter.

So we need to turn to the Nasdaq 100, which still has key technical hurdles to beat at the thirty thousand and thirty-one thousand resistance levels.

Massil: Patrick, I actually wanna turn to the Commitment of Traders report here, which is the CFTC's weekly snapshot of futures market positioning. And just to remind everyone, this is the latest report that was released on Friday, July 31st, and reflects positioning held as of Tuesday, July 28th.

I also think it's worth explaining what these reports actually are. The COT report isn't a crystal ball. It's really just a crowd map. It shows us where traders are committing their dollars and where positioning could become vulnerable if the market stops rewarding those same traders. Now let's turn to the S&P 500 futures because large speculators are sitting at the hundredth percentile on the one-year positioning score.

But it's only sitting at the sixtieth percentile relative to the three-year score. So the market is definitely leaning on the bullish side, but it's not a market stuffed with speculative longs, which means that this breakout still has lots of room to attract additional buying. Now what about the dollar, Patrick?

Are we seeing similar moves?

Patrick: The dollar index reversed sharply following the FOMC meeting, and that weakness was then accelerated by the yen intervention. We are now in the middle of a genuine dollar correction, with prices testing a critical support zone that should determine whether this is simply a pullback within a broader breakout or the beginning of a larger trend reversal.

The key level is the ninety-nine and a half level on the Dixie. A clean break below that area would damage the technical structure, pull the dollar back into its prior fifteen-month trade range, and open the door for a much deeper correction. The dollar is sitting at an inflection point, and the next move should tell us whether this breakout remains intact or has failed.

Massil: What's interesting, Pat, is we keep seeing the dollar being crowded. Large speculators are sitting with a score of ninety-one over the three-year measure, with net long exposure now equaling to twenty-nine point five percent of open interest, which is quite significant historically speaking. Now the raw data shows us that bulls added more than two thousand contracts this week, so this was fresh bullish participation, not just short covering from, previous traders.

Now, as I said earlier, this COT report came out before the post-FOMC reversal. So let's watch for the changes in data this week. I feel like it'll be a lot more interesting. What about crude, Patrick? What's going on there?

Patrick: Crude oil spent the week giving back much of its geopolitical premium as hopes for a sustainable peace deal agreement pushed prices back towards seventy-five dollars at the time of this recording.

But the bigger issue is that the physical damage has not disappeared with the headlines. Global inventories have been heavily depleted, and Saudi Aramco has warned that rebuilding them could take as long as eighteen months. That creates a structural floor beneath the market, even if a truce holds. The question now is not whether a peace The question is where oil ultimately settles once that geopolitical premium is removed but the inventory deficit remains.

The market is now searching for that new fair value.

Massil: And we talked about this last week, and it's worth reinforcing this point because even after the recent thirty-five percent rally in crude oil this past month, large spec positioning remains at multi-year lows. So the market is still bearishly tilted this market as we move into fresh negotiations on the war front.

But let's just finish with gold here. What are we seeing in this precious metals market this week, Pat?

Patrick: Gold delivered a decisive four percent breakout from its multi-month trade range, reclaiming both its fifty-day moving average and its descending trend line. On its own, that would already be technically significant, but what gives it more greater weight is the breadth behind it.

Silver, platinum, palladium, copper, mining stocks, and even uranium equities all turned higher at roughly the same time. That kind of simultaneous strength across the metals and materials complex suggests that this is not simply an isolated short squeeze in gold, but a broader intermarket rotation into hard assets.

The first real obstacle now comes near the forty-five fifty area, where gold meets a key Fibonacci resistance zone. A decisive break above that level would confirm genuine bullish follow-through and strengthen the case that a sustainable new trend has begun.

Massil: I just love this gold market on the positioning side, Patrick, because right now large speculators are scoring twenty-five on the one-year view.

So we think that's actually pretty low tilting or bullishly tilted, but the raw book remains heavily net long, with forty-seven point three percent of open interest remaining bullish. So that means that any bullish price action will be supported by strong positioning in the gold market, and these bulls are just not getting shaken out of 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 right along with us.

Patrick: Now, Massil, we've covered all four core markets. Now, for this week's positioning pulse, when you're looking across the broader COT landscape, what stands out for you the most?

Massil: Patrick, there's no other market that needs to be talked about this week outside the Japanese yen, and the timing of the data is critical. A reminder to our listeners, this latest COT report was collecting data for positioning on July twenty-eighth, meaning it captured positioning immediately before the coordinated US-Japan intervention of the yen.

Now, going into that intervention, the short yen traded had become very one-sided. Large spec positioning was sitting at the zero percentile on both the one-year and three-year scores. Now, nominal gross shorts had reached a record two hundred and sixty-four thousand contracts, while gross longs had fallen to a one-year low.

More importantly, traders were still pressing the trade going into the intervention. Just in the week prior to it, large specs added nearly five thousand new shorts while cutting more than six thousand longs. So again, everybody was just leaning on one side. The important thing to understand is that the bearish crowd was not retreating It was getting more committed at precisely the moment the authorities were preparing to move against them.

Then we all know what happened. The intervention came. The Yen switched from a hundred and sixty-three to a hundred and fifty-eight per dollar, blindsiding a speculative community positioned on the opposite side. Now, the first move was ignited by officials buying, but the long-term question is whether it creates a second self-reinforcing move driven by the market itself.

If the Yen holds these gains going into next week, short sellers may be forced to cover, triggering stops, systematic trend reversals that produce even more Yen buying. Now, this is what makes tomorrow's COT report release especially interesting. It'll capture the first positioning response following the intervention and show us whether large speculators have already materially reduced their shorts, or whether much of that potential short-covering fuel remains in the market going into next week.

Now, that's your positioning pulse for the week.

Patrick: You're bang on with that. It's gonna be super interesting to see whether those heavy short sellers are going to be forced to reverse their positions, and it certainly can be a big driver. So watching that Yen is gonna be the thing to watch. So that does it for this week's Trading Desk.

I'm Patrick Ceresna.

Massil: And I'm Massil Beguenane. 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.

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