

MacroVoices Episode 552

Feature Interview with David Rosenberg

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David: Historically, when a one-party power swings to a two-party system with gridlock, 80% of the time the economy slows, 80% of the time inflation goes down, and 80% of the time bond yields go down in that two-year period after a national election

Erik: That was Rosenberg Research founder David Rosenberg. I'm Erik Townsend, and this is Macro Voices, the free weekly podcast targeting professional finance and sophisticated private investors.

Episode 552 was produced October 1st, 2026. Listener response to our Macro Voices Unplugged bonus episode that gave you a double dose of Michael Every last week was overwhelmingly positive. So before we dive in with Rosie, a quick housekeeping announcement. Going forward, we'll consider adding Macro Voices Unplugged bonus episodes for guests like Michael and Anas Alhajji and others who just have too much to say for one episode.

But out of respect for both your time and our production budget, quite frankly, we're only going to do that when the circumstances warrant. The next likely one would be when we bring Dr. Anas Alhajji back, and you can expect that before the end of the year certainly, and maybe even before the end of this month.

We've got to work that into our schedule. That would come complete with an Unplugged bonus episode. And get this, if you want to influence the content of that Unplugged session, be sure to follow Anas on X because he's going to reach out to his audience for questions and topics that they want answered when we bring him back for that Unplugged session.

Now, it's still a few weeks away, so you've got time now to make your request known to Anas by tweeting them. Don't send them to us because Anas is collecting that information. He's gonna assimilate it, and we'll figure out what you guys want us to discuss in Anas' first appearance in a Unplugged session, which we'll do after a regular format.

Another thing I want to announce as I have this opportunity is we're definitely committed to keeping the flagship podcast interview length to a target of forty-five to fifty-five minutes and not more. That's out of respect for your time because we know you're busy. If you want the extended content, we'll always put it in a separate episode.

So what you can expect when we bring Anas back is a fairly tight update on the market and what's going on in the Middle East, and then a much broader discussion in the follow-on, which will probably come a day later again, but that one will be content that you've requested by tweeting it to Anas. Now, let's dive into Rosie's latest interview, which covers secular inflation, why Rosie doesn't buy the popular narrative, the AI boom and what could bust it, midterm elections as a setup for economic slowdown, as well as Washington gridlock, and much, much more.

That's all coming up in today's episode of Macro Voices.

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

Erik: Joining me now is David Rosenberg, also known as a best-selling author. New book coming out called Bear in the Bull Ring. That's October 6th, already available for pre-order on Amazon.

New ETF, ROSIE ETF. Boy, perfectly named. We'll come back to the book and the ETF at the end of the interview. But David, I wanted to get you back on the program for one specific reason, which is it's hard to find anybody that has not flipped to inflationist and maybe even inflation alarmist because it's in vogue right now.

If there's anyone I know in this industry I can count on not to be an inflationist just 'cause it's in vogue, it's David Rosenberg. So is inflation the thing we need to focus on, and if not, why not?

David: I'm never gonna say that we shouldn't be watching inflation 'cause that would be an irresponsible comment to make.

But if you're gonna ask me, i- is inflation the risk that the media and pundits on the business cable shows and and Wall Street research reports, is inflation the big threat that it's made out to be? In my opinion, it's not. And what I find interesting is that the same people now talking about inflation because of energy, and

specifically crack spreads and diesel, were the same people that were yelling about inflation back in the spring, summer, and fall of last year because of the Trump tariffs, and we were gonna have a mountain of product inflation, imported inflation.

And you know what? That never really did happen. It's not as if we didn't get a temporary bump in inflation from the tariffs, but you really have to strain your eye to see it. And if it was gonna show up in any persistent way, it would show up in the core goods CPI index. And what's interesting is that a year ago, the year-over-year trend in the core goods CPI was running at one and a half percent.

Today, it's running below zero point seven percent. It's at a four-year low. So I would just ask the question, if we didn't get the big inflation from the big tariffs, and when you look at what the net effective tariff rate did, it went up a whole lot. The biggest increase since the early to mid-1930s.

