MacroVoices Episode 546

Feature Interview with Darius Dale

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Darius: Every fourth turning since the 15th century has ended in total war. We'd be remiss to forecast that outcome, but we'd also be remiss to not understand that the distribution of probable economic policy and market outcomes is ultimately as wide as anyone not named Warren Buffett trading risk has ever seen.

Erik: That was 42 Macro founder Darius Dale. I'm Eric Townsend, and this is Macro Voices, the free weekly podcast targeting professional finance and sophisticated private investors. Episode 546 was produced on August 20th, 2026. Darius and I will discuss drivers in growth and inflation and what they mean for markets and the global economy.

This will be our final regular format show before our annual summer break. So for the next two weeks, we have some special timeless pre-recorded content prepared for you. Next week, August 27th, Tress' chief economist Daniel Lacalle returns to discuss the US dollar's role as the global reserve currency.

What would it take to lose that title, and what would markets look like if the dollar is eventually displaced from that role? Then on September 3rd, I'll be introducing you to a special guest whose name you might not have heard before. Dr. Carly Anderson is a venture capitalist specializing in early-stage energy-related technology companies.

She's one of the smartest people I know, and I think you're really going to enjoy this interview going into the Labor Day holiday weekend, where we'll talk about everything from nuclear reactors to supercritical carbon dioxide turbines to what they have in common with one another. Then we'll be back with our regular show format on September 10th.

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

Erik: And as always, Darius has prepared a terrific slide deck to accompany this week's interview. You'll find the download link in your Research Roundup email.

If you don't have a Research Roundup email, just go to our homepage, macrovoices.com, click the red button above Darius' picture that says, "Looking for the downloads?"

And just a reminder, because Darius' business is all about this huge slide deck that he produces for his paying clients, he does redact the slides that we don't talk about. So don't be surprised if some of the slides are not visible in the deck. The ones that we don't discuss in the interview won't be visible.

But there is a a full deck available for 42 Macro subscribers. Darius, it's great to get you back on the show. It's been so long. I don't know how long it's been. It's been so long that last time we spoke, it was not the policy of the United States of America to, oh, I don't know, do something crazy take all of its structured long-term debt and see if we can buy it back and accelerate that by selling a whole bunch of bills and moving long-term debt into short-term debt.

What could possibly go wrong there? Let's take the teaser rate

Darius: Eric, I love you, man. Oh, what a way to, what a way to kick

Erik: this off. We can't make stuff up anymore. Really this is slow. It's we don't know what to do about the back end of the curve backing up. Let's just I don't know, borrow from the short end of the curve and see if we can shore it up.

Darius: My experience in financial markets, which admittedly is only a couple decades but it's packed full of knowledge from studying basically every finance book that's relevant to read and interacting with, hundreds of the world's top buy-siders across the world for many years and building models for them, having model stress tests and getting laughed out of rooms, getting invited to very important rooms.

I've had quite the career on global Wall Street for somebody my age, and I'll tell you right now, my experience tells me that financial market manipulation tends not to be durable in terms of its i- intended impact. But I think we're early in the process of it not being durable. So let me walk you through the process of how we c- arrive at that conclusion, ultimately its implications and, as it relates to, what investors should be doing about it in their portfolios, 'cause at the end of the day That's what matters, right?

It's how do you, how you manage risk. Before we even get started, I just want to remind everyone, you normally do this for me, but the last time I was on Macro Voices was the be- I think it was the first episode of twenty twenty-six, continuing a long line of fantastic Macro Voices discussions with you, Eric.

I think we said buckle up, expect some volatility, but twenty twenty-six is gonna be a, gonna be a great year for risk assets, stocks in particular. And obviously I think that, here we are in late August, I think that conclusion is largely intact. Getting into this, this front page news of our acting Treasury Secretary, not acting, he's our Treasa-Treasury Secretary and a former client of mine and someone I've known for quite a long time and someone I have a tremendous amount of respect and admiration for Scott Bessent.

I think he's doing a fantastic job as our Treasury Secretary, and quite frankly, if anybody with less skills than him were sitting in that seat we'd be in a far worse place from an economic standpoint and financial market standpoint. So everybody listening to me talk right now give a golf clap to our friend Scott Bessent 'cause he's doing a bang-up job in terms of in terms of the, the hand he's dealt, which is not a great hand.

So if we can start this presentation Eric, on slide eleven. We published our initial investing during a fourth turning regime analysis to forty-two macro members in the summer of twenty twenty-three. And, there were several key takeaways from that presentation some of which we'll walk you through over the next few minutes or so.

But I would say the biggest key takeaway when you put together all of the different economic risks, mo- policy risks, financial market risks, and geopolitical risks from that presentation, of which we don't have time to get into all of them, it's, it was like a hundred-slide presentation, but when you put together all those risks from those different, categories, the very glaringly obvious key takeaway from our perspective at the time was that there is a geo-geopolitically driven supply-demand imbalance in the Treasury bond market.

And that, and more importantly, that because of these forces, these structural macro forces, that geopolitically driven supply-demand imbalance in the Treasury bond market is going to widen over time. That disequilibrium is going to widen over time and force policy responses, force changes to Federal Reserve policy, force an erosion of Fed independence, force the Treasury to make concessions on net financing policy, force the Treasury to change, its interest rate strategy, force the Treasury to change its on-the-run strategy, force the Treasury to change its currency intervention strategies.

And so ultimately, I think we're here, here in twenty twenty-six, over three years later I think everything we predicted is coming true, and not only is it coming true, it's coming true at an accelerating rate. So if you're not aware of these forces or what I'm about to explain to you over the next 10 minutes, you must be aware of them if you wanna stay on the right side of market risk over the next few years.

So getting back to slide 11, we'll fly through these slides, and I'll pause for some questioning. Number one, again, we're not hitting on everything, but just kinda showing you some of the highlights from our investing during a four turning regime analysis. Number one, the sovereign fiscal balance tends to deteriorate sharply during four turnings.

Number two on slide 12, sovereign debt tends to increase sharply during four turnings Number-- On slide 13, we show the public interest burden tends to increase sharply during Fourth Turnings. And really quickly, for those who have not seen this analysis, which I assume is most people, the chart on the left shows the longitudinal analysis of the time series with data going back to 1800, or as least as far as we could have the data going b-as far back as we possibly can.

The chart on the, the right shows the summary statistics via max me-- max-min me-- median and interquartile range. And so ultimately, when we're talking about these these, these risks, these economic and geopolitical and political and ultimately financial market risks, when we use verbs, we're talking about the movement, a general direction of travel from a longitudinal perspective in Fourth Turnings.

When we're talking about if something's high or low on a relative basis, that's more about the, the statistics of what the distribution looks like when you're in a Fourth Turning versus a first, second, or third turnings, which are much more calm periods economically and geopolitically. So getting back to this, slide 13 again, the public interest burden tends to increase sharply during Fourth Turnings.

On slide 14 the 12-month nominal Tbill yield tends to be relatively weak during Fourth Turnings. The, the stre-- the, the policy tends to be one of financial repression. On slide 15, the dollar tends to be debased substantially during Fourth Turnings, particularly against a more a base form of money, which is gold.

It tends to be debased substantially versus scarce assets like stocks, like Bitcoin as well. So gold, stocks, gold, Bitcoin are exactly the, the three core ingredients to our KISS mono portfolio. You look at slide 16, money supply growth as a function of all that financial repression and dollar debasement tends to accelerate sharply during Fourth Turnings.

The 10-year real Treasury yield tends to decline substantially during Fourth Turnings as the elevated nominal growth environment, the elevated inflation, pushes down long-term real interest rates, and we think that's, probably the next trade when we look forward out in time but, maybe not starting today.

Nominal GDP growth tends to be... tends, tends to accelerate sharply during Fourth Turnings here on slide 18. On slide 19, we show S&P 500 earnings growth tends to be relatively strong during Fourth Turnings with more volatility. On slide 20 S&P 500 returns tend to be relatively strong during Fourth Turnings with more volatility.

We can tell there's more volatility by a wider max-min range, a wider interquartile range. On slide 21, we show that basically, when you summarize everything that, we think we've learned from that big study which is risk assets tend to go up faster in Fourth Turnings with more volatility.

And there's a lot of good reasons why from a nominal GDP perspective, from an earnings perspective. But you tend, as a function of that partially, you tend to have declining Treasury bond prices. But ultimately, the slope of the decline in Treasury bonds tends to get curtailed by policy intervention And so ultimately we must know that policy intervention is gonna come.

We've already seen some forms of policy intervention on slide 22, with trade tending to decline sharply during fourth turnings. The sharp elbows tend to get up because don't forget, Eric, you know this as well as anyone and, with, with great deference to my former colleague and one of my mentors, Neil Howe, who's the author one of the co-authors of this, this whole concept with his late colleague, Bill Strauss.