But there was never a sustained pass-through to final inflation where you think it would hit the most, which was in the core product sector. A-and in fact, it's been decelerating over the past year. Somebody must have eaten the tariff increase. Was it the exporter who didn't wanna sacrifice market share?

Was it the importer at the border? Did it show up in profit margins in the affected sectors along the way? Or maybe all three. But the proof of the pudding's in the eating, and I ask the question, and we could con- extend the conversation further, but I would ask the people that think that because of a one-trick pony, which was, which is energy why will that cause the sustained inflation that the Trump tariffs have managed to do?

Erik: You make an excellent point, and I think it's also echoed. I had Harley Bassman on a couple of weeks ago. He says, "Boy, the inflation narrative sure does sound good, easy to talk to, but the data says it's not happening." And he had a couple slides up talking about, what's going on with break-evens and CPI and so forth, and said the, the numbers just don't support this narrative.

And so that definitely confirms what you're saying. But here's why I'm a little bit stuck on this. I think the people that are worried about crude oil prices spiking, that's probably gonna be shorter term. But what we need is finished products. And when they blow refineries up, a lot of them around the world, we didn't have enough of those already, and they don't come back when the war ends.

It takes years to rebuild that stuff. So what I see as a potential inflation driver, and I don't know how it gets balanced out against other stuff, is if you keep blowing refineries up and you can't make the diesel fuel out of the crude oil, you end up with plenty of crude oil and no diesel fuel. Is that a potential inflation risk that we wouldn't be able to mitigate?

David: I see that as a risk as to why we're not gonna get a whole lot of price relief. So this won't be a case like you had, for example, in Gulf War I. I have to go all the way back to nineteen ninety when probably most of the listeners were in grade school, and you went from, twenty to forty on WTI and then quickly reversed right back to twenty once the war ended.

So I would say that, no I don't think that your thesis leads to continuously higher refined product increases in energy. I think that will just stay at an elevated level. And the reality is that even though the conflict is ongoing between the U.S. and Iran, we are seeing traffic flow through Hormuz that we haven't seen since the beginning of the war, and we're seeing exports in the Gulf region starting to be ramped up pretty significantly, especially in that very critical Saudi Arabia East-West pipeline.

So I think that the relief won't come from prices coming down significantly. They'll stay elevated. But remember that inflation is not a level. Inflation is a rate of change. So even if diesel stays where it is, if gasoline prices stay where they are, maybe they come down a little bit, in twelve months' time it still falls out of the data.

You-you're not gonna get a-- as big of a push down in inflation as you would obviously arithmetically if energy prices, were to even reverse half of the big run-up. But all you need to have the momentum stop is to just have energy prices peak out which is what I think is gonna happen. The other part of it is how we wanna look at inflation, 'cause it's not really a moment in time.

The problem is that, we live in the here and now. We're inundated with news, social media we have our Bloomberg terminals. We could see the tickers every second. But inflation is a process. Now, the reason why we had eighteen months of non-transitory inflation in, say, twenty twenty-one, twenty twenty-two, into twenty twenty-three, is because it did feed into wages.

That is necessary for this to become truly a sustained inflationary development, as opposed to just a shock that lasts a few months. Now, the reason we had the wage price spiral In the last 18 months, it really wasn't transitory when all was said and done, but then again, it wasn't the 1970s either. You gotta remember the 1970s, we had repeated oil shocks, but the economy was unionized and everybody had a COLA clause.

So the labor market had bargaining power. Now, for a period coming out of COVID, because the government, through its endless stupidity not just decided to give people \$2 trillion of stimulus checks to spend just as the economy reopened, but the government was paying people not to work for two years and paying them more.

So then the business sector, when the economy reopened, had to pay up even more to attract labor back into the market. So you had this wage price spiral. This is what's critical. Prices have to feed into wages. Because if the price shock doesn't feed into wages, it hits the wall in the labor market, and all you end up with is negative real wages that then trigger an environment of negative real consumer demand, which means that, yes, you will get inflation in, say, f- fuels and possibly in the food as well when you look at fertilizer and the wholesale market for grains.

Yes, that's true. There's stuff we still have to fill our cars and we still have to eat. But the other, call it 80, 85% of the pricing probably ends up coming under downward pressure because you get demand destruction in the more cyclical parts of the economy in services and goods. So the stuff that you don't need, the discretionary stuff, those prices come under downward pressure, so it's a relative price game.

For it to become sustained inflation for us to be worried about, you have to see it enter into the labor market, and we're not seeing it right now. And it's very interesting for anybody that wants to see a Fed official that may be pushing against Kevin Warsh, who says wages don't matter. John Williams of the New York Fed just gave a speech on September 29th talking about, we see no evidence that these price shocks are entering into wages.

Therefore, the inflation situation is unlikely to become self-reinforcing. Now people say Williams was part of the transitory crowd. The thing is that where he got it wrong was that it fed into wages. It was a different labor market. The labor market was heating up dramatically coming out of COVID.

The quits rate was surging. The hiring rate was surging. The job opening rate was surging. Labor demand was out of control. We don't have that environment today. And in fact in, in nominal terms, wages are decelerating. So to me, that is going to be the catalyst for whether this turns into something more sinister than just an energy price shock.

Because if the labor market is not strong enough to cause wages to play catch up and it's not happening, then all this ends up being is almost the same thing as a tax shock. It's really akin to a tax increase. Would you consider a tax increase to be inflationary? It would be if you go to your boss and you say, "Hey, my taxes went up.

I want higher wages." But this is a tax increase, and it is not sustainable unless the labor market plays ball. And that's-- that was the missing link last year. We don't have to go back five, 10 years. We had the tariff shock. Where was the inflation? Where was the inflation from the tariff shock? It was small, and now it's totally reversed.

It's faded into the rearview mirror. Why? Because it didn't filter into wages. That's the key. Besides the fact that we could sit here and talk all day long about diesel the filter-through to transportation, freight, that's about a 5% inflation impulse. 'cause forecasting inflation, it is a complex process.

Labor is 30%, 30% of the cost. At the retail level. It's six times more powerful than energy. But we don't see labor costs minute by minute on our Bloomberg screen. We see what energy is doing. So I will say that I will reserve my judgment till I see evidence that we're seeing bargaining agreements, collective bargaining agreements start to escalate.

We start to see wage trends escalate. We'll see non-farm payrolls. S- I think average yearly earnings will be the most important number. Until that happens, until I see the labor market respond, I'll take the other side of the bet that this is gonna be a major sustainable inflationary problem for the economy.

Erik: I saw another quote go by my screen that I'm pretty sure was attributed to you that I thought was really insightful, which is everybody's talking about but the 10-year yield. And I think it was you who said, "The rise in yields is 90% real rates and only 10% inflation expectations." I thought that was a brilliant quote, but okay, let's go the next level.

Why are we seeing right now such strength in real rates?

David: We have two things going on. The first, of course, is the fact that we have these hyperscalers dramatically increasing their CapEx commitments, and now three of the biggest of the four are now net free cash flow negative. So they're going to the bond market, and they're going to the long end of the bond market in multiple currencies to fund, their CapEx boom.

So what's changed is that this is no longer being funded out of their cash flows. So now you're having corporate credit demands bumping against government credit demands, and that's one of the reasons why the real rate's gone up is because the demand for capital is going up. People like to point to \$40 trillion of government debt.

With all due respect, when the 10-year Treasury note yield was last below 4% in February the national debt was 39 trillion. Now we're at 40. Oh, so this last trillion is we have a debt crisis on our hands. So we added a-- we went from 38 trillion to 39 trillion from last October to this February, and nobody talked about that, and the 10-year note yield went below 4% after adding a trillion dollars of debt from October 2025 To February 2026.

At 39 trillion, nobody was talking about it. But now at 40, 'cause it's a zero, everybody's talking about it because what people do and I imagine they do this on your show, and I see them do it on CNBC and Fox Business and on Bloomberg TV. What's been the biggest change? Because the AI spending boom was going on back in February when the 10-year note was below 4%.

Government debt deficits, is that really new? I started in the business in in October 1987 when we... All we talked about were the twin deficits. Let's focus on what is the elephant in the room. What's changed the most is we have regime change at the Fed. So let me be emphatic, and I can't prove it, it's just an opinion, that if Powell were still in charge, most of this, I'm not gonna say all of it, most of this would not be happening.