The... One of the core features of a fourth turning, the core, drivers of the fourth turning is all the inequality. And so the inequality tends to create catalyzed policy responses. One of those policy responses tends to be protet-protectionism. We've been on the right side of expecting protectionism across multiple different administrations and configurations of Congress.

And then lastly, and I'll shut up after this, lastly, on slide 23, we see that wars tend to accelerate globally during fourth turnings. And so if, in fact, if you look at Neil's work, every fourth turning since the 15th century has ended in total war. We'd be remiss to forecast that outcome, but we'd also be remiss to not, understand that the distribution of probable economic policy and market outcomes is ultimately as wide as anyone not named Warren Buffett trading risk has ever seen.

In fact, Warren Buffett's the only person I'm aware of that was actually trading risk during the last fourth turning. So you know, hopefully he lives forever, but if to the extent that he does not live forever, when he, when he le- departs us, he will be the-- there'll be nobody living with experience trading through such a wide distribution of probable economic policy and market outcomes.

And so ultimately, we think Wall Street's gonna continue to be confused by a lot of these dynamics. They're gonna continue to be confused by why our Treasury Secretary is, I don't wanna say panicking, that's a disrespectful word to, to such a great man and a, and an American patriot.

But it's starting to look panicky in terms of their responses. And so ultimately, investors need to start anticipating more of this in greater quantities for a much longer time period than investors are realizing.

Erik: Darius, I'm fascinated by your last statement there that it's appears panicky. I agree with you that it appears panicky, but I don't think it really is panicky.

I think it's aggressiveness, and I think that Trump and Bessent have been very aggressive on policy since the beginning of this administration. We're just seeing more of that. Would you agree with that? And I guess what I really wanna get to is, yeah, I think the reason that it seems panicky is because they're dealing with some challenges that are pretty darn challenging.

Darius: Yeah. Yeah. Yeah. So yes, I completely agree. I think even... I think a better word besides panicky or aggressiveness would be decisiveness. And the reason he's acting so decisively, in my opinion, based on someone who's met with him for many years and has added value to his portfolio at Key Square and his clients that they serve there My interpretation is Bessent understands everything that you and I are talking about probably better than we do, and so he's acting decisively because he already has the playbook.

He understands the, the, what the rules of the road. He understands the binding constraints. He understands the incentives for the different players in the system, and so ultim- and he ultimately understands the levers that he can pull and what levers have amo- what amount of leverage. And so we're seeing the level of decisiveness in response to what I would consider to be crisis-like conditions.

If you go to slide 24, people talk about debt to GDP and deficits to GDP and just debt and deficits in generally, general, the just the complete wrong way A sovereign can have as much debt and as wide as a budget deficit a- as it wants to, as long as there are creditors around to finance it. The only time it's a problem is when there are creditors who are moving away from that market, who are demanding, higher ex-ante units of return for the-- to capitalize the debt, or they have other sources and uses for their capital, cough AI CapEx bubble.

And so right now, US is back at 100% debt to GDP. We're running this, record non-war, non-recession budget deficit on top of that, and the last time we saw such a high level of debt to GDP here in this US economy, you gotta go back to World War II, the last wartime. And so part of the reason we think the administration's been acting so decisive on the policy front, if you go back to last spring with DOGE and the tariffs, that was paradigm B.

That's one of the three acceptable treatment o-options to deal with what we've been calling the debt disease, which is, paradigm A. Paradigm A is, this, this debt disease which causes, which is the core contributor to this geopolitical driven supply demand imbalance. Obviously, that's the supply side of the equation.

You go back to last spring, we accurately forecasted that they would kitchen sink the economy back in the fall of 2024 with paradigm B. DOGE was a, an attempt at that. The tariffs were an attempt at that. But where we were differentiated is being able to pivot quickly off that back last April, going from being bearish to bullish last April, 'cause we recognized Bessent's pivot to paradigm C, which is the growth phase of the cut, grow, print menu of acceptable treatment options for this debt disease.

Ultimately and I would argue based on some of the actions that the Fed has taken, i.e. reserve management purchases starting in December of last year, ramping up incr- issue Treasury buybacks, the advent of severely dovish net financing policy in recent years, inclusive of the sharp acceleration in dovish net financing policy that's projected for the second half of this year.

I think we're already starting to tiptoe our way into paradigm D. And this is why I said last fall that the, the stock market's gonna bubble. I said you do paradigm C, which is boom the economy, and Control+P print the, the, the diff- the demand for these marketable Treasury securities, you're gonna wind up with a bubble."

Gold is gonna go way back past its all-time high in January. Bitcoin's gonna soar past its all-time high last August. It's a matter of when, not if.

Erik: Let's stay focused on that because I think a lot of our listeners are very interested in those markets. Until March 2nd, we had pretty expected behavior from the gold market.

The bombs drop, then gold goes up because that's the way the market's always worked, is it's a geopolitical hedge. Then we got into, I think it was about an e-expectation around inflation that led to a reversal of usual correlations. So for a while, as the bombs drop, it was gold down as the bombs drop.

I think it's back to normal again, just in the last couple of weeks. Is that true? And if so, what actually caused it to change?

Darius: Yeah. I think a couple things are causing it to change. So you-- I think you nailed it in terms of the, the liquidity dollar recycling dynamics that cause gold to drop.

If we just do an anatomy of the drawdown in gold, starting in late January, the a- the advent of the nomination of Kevin Warsh for Fed chair was a severe wrench in this whole thesis, this whole narrative. I'm not the only person who's arrived at these conclusions.

I think we do probably more research to arrive at the conclusions because I have to present my conclusions to folks who wind up being the Treasury Secretary. I have to present my conclusions to folks who wind up being one of the two finalists for a

Fed chair. The, the burden of proof is a little bit higher in those rooms than it is on YouTube, no offense to anybody.

And so in terms of, getting into the drawdown that we saw in, in gold, in my opinion, we think the nomination of Kevin Warsh as Fed chair was a clear signal to the bullion market and to broader financial markets that, hey, we intend to support the U.S. dollar. And the reason why they have to support the U.S.

dollar and not allow it to b- run away is because if you have a currency that is declining, getting debased or declining in value to su- such a substantial degree, obviously that creates inflation in the real economy. But what it ultimately does is it undermines and undermines investor confidence in long-term dollar-denominated securities.

You're just gonna rapidly inflate term premium. You're gonna rapidly inflate the inflation pricing, and ultimately, you're gonna rapidly inflate nominal GDP in ways that are un- unsafe would be to bond prices. So we think that nomination was designed specifically to signal to financial markets that, hey, look, we're not just gonna put a patsy a- at the helm of the s- world's most important central bank, i.e.,

Kevin Hassett or somebody like that, that's just gonna do the president's bidding, because if they did, they're gonna lose the long end of the bond market. And so the second part of the gold drawdown, if you go to slide thirty-nine, was really primarily predicated on the dollar recycling and the lack of dollar recycling flows that we got from the closure of the Strait of Hormuz.

In fact, we saw central banks like Turkey and other central banks in the region in and around the world really, starting to sell gold as to, to prevent balance of payments crises in their own economies. And this is the whole point of FX reserves, right? When you get in trouble as an economy, the whole point of having FX reserves that are not denominated in your own currency is to maintain your purchasing power for the goods and services that you need, must acquire, that come from foreign, sources.

And in our opinion, we think the closures of Strait of Hormuz represented a big wrench in that global dollar recycling flow. You think about the, the net international investment surplus economies in Asia, J- Japan and China and Hong Kong Singapore, Taiwan, these are some of the world's largest net investment net international investment surplus economies, and they g- they source the lion's share of their crude oil from the Middle East.

Obviously the U- Europe sources a decent am- chunk of its crude oil from the Middle East, Germany being the world's largest net international investment surplus economy. The Eurozone in aggregate, I wanna say, is the world's fifth largest investment of na- national-- net international investment surplus economy.

And so by preventing those barrels of crude oil from flowing out of the strait, you are basically preventing those economies from growing fast enough to generate the same level of household savings, to generate the same level of corporate profits, and ultimately to generate the same level of FX reserve accumulation that they had been generating in ways that were supportive for gold and broader financial markets.

And so ultimately, gold became a store, it be-- it... They started using gold for what it was what it was designed to do, which is maintain its value in a crisis by and large and provide liquidity for these central banks. And that's exactly what they did. But ultimately, you think about the most recent move higher in gold, and getting, kinda get back to your question, Eric, the most recent move higher in gold, in our opinion, it's really just I think the market is starting to sniff out where this is all headed, and I think the market is really smart.

Market has always been really smart. In fact, if we w- we run quantitative investment strategies to help our clients stay on the right side of market risk. I can talk till the cows come home about this stuff, but none of this stuff impacts our clients' portfolios. We use KISS to help retail investors stay on the right side of market risk.

We use Dr. Mo to help institutional investors and sophisticated retail traders stay on the right side of factor risk across 80 different factors. And so those quantitative investment strategies will tell me what to do with my portfolio and tell our clients what to do in their portfolios.