I can't say all of it because when Warsh took over in June, the 10-year note was barely around 4.4, and we're up about 90 basis points since. But I think Powell carried through a different monetary policy. Powell never said, "I'm focused on headline inflation." To most central bankers, it's always been core.

Warsh's headline and his new framework, which isn't even a framework, I don't know what to call it, but everybody's latched onto it, is the share of the PC deflator that's rising more than a 3% annual rate, as if that's a meaningful statistic. So basically, so what if a bag of peanuts is going up 10% and auto prices are going down 5%?

In his statistics, th- they're both equal. A bag of peanuts to Kevin Warsh is equivalent to an automobile. Think about how insane that is. And he's not giving guidance. He's really not giving much of a framework. He has sounded hawkish. But then when he was vying for the job, he was dovish. Interesting that when he was applying to be Fed chairman, he was open about his favorite inflation statistic, which was the Dallas Fed trim mean inflation measure, which last I saw was 2.3%.

30 basis points above the beloved and ballyhoo 2% target. Wow, that's really a big deal. He doesn't talk about that anymore. So he's been tight-lipped, but that means his words carry more weight, and he has come across as being very hawkish. And he managed to cobble together a consensus to hike rates at the last meeting.

Now, remember that back in February, the markets were priced for one or two rate cuts, and then the Fed switches to a tightening bias, then they raise rates, and now the markets are priced for three or four more tightenings on top of what they already did. So when you look at the arithmetic, how do we go up well over 100 basis points across the Treasury curve is because the market has reset from an accommodative Fed to a tighter Fed.

The Fed has taken the cost to carry away. Where are you gonna hide? You're gonna hide at the front end of the curve, or you're gonna go to the Treasury bills. Why would you wanna take on duration with such a flat yield curve? So that's really what the story is. What has been the biggest change? The biggest change has been the reset of Fed expectations.

That explains most of the run-up in yields we've had from the lows in late February and has explained almost all of the increase we've had since Warsh took over back in the middle of June.

Erik: I think you hit the nail on the head with the phrase regime change at the Fed. I think that's exactly it, and I think it's even bigger than that.

What I would say is it seems like between Warsh and Bessent and the Trump administration, they've got an agenda to basically say, "We're gonna take both monetary and fiscal policy in a different direction than it's been taken before. We're gonna do this differently. We've got our own plan." I can't figure out exactly what that plan is.

It feels to me like there is a grand plan, though, that's bigger than just Fed FOMC policy. Do you agree with that? And if so, can you figure out what the big plan is?

David: No, I can't figure it out. I can't figure out anything coming out of Washington. And there's no doubt that Warsh has done a giant pivot.

He was not talking about... When he was appointed for the job, he wasn't lamenting about the fact that inflation's been above target for five years. But now he's in control of the Fed, and his character has changed. Now, he's got a lot of support. In some sense, he's following the historical script because, if you go all the way back to all the rookie Fed chairpeople, I say chairpeople because Janet Yellen is a woman, but all the way back to Miller in the '70s, the first move by the rookie Fed chairperson was to raise rates at the first opportunity.

Remember I mentioned Greenspan when I started in the business, and he was raising rates pretty aggressively. Now we know what happened next. On the day I started on October 19th of '87. But the last Fed chairman to cut rates at the first meeting was Arthur Burns in 1970, and that's because the US economy was entering into a recession.

So that's the first thing. It's it's just a pattern that the first thing the Fed chairperson does, and Janet Yellen, who people thought was a puffball her first move was to hike rates in December 2015. Here a, a, a Democrat a labor market expert, historically a dove, raised rates at her first opportunity, and so he just fit the historical bill.

I guess the central bankers feel they have to flex their anti-inflation credentials right away. So maybe that's part of it. I don't like the fact that he really has not unveiled a framework as to what's going on. He doesn't wanna do that. He wants to leave all the guesswork up to the market. And so the market is reading every syllable as hawkish.

If you noticed, whenever Warsh opens his mouth, the 10-year yield goes up six or seven basis points. It's incredible. So they're interpreting whatever it is he's saying And he's not saying much as being hawkish. Now, it is interesting that Williams looked like he pushed back a little bit on that in his September 29th speech, but we'll see what happens.

But I think that Fed policy... A-and it's amazing to me that everybody's coming out thinking that Warsh is great and this is just a great Fed and they're gonna crush inflation. Everybody thinks inflation's a big problem, and everybody is begging. They're begging the Fed to raise rates. You have almost a record level, you said before, a record level of net speculative short positions on the CBOT when it comes to the 10-year note.

It is sexy and fashionable to hate the bond market right now. You're viewed as a hero, the bond vigilantes. They're not really bond vigilantes. They're just basically looking at how the Fed is going to be influencing the cost to carry in the Treasury market. And, the same Treasury market that was pricing in a couple of rate cuts six months ago are now pricing in four more rate hikes.

And we'll see how that, we'll see h-how that changes. But no, Fed policy has me confused, and, the administration's policy has me confused, totally confused. How can you go onto a-an affordability program ahead of the midterms and then y-y- y- you want to engage in a trade war with your principal trading partner north of the border?

How does that make any sense? And offering \$5,000 as a dividend to voting citizens if the House and the Senate stay Republican, that, that's a trillion dollars. How does that solve inflation? That, that sort of giveaway was one of the reasons we had inflation. The, the Biden followed by Trump giveaway, the \$2 trillion fiscal stimulus checks, that accounted for more than half the inflation we saw going from zero to 9% from, say, call it 2020 to 2022.

So there's not much I can say that that I fully comprehend. Bessent says, I'm the house. You wanna bet against the house? Bet against the house." Well, people are betting against the house. Maybe a comment he shouldn't have said. Doesn't show too much humility. But we'll see what happens after...

There's two dates we should circle on the calendar. One is November 3rd, that's the midterms And it looks as though the Democrats take the House. There's now, in

the prediction polls, more than fifty percent chance they take the Senate. But if they take the House that's where the rubber meets the road for fiscal policy, 'cause that's where, the spending bills get passed.

So we're gonna get fiscal... We're gonna get policy gridlock. This is what's gonna change after November 3rd, is we're gonna go into a period of gridlock. And people always said on the bond market, gridlock is good because the executive branch and the legislative branch are typically are at odds with each other and nothing gets done.

And I say if nothing gets done on fiscal policy, 'cause look, w- one of the reasons why you could argue the economy has done fairly well this year, and it's been equity wealth effect on spending at the high end on luxury goods and services. It's been the AI spending boom, although a lot of that has been offset by rising imports.

But the one big beautiful bill, right? That never would've been passed had Trump not had Congress being dominated by the Republicans. And so it's amazing what you can accomplish when you have one-party power. The one big beautiful bill was huge stimulus for the economy this year. The depreciation allowance, the huge income tax refunds, you can't extrapolate that into the future. These were one-offs, and they come to an end, basically. There's no more fiscal stimulus in the economy after November the 3rd. Have the bond bears factored that into their analysis? People not realize that eighty percent of the time, historically, when a one-party power after a national election swings to a two-party system with gridlock, eighty percent of the time the economy slows, eighty percent of the time inflation goes down, and eighty percent of the time bond yields go down in that two-year period between the time of the midterms where you get the gridlock to the next election, which will be in twenty twenty-eight.

I'll take those eighty percent odds, and that's because we get the fiscal gridlock. The Democrats aren't gonna work with Trump, and even if Trump wants to work with the Democrats he used to be a Democrat way back in the day I can only talk about what I have confidence in. I can only have confidence in the calendar.

November 3rd's the midterms. I think we have a good idea how that's gonna play out, and I think that's going to end this past six years of insane fiscal stimulus. That's been great for the economy, but it has been, you could say, a source of

inflation from an aggregate demand perspective, but it certainly has also been a positive for the stock market, but that comes to an end.

Then November 4th is the Treasury funding announcement, and I'm thinking that if his m- buyback program got a lot of press, but whatever six billion dollars into a, a market that turns over by a trillion dollars a day is not gonna have a big impact. But the Treasury does have a very big impact, not on the demand for fixed income assets, though that's the Fed.