But my fundamental research, y- is telling I think I know where this is going. It's on slide 32. Slide 32, the chart on the right just shows the dollar value of 100 basis points of rate cuts, if you push through in terms of the impact on, on, on the federal budget deficit. And so where we ultimately think this is all headed is twofold.

One, we're already living in reserve yield curve control. When we look back 50 years from now and they're writing books about this moment in time, we-- they will be calling what's happening right now yield curve control. Treasury Secretary Bessent is issuing bills to retire duration from financial markets, to remove duration risk from financial markets.

That, that's, they're essentially an operation twist there. And then guess who's buying the bills with printed money? The Treasury. And so the Fed Treasury accord that everybody keeps perspectively talking about is already here. They're already doing yield curve control. It's going to get bigger. The quantities are gonna get bigger.

They're gonna do it more forcefully. They're gonna be doing it more explicitly, but only after the bond market continues to march higher and higher in yield.

Erik: Darius, we hit 5.2% on the 10-year last week. Do you think that trend is set to continue? And if so, do you have any targets in mind for where yields are headed?

Do

Darius: I have targets in mind? Yes. I gotta get that slide in here. I-I'll insert the slide in here as the last slide of the presentation. But, we have a model that, that tries to ascertain what the fair value for the 10-year is here in the Treasa- in the US Treasury market. And ba-based on our most recent update, we're about 5.75-ish, somewhere in the range of 575, 580 for fair value on the 10-year, probably somewhere close to 650 on the 30-year.

Again, there's the duration risk. This is not 2021, right? The duration risk in the bond market is much lower than it had been. You're not coming from z- 0.5 on the 10-year to five. That's a 50% drawdown. You're going from today's starting point to, from f- to five and a half to or six on the 10-year, which is probably where it's gonna wind up all, before this is all said and done, unless they start doing yield curve control well before that, which they may, by the way.

Yeah, it depends on the speed of the move. The y- if the 10-year looks like it wants to materially break out above 5%, which is well within its right to do if you look at global bond yields on slide 41. We got a 15-year high in the 10-year nominal

Eurozone government bond yield, a 20-year high in the 10-year nominal UK gilt yield, a 30-year high in the 10-year nominal JGB yield.

In my opinion, these are telltale signs that the supply of global savings continues to deteriorate at the margins. And so as long as we're competing, not we, but the Treasury's competing with AI, which is a massive demand for capital that ha- that did not exist a few years ago, the yields have to go higher.

The ex ante unit of return has to go higher across all markets. That's why you're seeing IG credit spreads widen. That's why you're seeing the equity risk premia widen. That's, in terms of market multiples going down. That's why you're seeing bond yields back up. And the reason, I'll tell you why this is all happening, Eric.

There's a lot of reasons why it's happening, but I'll tell you one of the core reasons why it's happening is on slide 40, the previous slide. This chart shows global savings, the flow of global savings, and then the bottom panel on the r- the panel at the bottom shows the trailing 10-year percentage change of global savings We're growing at about 31% on a trailing-- Oh, sorry, not 31%.

We're growing at about 55% on a trailing 10-year basis. That 55% compares to a long run mean of around 90%. And oh, by the way, we've been growing at about 55% on a trailing 10-year growth rate basis for the past 10 years. So we've been troughing along the bottom of this, this time series for almost a decade now in terms of the growth rate of global savings.

And so part of that, obviously, we have much wider fiscal deficits across many of the world's major economies, and that's not... In our opinion, that's not a condition that's going to ameliorate itself at the margin. We know ABA's blowing holes in the budget deficit right now. We know we have a problem with entitlement spending here in the United States.

The Republicans don't tax enough. The Democrats spend too much. Then you got Japan pursuing reflationist fiscal policy. You have Europe remilitarizing. NATO's gonna take its budget, the defense spending targets from 2% of GDP to 3.5% of GDP for defense and another 1.5% of GDP for infrastructure related to defense, so 5% of GDP from two.

And then obviously China strategically decoupling in terms of in terms of its, lack of de-desire to trade with the US and recycle its tr- its, its current account flows back into US dollar-denominated assets. And so Boy, this is a big, this is a big complicated problem. Like I said when I started this presentation on slide...

if I go back to slide 24, there's not a lot of the menu of acceptable treatment options for this big complicated problem is not long. You can either cut your way out of it. Elon tried that and got booted off the stage and went back to Tesla and is doing some great things there at Tesla and SpaceX, and I wish him all the best.

Congrats on, on that Grok release. They're now competing at the Pareto frontier, so that's amazing for them. I wish we had more of that insight and intellect trying to fix this problem but, obviously he decided that it was too big of a problem to fix. And we're only th-this just-- If the, if paradigm B, the cut phase is not gonna be the most likely outcome, then all we're gonna do is boom the economy and print money.

That's it. This is hundreds of societies across thousands of millennia or thousands of years, several millennia. This is the only menu of acceptable treatment options. The other alternatives, there's only two other alternatives when you get to this problem. You default on the debt, which we're not gonna do because we can print our own currency, or you go to total war, and you just try to take over stuff and find money elsewhere.

And that may be the ultimate outcome. Again, every fourth turning since the 15th century has ended in total war.

Erik: Darius, let's stay on this policy point. We've just come under the three-month mark time from now till the midterm elections. Usually, it's those last three months where suddenly policy starts to really get influenced by the elections.

What policy influences do you think might be on deck that are election related, and what do you see in terms of policy moves that we should be on the eye on the lookout for between now and November?

Darius: That's a good question. So on the fiscal policy side of things, we'll go to slide 25 where we show our fiscal policy monitor.

This is- this helps us keep track of, all the moving parts within the federal budget statement and ultimately, what's what the key drivers of the deficit are doing, either good or bad, in ways that may, you know- Catalyze more or less policy intervention, like the kind of policy intervention we saw today with Bessent and its buyback announcement.

So when you look at the budget deficit, the federal budget balance, if you go to, one, two, three, four rows from the bottom in this chart, we're widening on a federal budget balance basis on a calendar-- this is calendar year to date, about four hundred billion dollars. So we're basically widening about a hundred basis points to six point three percent in terms of our deficit to GDP year over year.

What's driving that widening? We have corporate income taxes down thirteen percent in twenty twenty-five. They're down another fifteen percent here in twenty twenty-six. Customs duty is down fifty-eight percent in, in, in twenty in twenty twenty twenty twenty-six as well. So that's contributory to that.

But obviously, and you and I are both friends with Luke Groman, who I have respect, have the utmost respect for as an analyst. He's his metric, his true interest expense metric, that's a runaway freight train that just has no brakes. It has no brakes. True interest expense, for those who may be unfamiliar with Luke's framework, that's Medicare plus national defense plus net interest plus Social Security.

So basically interest and interest-like features of the budget deficit, things that there's very little or no political will to materially address, at least until there's a real fiscal crisis on our hands, which by the way may be coming. Seems like it's on its way in the next, few years, particularly if AI keeps begging for money.

If you add on Medicaid and veterans benefits, which, I and Luke have argued for years that those are very much like interest-like categories as well, because if you try to kick too many people off Medicaid and too many people off the veterans benefits, you're gonna wind up with riots in the streets.

And people in this country, they don't have pitchforks. We have four hundred million guns in this country. Again, four hundred million guns in this country. There won't be pitchforks. There will be very loud gunshots going off. We saw what happened on Jan sixth. That was a preview. Anyway, getting back into this, true interest expense plus Medicaid and veterans benefits, eighty percent of federal expenditures, which we know are already six percent of GDP's worth too big relative to re- federal revenues, eighty percent of federal expenditures are compounding at about nine to ten percent per annum.

Do you know the kind of nominal GDP growth you need to just stop the budget deficit to keep it flat? We couldn't even keep it flat with DOGE, doing the little bit that it did, with tariffs doing the little bit that it did, with booming the economy doing a lot of work. We're still unable, we're still unable to keep the budget deficit from widening.

So ultimately where this is headed is budget deficits and record non-war, non-recession budget deficits that, if you look at slide twenty-eight, we'll wind up with something that-- or twenty-seven or twenty-eight, we're gonna wind up with something that looks very precarious from the perspective of our sovereign creditors.

And to answer your question, where's policy heading? I think they would be fools. If you're in DC right now listening to me talk and you're trying to add on more fiscal largesse, you're going to blow up the system. You guys need to sit down and stop doing stuff Just sit down and stop doing stuff.

It's Congress. That'll be just... Y-you guys got us into this mess. You're pandering to your billionaire donors and blowing holes in the budget with taxes, blowing holes in the budget with spending, and just go sit down. Go sit down and let us figure this out in the financial markets. And unfortunately, it might not be pretty, but ultimately, I think we, the people in the financial markets, have a better solution to all this than the folks in Congress.