The Fed can do that through its balance sheet. But the Treasury Department has a huge influence on the supply. They are the suppliers of the debt. They can choose what maturities. And so I am thinking, in answer to your question about the bond market, what might happen that could come as a surprise is what happened back in early November of 2023 when Janet Yellen was Treasury Secretary and at the Treasury funding announcement, she dramatically cut the supply issuance of bonds and notes and flooded the market with bills.

And you had an enormous rally in the 10-year note. The 10-year note from late October to the end of December went down to 100 basis points. Is anybody talking about that? Your first question to me was about diesel and about inflation and labor market. Nobody's talking about the Treasury funding on November the 4th.

When I speak in front of a group of people and ask them if they can tell me what November the 4th is gonna be, why it's important, everybody says to me, "It's the midterm elections." I say, "No, that's the day before." November 4th is a Treasury funding announcement, and that could be a very big deal. Just remember how powerful that influence was on the yield curve back in the fall of 2023.

We may well see a repeat of that So I'll reserve judgment about Bessent, but I think that's what he's gonna do. It's not really an operation twist. It's just, influencing the shape of the curve by cutting back on long-dated issuance, and that's really where the big problem has been. And when you think about it, the economy is priced off the 10-year note.

Nothing else really matters as much.

Erik: David, I couldn't possibly agree more, and I think what you've just said about the midterms is the insight that seems to be missing from the market. We're pretty darn close to all-time highs here. There's not a whole lot of volatility in

stocks as we're a month away from an election where the polling is telling us, and I'm not taking any side on who's right, left or r-right, who's wrong.

That-that's not what Macro Voices is for. But if the polls are telling us that the political party that's impeached the current president twice before and doesn't like him is about to take at least one and maybe both houses of Congress, that seems like a pretty darn big risk factor that I would expect the market's fear of uncertainty to just be going on steroids right now.

But seems like nobody's really t-talking about it. I don't get it.

David: I think 'cause we're still fixated on what's happening with energy. We have a new Fed chairman. There's a debate as to just how strong the economy is. So there are so many moving pieces, but There is talk about the midterms, but there, in the marketplace, not a lot of talk about what are the implications of this political shift on the stock market and the bond market.

Now, look, when you go back, for example and this is why, people get a little upset with me when I talk about politics a-and I never really take sides. I will be critical. I was as critical of Obama and Biden and Trump almost equally when I thought that it was necessary. But I'm more into trying to help people wade through how the politics can influence the financial markets.

That, that's what con-consumes me. For example when you go back to early November of 2024, the last election, did you see in the days and weeks after the election, the stock market surged and the treasury market got spanked? Spanked. Like it is today, actually. Today for a different reason. Back then it's because, not 'cause Trump won the election, it's 'cause it was a, a red wave.

It was a clean sweep. The Republicans took the House, took the Senate, and you had Trump in power, and you knew at that point the one big beautiful bill was coming, and the bond market and the stock market acted accordingly. Stock surged on the implications for profits from depreciation allowances and, income tax refunds, no tax on tips, all the stuff he campaigned on.

And so that's really what was important about one-party sweep, and bond yields soared. When you go back to when Trump won in November 2016, Trump 1.0, and he campaigned on tax cuts, which he got through, do you remember how the

bond market... The bond market puked In Nove- in November 2016 election, stock market surged after a pretty tough year.

And then when you go to the midterms and you get the split government, not o- not typically good news for equities, and bonds tend to like it because of the gridlock. The same thing happened. You can go all the way back if you want to, remember like yesterday when Clinton got elected in 1992, clean sweep, and people thought he was a borderline socialist.

And then look what happened when we had Newt Gingrich contract with America and we went to split government in 1994 and we had the mother of all bond rallies. So the politics matter. I agree. Nobody's really talking about two dates. Now, basically I'm probably early like I usually am, but I've started to dip my toes into the...

I've al- already owned a lot of two-year notes because I don't think the Fed's gonna be raising rates four times. They didn't even signal that, but the market thinks they did because there's really ineffective communication coming out of the Fed. The market thinks the Fed is gonna... With inflation such a problem, the Fed's gonna have to raise rates aggressively.