But I rest my case. So anyway, there's not gonna be any more fiscal largesse, at least in front of the midterm elections. In terms of as it relates to the Federal Reserve, I mentioned on slide 32, Federal Reserve's the-- Monetary policy is going to get very dovish in the next 18 months. Very dovish.

Substantially more dovish than what is currently priced in. Right now, what the Fed is dealing with right now in terms of pivoting modestly hawkish is on slide 44. Slide 44 shows our market-implied Fed R-Star model, where we try to ascertain what the market is pricing R-Star is on a time series basis.

It's been pretty accurate relative to the Lubbock eight, the Lubbock/Williams model over time. And so what our R-Star model is essentially pricing is that the Fed is now below our R-Star range. On the minimum, we have it about one point four three percent. On the maximum, we have it about one point eight two percent.

If you wanted to deflate the effective funds rate by five-year, five-year inflation swap rates, that's about one point two percent. And so the Fed is now modestly easy, modestly accommodative relative to the lower bound of the market's pricing of R-Star. Again, this is not... This is 42 Macro trying to back its way into R-Star based on market pricing.

We're essentially, extracting value and signal from the OIS curve and inflation swap rate curve to back into this. And so ultimately, what that means is the Fed is now, has modestly accommodative monetary policy. In our opinion, this is one of the core drivers, if not the core driver, of why bond yields continue to back up, because when the Federal Reserve has modestly accommodative monetary policy, you're putting upward pressure on aggregate demand, putting upward pressure on inflation, putting upward pressure on employment, and ultimately upward pressure on nominal GDP.

And why in the heck would you wanna own a 30-year Treasury bond when you can lend to one of the hyperscalers at plus 200 basis points, or you can go buy stocks, which are up annualizing at, I think, 23% on a total return basis since the start of 2023 when we turned bullish. And so I just... The Federal Reserve is gonna be forced probably to tight monetary policy modestly, and that's only to bend the need of the bond market, in our opinion, because ultimately, where this is all headed is a policy rate that is significantly lower than the lowest estimates on the OIS curve currently by the end of next year.

They have to. They're going to, and here's why. Chairman Warsh, who has been getting dragged by the media for his failure to communicate the way they want him to communicate, which I take great offense to as an American patriot, this man has trained with some of the great monetary minds of all time, John Taylor, Stan Druckenmiller, arguably the best fundamental investor of all time You know like I don't-- He doesn't give a damn.

Sorry to f- excuse my language, but he doesn't give a damn what these media people think. He's doing exactly what he wants to do and what he should be doing, which is shrinking the distribution of probable economic outcomes by pushing some of the monetary action function back to the markets. The more the markets can price in fluctuations in R-star, going back to the chart on slide 44, the more the markets are allowed to price in those fluctuations, the less work the Fed has to do, and ultimately the less volatile the p- economy will be.

The less volatile markets will be because the economy won't deviate too far from R-star and the supply-demand of capital based on faulty forward guidance. That's an, a valiant goal that he should be pursuing, and they're making the-- they're for- they may force him not to pursue it ba- with all the, the ridicule and the criticism.

But that's, I digress. I apologize for that. Getting back into where the policy's headed, I really appreciate what he's doing with the task forces, and here's why. As a leader, as someone who's a CEO, we have almost 10 employees now, it's, it can be the bigger your organization grows, the harder it gets to make people do what you want them to do, to have them execute your vision.

It becomes more of an act of inspiration rather than a... You gotta use more carrot than stick the bigger your organization goes, something I'm learning with, running my team. I love the, the, the task force because the task forces are gonna essentially allow the Federal Reserve to skate to where the puck is going, where the puck must go in the context of the supply-demand imbalance, which is, paradigm D, control print.

It's gonna allow the members of the FOMC to get there without him telling them to go there. If he tells them to go there, they're not gonna wanna go there. But if you think about the task forces, the way he organized the task forces is very clever. You send them down a rabbit hole to talk about communications.

Okay, fine, that's gonna increase term premia and make the pol- that makes short rates more volatile in a way that makes the economy less volatile. I think that's a, a win, but it might be painful in the interim. But the other task forces, balance sheet task force, we know they're gonna wind up deregulating the banks in a material way.

The banks only own about 15% of the marketable Treasury debt market. That's down from a high of 34% in 2003. The Fed, Warsh doesn't want a big Fed balance sheet, so ultimately the Fed's gonna take the hot potato that, that is the incremental supply of Treasury debt because the private non-bank sector, us, we're about 60% up from 36% at the end of 2021.

We can't take any more of it. Foreign central banks don't want any more of it. Their share is down to, I think, 12% from a high of 40% in 2008. So if you think about the only other cohort, if you think about these big four cohorts of buyers, commercial banks, U.S. commercial banks are the only cohort of buyers that are materially lower than their all-time high ratio in terms of share.

And so we know they're gonna deregulate the banks. The SLR is gonna get relaxed again. The Treasuries are gonna be included in that in, in terms of high-quality liquid assets for stress tests and liquidity coverage ratios. They're gonna, they're gonna pull a lot of bells and whistles in, from a financial deregulation standpoint to allow any material shrinking of the Fed's balance sheet, which may not occur, by the way.

It still may not occur in context of our reverse management purchases. But even if they, that's the path that they choose to take on a nominal basis It'll be dovish on a net basis when you factor in the bank regulation and the time it'll take to reg- deregulate the banks su- to such a meaningful degree.

That could take years. And then the other three task forces, you think about the, the data task force, they're gonna get real better data for the labor market. We know that the labor market is basically losing about five hundred thousand to a million jobs every year once we get the QCEW revisions.

So any data that's better than the current data we have on the labor market's gonna tell the Fed that the labor market's sucky-- more sucky than they realize, which ultimately should push up their real-time estimates of productivity growth. If the real-time estimates of productivity growth go higher, then our back testing shows that, when you cross over to two...

beyond two percent productivity growth, which we think it's gonna be, persistently above three over the medium term, if you cross over into two percent or above productivity growth, you tend to have declining short rates which is a signal to the Fed that they should be lowering the policy rate because productivity growth is the key to disinflationary growth, to non-inflationary growth.

And then last on the inflation task force so that's the productivity task force, and last on the inflation task force, you're gonna wind up any, any more real-time data on inflation is gonna be a more dovish read on inflation than what current PCE and CPI variables are signaling. So when you net it all out, they're gonna get five reports.

Three of them are gonna say very dovish things which are not currently priced in. One of them is gonna say a neutral thing to a modestly dovish thing relative to current expectations in terms of the balance sheet, and one of them is gonna say a hawkish thing. So on a net basis, Fed policy is gonna get substantially more dovish next year than what's currently priced into markets.

And so maybe that's what gold's sniffing out, maybe that's what the bond market's sniffing out, because ultimately, a bond market that is not gonna like substantially more dovish monetary policy. It's gonna force the Treasury Secretary to continue doing more creative things. It's gonna force the Fed to eventually pivot to yield curve control.

Erik: Darius, there was one specific scenario I had in mind I wanted to ask you about, which is it seems to me that President Trump's greatest weakness or one of his greatest vulnerabilities is gasoline prices between now and the election. For that reason, I think it's quite likely that the president will announce another s- U.S.

Strategic Petroleum Reserve drawdown between now and the election. Frankly, not very smart policy, but probably very smart campaigning from the standpoint won't do anything to actually to help diesel and gasoline prices. But if he can get oil prices down and say he's done something and blame the oil companies and tell his constituents that he's asked Tr- the, the Justice Department to look into why the prices haven't come down and it's not his fault, maybe he gets some relief there.

So I'm just thinking SPR release, lower oil prices because the president has so much vulnerability there is almost a certainty. What do you think?

Darius: You know this better than me, Eric, but the crude oil is not the issue. It's the fact that we don't have any refining capacity. If you look at the three-two-one crack spread, it's telling you that we don't have any refining capacity.

So you can release every barrel in the SPR, but that's not gonna create... convert it into gasoline and diesel and jet fuel, period. Obviously Ukraine's doing a, a bang-up job in, in, in Russia and taking out a lot of capacity there. Iran's doing a bang-up job on us in the Middle East and taking a lot of refining capacity there.

So the issue is, it's not what the price of crude oil is. We can just eyeball what the price of gasoline is, what the price of jet fuel is, what the price of diesel is and back into, oh boy, this is, has nothing to do with the barrels not flowing out of the Strait of Hormuz. This has everything to do with even if we got the barrels, we can't process them fast enough.

And that, in my opinion, is a structural issue that's gonna, that's gonna make the president very unsuccessful in any sort of tactical strategy that he may pursue to score some points ahead of the midterms. I just... It reminds me a lot, especially and I will say, obviously I've been a big fan of Scott and uplifting him in this interview, but I one thing I will say negative of Scott, if you're listening That comment you made about the K-shaped economy being over, as somebody from the very bottom, zero point zero zero one percent of the K, who doesn't get to tell a cute story about how his parents, lost money and got it all back.

My cute stories, are about sleeping in vans and homeless shelters and, watching my friends get murdered by gang violence and watching my brother get shot and have a bullet in his chest. Those are my cute stories. The folks like us who have real scars and experience and are living that experience in the bottom of the K don't appreciate being lied to by a Republican administration any more than they appreciate it being lied to by a Democrat administration.

Biden was out to lunch on the K-shaped economy, and it sounds like this administration's increasingly out to lunch on the K-shaped economy. And so all these little things that they say and do that are, really for, I would say window dressing, to maybe score some points on Fox News or, maybe score some points at a rally in the middle, in, in some, Midwestern town that we never heard of.

Yeah, maybe that works with the base, but there, there-- no independents are dumb enough to buy that stuff. Independents can feel their grocery bill. They can feel their gas prices. They can feel their rent. They can feel their mortgage. They can feel college tuition. They can feel healthcare. People aren't dumb.

If you're a politician listening to me talk, start with the assumption that people aren't dumb. Stop talking down to us. Stop assuming that your word is gospel and we're too dumb to figure out what gospel is, because I'll tell you right now, as long as people like me exist, we will expose the truth with data.

Erik: And so getting back into this K-shaped economy thing, on slide thirty,

Darius: we show various categories. We sum up the various categories of fiscal spending across different ca-- different categories. You bump, bump into the big categories. This year, federal government budget outlays on means-tested programs.

Those are programs where you qualify if you're poor. The annualized outlay thus far in twenty twenty-six is about thir- one point three trillion dollars. And then there's annualized outlays for Social Security and Medicare, so that's, if you're elderly retirement and, care for the elderly.

That's about three point seven trillion dollars. And then there's everything else, of which, net interest and national defense are about eighty-plus percent of that, and that's about two point seven trillion dollars. And so the first thing you should hear is, "Oh my God." A-and if you're paying attention is, "Oh my God, the government only spends seventeen percent?

Seventeen cents of every dollar it spends goes to poor people? Oh, that's a problem. That's a problem," 'cause that means eighty-three percent of every dollar the US federal government spends winds up in the bank accounts of the elderly and the wealthy. These are the two most politically active cohorts to be a voter turnout in campaign finance.

And so You think about this from the perspective of the, the Cantillon effect. Go to slide forty-nine. On slide forty-nine, we show, the qu- the Cantillon effect, the kind of exposing the money illusion. This chart shows the blue pill, which is the blue line going across the screen.

That's Bloomberg's spot price for the US dollar and US dollar, not the dollar index. But if you just type in US dollar currency on your Bloomberg, Bloomberg tells you the dollar's value is one every single day and has been one every single day since Nixon abandoned the gold standard on a Sunday afternoon unilaterally with no act, with no legislation from Congress on a Sunday afternoon in nineteen seventy-one, August fifteenth, nineteen seventy-one.

The red line shows the US dollar priced in stocks, a scarce capital asset that will seek to retain its va- its value, relative to a, a currency that's being debased. And so as you can see, the red line shows the dollars being this down about ninety-nine percent since August fifteenth, nineteen seventy-one versus the S&P five hundred.

That's a geometric mean of minus eight percent. So the dollar is getting debased by eight percent a year and creating i-i-in stock terms for people who own the stocks, the 60% of us who own stocks, and we own, we know I don't know the actual numbers, but we know that's incredibly concentrated at the top.

We know 40% of people don't own stocks and 40% of people can't scrape together $1,000 in the event of emergency. I assume that's the same 40, 40% of people in this country. But the 60% of us who own stocks is still pretty concentrated at the top. So the key takeaway I'm saying why I started at on slide 30 and why I pivoted here to slide 49 is to say that the Cantillon effect, which by God, no- it's insane that nobody talks about this.

I know you talk about it, Eric, and thank you for your public service. The people on the bottom of the K appreciate you, Eric. The Cantillon effect is arguably the key driver of the K-shaped economy crisis. We have a federal government that spends 83 cents of every dollar on not poor people, period. I and we know two trillion of that is going directly to rich people in the form of net interest and national defense.

Poor people don't own the shares of Raytheon. They're not the, the, the people who work at those companies or Boeing or SpaceX or Anduril or Palantir. Poor people aren't involved in that. That money is going directly to rich people. The net interest is going directly to capital holders. Poor people don't own Treasury bonds.

They don't own stocks. They don't own gold. They are scraping together nickels to get on the bus to go slave away for a wage that doesn't even

Erik: cover their living expenses.

Darius: That's what poor people are doing. Amazon. We can just kinda quickly go through this on slide 50. The dollar's lost 99% of its value relative to gold with the same geometric mean of 8% per annum throughout this 50-year experiment with fiat money.

Dollar's lost 88% of its value relative to food on 51. The dollar's lost 97% of its value relative to energy on 52, and the dollar's lost 94% of its value relative to shelter on 53. On 54, we kinda just show this just since COVID, just since the end of March of 2020. You look at the top panel or so the top half of the chart, we see that money supply's up 44% since the end of March of 2020 when the US sovereign decided to basically issue about $6 trillion in debt to give to rich peop- give PPP, forgivable PP loan, PPP loans to rich people, and they dressed it up just like they dressed up the O- well, one big ugly bill with, no tax on tips, no tax on no tax on tips or whatever, whatever the stupid saying was.

They gave the poor people $600 in, in extra benefits on the unemployment claims. Meanwhile, we're signing trillions of dollars of free forgivable loans away to rich people via PPP and small business loans and all this other largesse that we saw. The $6 trillion of fiscal largesse we saw from the start of 2020 through the end of 2021.

Guess what? The Fed monetized about 60% of that. And so as a function of that, we're still dealing with an inflation problem. We're both in asset price terms and also in, in CBI terms. We see that the financial assets are up about 63% since then. But if you look at the bottom panel, we see that the dollar has lost 37% of its purchasing power versus in shelter terms.

That's a CAGR of minus 7% versus the long run mean CAGR of minus 5%. Dollar's lost 25% of its p- purchasing power in food terms. You get 25% less food when you go to the grocery store just by being an American city- citizen. Yay. That CAGR is about 4%, minus 4% relative to the long run mean of the same value.

Dollar's lost 64% of its purchasing power in gold terms since then. CAGR is minus 15%, almost a double of its long run mean. And then the dollar's lost 76% of its purchasing power in energy terms. CAGR of minus 20%, basically more than triple its long run mean. And so when rich people get money either directly from the federal government or indirectly from the federal government because the Federal Reserve is maintaining asymmetrically dovish monetary policy in ways that make the stock market go up 23% per annum since January of 2023 when we turned bullish versus a long run CAGR of 10%, w- the stock market has gone up 2.3 times faster than it has historically gone up.

You can see that on slide 55. 2.3 times faster since the start of 2023 than it has historically gone up, 23% versus 10%. And so all that money, all that income, all that wealth that we on the top of the K are getting, this is the Cantillon effect. This is what I'm trying to... This is what I'm so angry about.

When we get all that money, we go to the grocery store, we buy food, we go to Amazon, we buy goods, we go to the car dealership, we buy cars, we go to the, the real estate market and buy property But guess what? The price goes up after we buy. And you know who's in line to buy after us? It's the people who did not get the money from the government directly or indirectly via asset price appreciation, or directly via net interest, or directly via a trillion dollars on defense and all the other shenanigans that the government spends money on.

And this is a bipartisan thing. This has nothing to do with Republican or Democrat. And so this Cantillon effect, the fact that we are, us in the capital class, us in the K one class, we are pushing up prices for the goods and services that we consume with reckless abandon. And by the time somebody on the bottom of the K decides they can finally afford to buy it, by the time they show up, the price has gone up because we pushed the price up.

And so they are the only ones in the economy feeling the inflation. So I hope we don't get any more fiscal or monetary largesse, Eric. We might, because they're addicted to it, and eventually we know where this is all headed.

Erik: Darius, Cantillon effect, you've covered in some gory detail. You're on fire this week.

Any other effects or drivers that we need to understand?

Darius: If you go to slide forty-three, where we show our approximate next twelve-month marketable Treasury debt supply statistic as a percent of global savings. The statistic itself is on slide forty-two where we show-- What we're essentially showing is the government needs to basically capitalize the Treasury market to a tune of about twelve trillion-plus dollars over the next twelve months.

And that's the function of the the annualized debt that, So the, the debt that's maturing over the next twelve months that needs to be rolled over, that's about ten point four trillion. The annualized fiscal year-to-date budget deficit is about two point two trillion. And then the Fed's reserve management purchases is subtracting about four hundred billion from that, so a drop in the bucket.

And then obviously, if you got the rolling over into a higher interest rate regime, it's gonna cause the Treasury to spend about another a hundred and twenty, twenty bill- a hundred and twenty billion on incremental interest expense. Again, money, a hundred and twenty billion of money that's just gonna go into the pockets of rich people like us to contribute to the Cantillon effect.