I don't have that view, but the market's got that view. But I think that there's gonna be two things, November 3rd midterms And people will realize that we're exiting finally the fiscal insanity. Maybe we have to thank the Democrats. I don't... I see it both ways. I think that we just have moved to an economy and a financial market and a political spec-spectrum that is just extreme.

But the Republicans have not proven to have been good managers of fiscal policy. The good thing about split government is that nothing gets done, and that's what we need to at least not have the deficit rise any further. And that also means that's gonna have incrementally a depressing impact on aggregate demand because government's part of the economy.

So I think that's good news for those of us that wanna see the economy cool off. I wanna see bond yields come down because I'm one of the few that have not thrown in the towel. And then November the fourth, the Treasury funding. And there's been three other times in the past where the Treasury did something like what Janet Yellen did in twenty twenty-three.

And you can shrug your shoulders and say, "Yeah, I don't really care." let me tell you something. When people try and figure out what the hell happened in the fall of twenty twenty-three, coming off the mother of all Fed tightening cycles, we had ChatGPT. At that point, the AI trade was taken off, okay?

This is the fall of twenty twenty-three, out of the blue, hundred basis point rally in a ten-year note in barely more than two months. Why? Because of what the Treasury did at the refunding announcement. And of course, Janet Yellen did that after a very pernicious increase in long-term rates, and it wasn't intervention.

It was just a shift in emphasis on where they're gonna issue across the curve. And I have a sense that if Bessent wants to do anything along the same lines after a similar run-up in bond yields, he'll do something very similar. It's much more powerful than what he's doing on the bond buybacks. That's really a, a drop in the bucket.

What the Treasury can do on the supply side is where the power really comes in Scott Bessent's office

Erik: I wanna go back to something you mentioned earlier, which is the AI bubble, and obviously it's going strong, and I was really thinking it has to continue going strong because it's obviously the Trump administration's big priority is to focus on it.

It's kind of an arms race with China, I think, and I kinda thought it had to continue. But I had Matt Berry on recently who said, "Look, what people don't see coming is these Chinese open source," that's the free AI models, which means you gotta buy your own hardware to run it on. But you can get something that's basically just as good as the best frontier models were three months ago, just a few months ago.

You can get that for free, open source, run it on your own hardware, and there's an extra advantage of running it on your own hardware, which means you're air gapping yourself from Anthropic or OpenAI's cloud, so they're not using your proprietary data to train their next model. That Matt thinks that could potentially result in a trend where a lot of people, particularly corporations that are sick of having their data mined, say, "Look, we're gonna run on our own hardware.

We're not gonna use any more OpenAI, any more Anthropic. We're just gonna use this free Chinese stuff." Well-

David: Yeah ...

Erik: boy, knock-on effects from that in terms of the Trump administration policy, I can't even imagine. What would happen? Is that the risk, the AI bubble popping because maybe there's an alternative we don't realize?

David: I think that it's a great point, otherwise known as global competition And in the final analysis, we are seeing in real time that, there, there are no real barriers to entry. And, one way that I think China will once again, as it's done in the past, exert itself as a source of global disinflation.

And that's again why people are saying look at what AI has done with memory chip prices, source of inflation, semiconductors," so on and so forth. When push comes to shove, and this is not even including the future productivity benefits, which will be disinflationary, but that's out in the future. But I think what you're describing i- is another reason why I've not thrown in the towel on the bond market despite how painful it's been.

Anybody who was in January of 2009 that said, "You know what? This is ridiculous. the banks are priced for zero." you went from beginning of January of 2009 to the March lows the S&P 500 was down like 40%. That was the last cataclysmic, and of course, we didn't know if TARP was gonna get legislated or not.

But those people in January of 2009 that bought the S&P 500, locked their nose, bought it, could withstand the next 30% to 40% down to the lows, made out like a bandit that year when you look at what happened from March to December. And when people were buying the stock market in January and February of 2009, they were viewed as idiots.