On slide forty-three, we show why, this kind of lurching into paradigm A, this debt disease is so insidious, particularly from the perspective of the K-shaped economy but ultimately from the perspective of asset markets too. Again, that, that twelve point one six zero trillion, that twelve point two trillion dollar sum on slide forty-two in the chart on the left, on slide forty-two, that's about thirty-nine percent, almost forty percent of global savings.

That 40% compares to a long run mean since the early '80s of 23%. So the key takeaway is that the US government needs about twice as much money from capital markets as it used to on a rolling basis. And so the Treasury being at the top of the world's capital structure is going to get its money. Now, it might have to get its money at a higher yield.

Fine. So what? But it's going to get capitalized. The dealers will take it down, they'll print money to do it. And so ultimately, that spread between the twenty-three and the thirty-nine on the chart on the left, and this on slide forty-three, that spread is trillions of dollars that is not going to the housing market It's trillions of dollars that are not going to non-residential fixed investment, business investment that is not related to AI.

It's trillions of dollars that's not going to small business USA. It's trillions of dollars that's not going to the low to median income consumer in the form of consumer debt or, anything they may need to start a business or could finance consumption. But if you're here with us in the K one class on the top of the K, you can pledge any amount of equity and get as mu-much tax deductible loans to finance your consumption or investment as m- as, as you can take.

Call up your bank. They'll tell you, they'll give you as much money as you want if you're on the K one class. But the reality is we've drained resources from the bottom of the K, and this is why the housing market will not recover. The lock-in effect is not-- There, there is no lock. Stop calling it a lock-in effect.

It's a different regime. We're not going back to the different regime until the blue line touches the red line or gets close to the red line in this chart. And the only way the blue line is gonna get close to the red line in this chart are one of two things, which are two sides of the same coin. Global savings needs to grow rapidly, which seems very unlikely in the context of a massive AI build-out and move to a multipolar world and all the fiscal expenditures on that entails from a defense and infrastructure standpoint.

That seems unlikely. And then obviously, we have this runaway freight train called true expense plus, plus Medicaid and Nash and veterans benefits here in the US. Oh, and by the way, we have a party that's addicted to, blowing holes in the budget deficit with tax cuts. By the way, if you look at the history of Republican tax cuts, and again, I'm not a Democrat, I'm not a Republican, I'm a data-driven data scientist, and I'm telling the data science view on whether ABA is gonna be successful is poor.

If you look at the history of Republican tax cuts, one out of five, if you go back since the Reagan one, Reagan two, Bush one, Bush two, and Trump one, and you just study the impact on GDP, the impact on the budget deficit, the impact on debt it's a terrible track record. Only one in the five actually had a structural uptrend in GDP growth from the time of the tax cut.

That was Reagan one. Four out of five had a structural, widening of the budget deficit, and five out of five had a structural widening of the debt to GDP ratio. And so we know we're gonna wind up in a worse place fiscally because of ABA, just like we wound up in a worse place fiscally because of, the Inflation Reduction Act and the Economic Recovery Act and the American Recovery Act and all these acts that they keep doing, Democrats and Republicans.

They keep taking turns blowing holes in the budget deficit, and they're the reason why the blue line on the chart on the right is where it is. They're not the only part of the reason. I-- we told you the flow of global savings has slowed tremendously. China's not saving to the same degree.

There's a lot of dissaving going on right now if you look at the world sovereign balance, fiscal balances. And so this is a just an intractable problem, man. And so going back to where we started all this, before we wrap up, you need superstars running government right now. You just, you can't have people falling asleep in the Oval Office That's a pot shot at both the last two presidents, by the way.

You can't have-- You know, you need people like Scott Bessent. You need people like Kevin Warsh. Eventually someday they're gonna need people like Darius Dale, in my opinion, 'cause this is, these are big problems. Go to slide 56, and we'll end on this. Part of the reason the US has to, I, again, panic is b-be decisive with all this policy intervention at increasing quantities and increasing frequencies is because they're trying to keep the wealth pump on.

They're trying to keep what Dr. Peter Turchin and his colleagues at the Complexity Science Hub in Vienna have termed the wealth pump. I call it the reverse Robin Hood effect. I think that's better marketing. They're trying to keep the wealth pump on. Heaven forbid the S&P 500 goes down 10% in a seasonally weak period of time, Scott.

Heaven forbid. Heaven forbid we go back to where bond yields have been in this country for most of the time. Heaven forbid. They're so sensitive to not constantly making large sums of money the ruling class, the elites in this society. They can't even stomach not having bubble-like conditions in asset markets.

Just markets going up at a normal pace is frightening to them, right? That's the signal that I'm getting from the lurching into dovish net financing policy this, in the second half of this year from the Q3 QRA, the following that up two weeks late. We're like a percent off the all-time high in the S&P 500, and they're panicking with more dovish policy We know they're gonna be-- The Fed's gonna be ridiculously dovish if we're right on the task forces next year, which cough Wall Street, you guys need to wake up and start doing some analysis.

I haven't heard enough from Wall Street on this yet. Everybody's waiting on the task forces. Hey, gold and Bitcoin will beat you to the task forces. Stocks will beat you to the task forces. The bond market's already beat you to the task forces, guys. The bond market wouldn't be selling off if they didn't think the Fed was lacking credibility.

This is not a temporary phenomenon. The bond market understands where this all has to go, which is paradigm D, which is where we started and where we're gonna end. And I'm telling you right now, if we go to paradigm D because they can't shut off the wealth pump because they are so addicted to the reverse Robin Hood effect, whereby we take money from the bottom part of the K.

If you go to slide forty-seven real quick, whereby us on the K one class, we keep siphoning money from the bottom of the K. More and more money comes out of their pocket and into ours in the form of profits, in the form of financial price and financial asset price appreciation, and/or di- checks directly from the sovereign in the form of two and a half trillion dollars of, defense and net interest to rich folks like us, so we can sit around and have a joke about it on the All In podcast like a bunch of a-holes.

Again, where this is all headed is on slide fifty-six. The s- historical track record of societies that share the US's wealth pump/reverse Robin Hood effect dynamics is extremely poor. Again, this is data from 100 societies that they studied at the Complexity Science Institute across millennia, multiple millennia.

Societies that have our reverse Robin Hood wealth pump dynamics They don't-- It doesn't end well. There's seventeen percent of them had systemic violence against elites. Again, we have four hundred million guns in this country. We saw what happened. We saw a preview of that on Jan six. We have a standing militia now that is only operates to the drum of one man.

Twenty percent of these societies end in recurrent civil wars lasting for a hundred plus years. Forty percent of these societies wind up with assassination of rulers. Fifty percent of these societies see substantial population decline. Sixty percent of these societies see state collapse via conquest or disintegration into multiple states.

Sixty-seven percent of these societies see systemic downward mobility of elites, which I would argue is like the least, the most peaceful path here. That's the New Deal path. That's, if you think about what this one represents, that's the New Deal. That's the elites coming together to realize that this system's gonna malfunction if we don't stop this reverse Robin Hood effect.

But what I fear, based on the po- the panicked policy response, the decisive, aggressive, panicked, whatever you wanna call it, policy responses that we're seeing out of the White House, that we're going to see out of the Fed in increasing quantities. By the way, they cut interest rates by the policy rate by a hundred and seventy-five basis points with an inflation problem over the last few years.

Light bulb. They're doing QE and calling it something different with an inflation problem. Light bulb. Again, the Fed and Treasury are telling you with their policy choices, with their policy interventions, where this is all headed, which is we have to go to paradigm D because heaven forbid asset prices go down for an extended period of time, because that would be so catastrophic to us at the top of the K who don't even know how to deal with economic hardship like our compatriots on the bottom of the K.

And so where I think this is headed is the last bar on the right, revolution, civil war, or both. Seventy-five percent of this N of one hundred, those societies had refeatured revolution, civil war, or both. We are two of them, by the way. We had this thing called the American Revolution in the eighteenth century.

I'm not sure if folks have heard of that. We had this thing called the Civil War in the nineteenth century. I'm not sure if folks heard of that Do you know what caused both of those wars? They'll tell you freedom. They'll tell you slavery, emancipating slaves. And I'll tell you, eh. What caused both of those wars was white men fearing economic malaise, not just having their income confiscated by the crown or not being able to establish a real working livelihood for themselves out west and fearing competition from the slave ruling class.

When white men feel like they can't put food on their table and take care of their family in this country, they go to war, and they have every right to go to war based on this reverse rob-- this perverse reverse Robin Hood effect that I think everybody should go back and study slide forty-seven and think about what that ultimately means long term for.

So I've gone on long enough. I know this is quite the conversation, Eric. Not our typical GDP's gonna do this, inflation's gonna do that conversation, but this, this moment is bigger than that.

Erik: This moment is bigger than that, Darius. I'm gonna leave it to our listeners to decide whether or not you just announced publicly your intentions to run for office.

Sounds like you did. You'll have to tell us next time how it's going. But in meanwhile, for those listeners who are more interested in your work at 42 Macro, tell us a little bit more about what you do there, what services are on offer, and how people can find out more about it.

Darius: Yeah, no. Again, I d- thank you, Eric.

I guess I gotta put my, you know-

Erik: If you need a campaign manager, let me know.

Darius: No I will chat. I will chat. No, but again I have political aspirations, but not for a couple decades. I have young kids. I don't wanna put them through that process. But ultimately, I think we just need more people who are being equipped with the data and the analysis, we... So many people just turn on Fox News or turn on CNN or turn on MSNBC or turn on Newsmax, turn on Tucker Carlson, turn on whatever the, liberal version, Ezra Klein. They just get their news piped to them from people who aren't doing analysis, who aren't seeing where the puck is going from a macro risk management standpoint, from an economic standpoint, from a policy intervention standpoint.

That's my job as a fundamental research analyst, and, we have some very important clients across the global buy side who rely on this kind of information to make changes in their portfolio. But the clients at 42 Macro, our members at 42 Macro, they don't... Nothing in swirling around Darius Dale's brain about fork turning or policy intervention or where's growth, where's inflation, where's liquidity?

We haven't even talked about liquidity today. We can do that next time. Those thoughts don't impact my portfolio. They generally don't impact our retail members' portfolios, 'cause by and large, some of them are, most of them are either managing their portfolios with KISS, that's our stocks, gold, bitcoins, quantitative investment strategy, that tries to manage risk and create a po- it does create a positively skewed return distribution, allows wealth to compound faster over time.

That's slide four. You can see the KISS back test there. And then our institutional clients and/or our sophisticated retail investor clients who don't wanna be in the standard version of KISS, they wanna take a little bit more risk or maybe even a little bit less risk we use Dr. Mo which we show our back tests for Dr.

Mo on slides five through 10. Slide, slides five through 10. So I want everyone to feel very calm, peaceful and de-stressed. Listen to me talk. I know I'm talking about some very big, scary things, but you don't have to rely on me, Darius Dale. You don't have to rely on any of our-- of these talking heads, and I have a lot of, respect for, guys like Luke Gromen, guys like Bob Elliott, guys like Jim Bianco, gals like Lyn Alden, folks you feature on your program, Eric.

But you don't have to rely on any of us to help you guide your portfolio through all these risks, 'cause I tell you right now, none of us is good enough to trade successfully through a fourth turning. There's too many drawdowns. There's too much volatility. There's... you're going to need institutional grade risk management overlays, and so that's what KISS is for retail investors on slide four.

That's what Dr. Mo is for sophisticated retail investors and institutional investors on slides five through ten. So check those back tests out. If you wanna learn more about Forty Two Macro, go to 42macro.com. We would love to have you join our global investor community, where we're talking about all this kinda stuff, talking about markets, talking about where the future of the economy is, talking about, trying to solve problems.

It's a great community. I'm, I'm-- That's my-- probably my most thing I'm most import-- most proud of in life. Done some really cool things, so thank you, Eric. Appreciate you. See you next time.

Erik: And now it's time for Patrick and Massil to take over with our Macro Voices trading desk. Patrick, where's the trade?

Patrick: Thanks, Eric. For this week's trade of the week, I wanna focus on Darius' thesis that fiscal dominance and financial repression are here, and scarce assets benefit from it, and Bitcoin sits directly inside that framework. So I wanted to focus on IBIT, which is the iShares Bitcoin ETF, and it's a clean vehicle for getting Bitcoin exposure, which is currently trading around thirty-nine dollars at the time of this recording.

Now, you could simply buy the shares, but I wanted to actually focus on a tactical position using options. And in this sur-circumstance, what I wanted to do was look at a deep in-the-money call option as an alternative to actually owning the stock. To me, it's a much more capital efficient way than a Delta One stock.

We have a defined risk premium and positive convexity. So I was l-- focusing on that January fifteenth, two thousand and twenty-seven expiration out to the start of next year, and I was looking at buying the thirty-two dollar call option. Now, again, the stock is trading around thirty-nine dollars, so we're talking about seven dollars of intrinsic value.

The option's trading at eight dollars and seventy-five cents, which means that we're paying about a dollar seventy-five premium to express this position from a time value perspective I like to think of this as a high delta stock replacement. It's a s- much smaller capital outlay, only eight dollars and seventy-five cents versus paying thirty-nine dollars per share.

Now, if the IBIT rallies, the option moves deeper in the money, the delta rises toward one, and increasingly it behaves like the underlying stock. Now, if IBIT falls, the delta compresses, losses slow relative to owning the shares, and the max risk is the premium paid. So that dollar seventy-five is the cost of defined risk, lower capital commitment, and downside convexity.

So if you agree with Darius' bullish Bitcoin exposure, this high delta participation with less capital is a great way of putting on the trade, 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: I love the synthetic on that trade, Pat. Now, before we jump into equities, we have to talk bonds because this is where all the hype's been the last few days. Now, big funds positioning, and we've been talking about this the last few weeks here on the podcast, whether you look at the 10-year or the 30-year bonds, we're at the bottom decile on a multi-year look back for its positioning.

So that just means that, most big funds here were positioned bearishly and it was at an extreme. Now, just yesterday, the US Treasury decided to double their debt buying program, which of course has caused rising bond prices. Now, because of all this, all the big money who was heavily leaning short will be forced to buy back their positions, which can strengthen the rebound further.

I know we always say that we shouldn't fight the Fed, but does that also mean we shouldn't fight the Treasury Secretary? What do you think, Pat?

Patrick: So when this all happened on Wednesday, the first thing that came to mind is the words from Jim Bianco, one of our favorite guests on the show, is that bond traders can stop panicking when the Fed starts panicking.

And while the Treasury Department is not the Fed, the interesting part is can we just now paraphrase that as the bond traders can stop panicking when Bessent starts panicking? And this is the interesting part. Some people are saying this is yield curve control or quantitative easing. It's not, because this is not coming from the Fed.

We just had the FOMC meeting minutes. The Fed is still concerned about inflation. Three of the members were voting for a rate hike, and so the Fed is actually staying the course. Now, we know that Bessent and Warsh have breakfast every single week. This conversation was clearly had between them, and they chose that this is probably the best course of action for the Treasury to make this move.

So what we're seeing is a form of an operation twist by them simply buying longer-dated bonds back and issuing short-term bonds in their place in order to manage the e-excess supply of those bonds up at the top end. Now, this certainly was a, a message to the markets. This is not about the size, in my opinion.

This is all about the fact that we now know that Bessent and Warsh are concerned about yields at these levels and are clearly attempting to intervene in some way. The interesting part is the re- the response of the market. Clearly, we saw a substantial reversal in bonds, but it also impacted a whole array of asset classes.

We're gonna be talking about them here, like w- the dollar and gold and so on, which are all responding considerably to that. So what we know now is bonds reversed off of yields that were near around five thirty on the 30-year Treasury yield, and now we're gonna find out whether or not that becomes the ceiling on yields and whether or not this intervention is in fact successful at stabilizing these markets.

Massil: Now listeners, this is one of those charts that is worth seeing for yourself. So if you wanna look at the data along with us, just go to cotsignal.com and you'll see how unusual this positioning is. So look at the top right corner of the net positioning over open interest, and you'll see that this is the lowest positioning score we've seen in the last five years.

But the weird thing is that on the price chart, the Nasdaq is still trending up. So we're seeing that the Nasdaq is climbing, but the big money, the CTAs, the trend following funds, are putting on their seat belts. So it seems to me like the big money does not fully trust this rally. How are you sizing up this market and the positioning in here?

Patrick: Look, we had a burst on the S&P five hundred higher throughout the month of August, and and we're now just seeing the S&P taking a breather. It is very typical for there to be even up to a fifty percent retrace. We are far from seeing significant technical damage on this S&P five hundred. In fact, what were previous highs can act as support and retracement lines and moving averages all lie about seventy-six hundred.

So there is even room for another fifty points on the downside here and still be in line with what would be a generally bullish trend. And we'll buy on dip traders, buy the dip and maintain this upper trend is something that we're gonna continue to watch. But the positioning that you're talking about on the Nasdaq is super interesting.

I often try to speculate as to why that positioning is that way. To me, we're seeing that the big divergence is in the tech space. In the second quarter of the year, we saw one of the most extraordinary AI bubble bursts higher. The KOSPI was ripping on the upside. The semiconductors almost doubled in that second quarter of the year.

But since then, that entire sector has been lagging. We saw a substantial crash in the KOSPI. The semiconductors had a twenty-five percent correction, and they've failed to participate on the upside during this entire move. It's very likely that a, a lot of this short contract positioning are hedges as they're trying to rebalance their portfolios and reduce generally portfolio volatility based upon their exposures.

So the big story then to me is really about Nvidia's earnings next week. At this stage, the semiconductors as laggards are going to now hinge on what Nvidia has to say. Now, on balance of probabilities, they're probably going to beat and have a solid guidance, but it's going to be the way traders respond to Nvidia's earnings that will be the big tell.

And if it's will Nvidia spark a match under the semiconductor space and have them act as a bullish tailwind for these markets, or will Nvidia act as a wet blanket and keep the semiconductor basket under pressure? If that's the case, it's gonna be very hard for the markets to generally push to higher highs.

We need to see that leadership and where all the hyperscalers and big market cap weightings are doing most of the lifting in these markets, and that would have to persist. And to me, all eyes are gonna be on that earnings to see whether or not this lagging semiconductor index can catch up.

Overall, when just talking technical levels, to me Pull back again to seventy-six hundred on the S&P is par for the course. The real technical damage and where all the problems become is if something triggered an S&P selloff down to seventy-five or seventy-four hundred. We would then have serious technical damage and more importantly, a lot of the quantitative and trend following funds are going to start getting systematic sell triggers and that could create a negative flow.

Right now, I don't see that as an immediate risk. I'm gonna give the bulls the benefit of the doubt that they're gonna buy the dips here. Let's see how things settle in and especially how things are after that earnings announcement.

Massil: All right, let's turn on the dollar here because we've seen some big moves on-- in the last couple weeks.

But let's actually take a step back because over the last six months, we saw large speculators, big money crowded into the dollar theme, and we're still seeing that on a one-year look-back as we sit at the top decile of positioning, which meant that, across major cross currencies, they were broadly underowned.

Then again, the US came out and proved that they'll be intervening in the markets, not once, twice, with the yen just a couple weeks ago, and now with bonds just yesterday. Now, the big money surely doesn't wanna fight the US government, so they may need to unwind their long position, and you're starting to see that across the board.

Now, if that's just the beginning of this trend, then there's a lot of room for further moves against the dollar. But what do you think? Is this just a short-term reaction or a longer-term trend in a potential reversal in the dollar and its cross currencies?

Patrick: Going into even last week, there was a pullback in the dollar over the last month, but we were holding key support lines, key trend lines, key moving averages that were all still giving the bulls the benefit of the doubt that this could have just been a pullback, a retracement, and even the dollar could have rallied from there.

But we just had an event trigger and Bessent and this entire attempt to manage the interest rate yields on that long bond have triggered US dollar selling, and the selling has now blown through key support lines and done some genuine technical damage. To me, this has neutralized the prior bull market.

Now, does that make me an outright bear on the dollar? Probably not. But with that bullish upside neutralized, the question now is, are we going back into the trade range of two thousand and twenty-five and the first half of two thousand twenty-six, where we were bouncing around between ninety-six and a hundred on the Dixie?

This is entirely plausible, but the currency I really wanna watch is this US dollar yen. The first intervention by Bessent was not in the bond markets, but in the Japanese yen. And so with a, a substantial reversal, will we see a resumption in US dollar weakness and yen strength marking a meaningful new trend move?

This is certainly the thing to watch, 'cause if the US dollar is rallying, that's going to alleviate pressure on all sorts of different markets and continue to drive a new intermarket cycle.

Massil: Whether we see a weakening or strengthening dollar, it'll definitely affect gold. And gold's an interesting one 'cause large holders really never abandon this trade, and that's been the story really for the past couple years almost.

Even during the recent 25% decline in gold prices that we saw in the first half of this year, we can see that large speculator positioning remains at 54% of total gold futures open interest, okay? So I'm looking at that net position over open interest chart, and that's been at the upper end of the chart really for the last five years.

We've only seen happen this twice before, at the beginning of 2025 and at the beginning of 2020. Now we know that shows real conviction, but if we're going to see another major leg building, we'll need fresh marginal buyers in this market. So really the key thing to know is that gold fell sharply, but the large funds never gave up their positions.

What does it all mean to the price back?

Patrick: I feel really what the most important thing first to do is to really reflect on what's happened over the last few years. We went through an extraordinary two-year bull market in gold that ended in the early part of two thousand and twenty-six with a blow-off peak.

We've been in a six-month correction that-- which has given back twenty-five percent of the gains off of gold's highs, and we've seen a legitimate attempt to bull break out of this six-month correction. There are a lot of bullish signs here, and the fact that the US dollar has broken down and the fact that there's interest rate intervention are all things that are bullish tailwinds, something that gold simply did not have for the first half of the year.

And this to me is very healthy. What we're gonna continue to watch is whether or not gold continues to be bought on dip and whether this trend can actually continue to follow through. But I'm giving the bulls the benefit of the doubt here that this is the real deal. I'm gonna be looking any retracement of a hundred, hundred and fifty dollars on any short-term tactical volatility I'm gonna be using to buy dips on and seeing whether or not we can have legitimate progress back to those April highs near forty-eight hundred over the next few months.

So moving on, we gotta touch on crude oil. And w-- at the time we're recording, it's up three dollars today, almost at eighty-eight dollars a barrel. We continue to see the last few weeks substantial strength as the geopolitical circumstances continue to deteriorate, as the probability now that the Strait of Hormuz is gonna be open anytime soon has massively diminished.

Now, obviously, the administration is concerned about oil prices and wants to see stable oil going into the elections, but we clearly have a global marketplace that is incredibly tight. So the question here is what is really the fair value of oil? What's interesting is that that June crash down in oil was very much washing out long positioning in the crude oil markets.

But now we're clearly seeing a scenario where oil is strengthening and mo-- many traders have not or given up on positioning on the long side here. Now, that in itself is not a reason to be bullish. But overall, I think the backdrop on balance of probabilities is that oil can stay at these elevated levels and even have a chance to take a shot up into the mid-nineties.

And so I'll be watching what kind of bullish follow-through can happen here in the week to come.

Massil: Now oil's an interesting one because it's definitely recovered, but the speculative crowd did not follow. Right now, when you look at the WTI's three-year positioning score, was sitting at the nineteenth percentile.

That means, large funds, CTAs, trend following strategies are currently holding less bullish exposure than they have been during roughly four-fifths of the last three years. Yet we saw crude, recover from the June washout and return to now, ninety dollars, a hundred dollars, or we're close to it.

But the price recovery has happened without large funds aggressively chasing it. It does support a possible range bound story, but it also means there's so many on the sideline if oil continues to break higher.

Patrick: Now moving on, I wanted to touch on uranium. Overall, we've seen a substantial pivot in flows in the entire mining space.

It d- whether it's industrial metals or precious metals everything has got bid. And we now have the URA and uranium names starting to participate. What was particularly interesting is over the last couple of days, we had a quick little dip in uranium, and it was quickly bought.

And so overall, these markets are generally showing signs of new accumulation. Be very interesting to see that after a very challenging three-month correction in the uranium space, whether or not we've turned the corner and are starting the new bull trend. Okay, so let's move on to the positioning pulse.

Now, Mass, when you were looking through all of these commitment and trader reports was there anything else that stood out for you?

Massil: For sure, Patrick. So I wanna talk about the sugar market here because the next sugar bull market may have started due to the gas tank getting more expensive around the world.

But let me explain. Brazil right now supplies roughly 40% of all sugar trade internationally, and what happens in Brazil definitely doesn't stay there because it can change the amount of sugar available in the entire world pretty much. So let's take a step back here on just explaining here about the mechanics of the sugar market.

But one crop of sugarcane has two competing destinations. One, we can turn into sugar for all the food that we consume every day, but two, we can also turn into ethanol for fuel. And the energy shock changed that decision. So energy higher prices made ethanol more valuable, so Brazilian mills now have a stronger reason to send cane towards fuel instead of sugar.

To put this into simple terms, gas prices are directly competing with availability of sugar around the world. And at the same time, India, who's the second-largest sugar producer and the biggest consumer in the world, may need to import sugar to protect its own domestic supply. So that really creates a real tension.

The world's largest exporter may export less. The second largest producer and biggest consumer may become a net buyer, which means, the sugar market is getting a double whammy to its supply and demand curve. And both of these factors can push towards higher prices. Now, looking at the commitment of traders' data, large speculators have only just crossed into the bullish side as net positioning has turned positive for the first time this year.

So the big money has changed direction, but they haven't committed heavily to the long side yet. So the recent 20% move we saw in sugar prices these last 30 days was driven largely from smart money unwinding their bearish bets. But if Brazil sends more of their sugarcane towards ethanol production or India becomes a net importer, then the market will be forced to price a much larger supply and demand problem, and that could attract a second wave of buyers to carry sugar prices even higher and higher.

Patrick: It's interesting that you bring up sugar, 'cause when you look at that weekly heat map on the soft commodities, it's the one that blatantly stands out with with, in its positioning scores. But it's so interesting. It's been such a huge bear market in sugar, and the fact things are turning, it's certainly one of the markets to watch.

All right, that does it for this week's episode. 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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