Now, by the way, I was bearish. I was cutting my bearish call at that point. I can't say I was turning bullish, but I was... I thought-- I-- Even at that point, I thought there were all sorts of signs of capitulation. There was fear and disdain about the stock market, much like you had in the summer of 1982 when the multiple got down to eight And so I'm looking at the bond market right now the same way.

It's been terrible, but it's underowned. There's so many short positions on the board of trade and futures and options pits, and I think that everybody is just focused on

inflation and, I'm not gonna push back and say that, that they're deranged. I just think that inflation is always and everywhere a very complex item to forecast.

There, there's hundreds of variables that go into it, but there's nothing I'm seeing that's telling me that we're entering into a pernicious inflationary environment. What you just said about Chinese competition, perfect example. Build it and they will come. And you're right, there are other cheaper sources.

On top of that, as I said before, there's other things people aren't looking at. How come nobody's talking about the housing market in the United States? Can you tell me that? And you know that Kevin Warsh at Jackson Hole was... talked about the economy being resilient, strong and solid. It's his three favorite words, and he mentioned AI eight times.

He mentioned housing once. So like I'll ask you, do you live in a data center yourself or do you live in a house? How do-- how, housing is in a recession. You look at the home building stocks, you'd think we're in a deep recession. L- look, we just got the new home sale numbers. The home builders are discounting their product like it's nobody's business, but we still have eight and a half months supply of inventory and new home prices on average are down eight and a half percent.

I say that to people, new home prices are down eight and a half percent over the past year Is that a source of inflation to you? In this \$50 trillion asset class called residential real estate, it's deflating. Nobody's talking about it, and residential rents are still deflating. Nobody talks about the fact we still have a hugely overbuilt apartment market in the United States because all these, all the multi-family construction plans from a few years ago were built on a certain level of demographics, and now we have no population growth in the United States 'cause of all the out-migration.

And so we still have excess supply of residential units in multi-family. Downward pressure on rents. New home prices are now, are negative eight and a half percent year over year. If you plug those numbers in, the rents and the home prices in real time into the CPI, it'd be close to zero. The core would be well below 2%.

And I think with lags, we're gonna see that coming through because shelter is far more important than energy in the CPI numbers. I'm digressing a little bit, but you're bringing up something that I think is disinflationary, not being discussed.

I'm bringing up the labor market. We got the ADP numbers, no, no acceleration on wage growth whatsoever.

It was a nice headline number, up 90,000. No, no acceleration on wages. That's very interesting to me that we have a hot labor market apparently, but no acceleration on wage growth. That's an interesting dichotomy. , and nobody's focused on the housing market, which has emerged as a source of deflation.

And you mentioned the stock market. Yes, the stock market, there is so much pain out there in wide swaths of the stock market. so we can talk about the Mag 7, the AI, N-Nvidia, great. Sure, Apple stock, great. But look at the regional banks. They've been terrible. The home builder's terrible.

The retailer's terrible. Look at what restaurant stocks, consumer cyclical services like hotels and the cruise lines and the theme parks. They look terrible, the small caps. So people talk, they look at the S&P 500, where 50% of the market cap is the 20 stocks. But nobody talks about the fact that the average and median stock in the United States is down 15% from the 52-week highs.

They're at a correction mode. The average stock is doing... People say the stock market's holding up so well despite what the bond market's done. No. No. There's part of the market, the big cats that seem to be impervious to interest rates, yes. But there are wide swaths of the stock market that are hurting a lot.

So the bond market is actually having an impact, especially when you're taking a look at the areas of the S&P 500 that are most closely tied to Fed policy. They're already down 10% from the recent peak. They're in a correction mode So for people saying to me that the Fed's having no impact, no, I think you're not looking in the right places.

You have to dig beneath the surface to see what's going on.

Erik: Speaking of places that you can dig and look for something going on, let's go to gold as a final topic. Boy the increasing real yields have sure clobbered gold. I don't think the fundamentals are any worse, but where's this headed?

David: I wrote my first gold report when I was at Gluskin Sheff back in February of twenty ten, and gold was a thousand dollars an ounce.

And the fundamental low at around two hundred and fifty dollars an ounce was back in nineteen ninety-nine with the signing of the Washington Agreement that ended a decade-long period of central bank gold selling globally. And there's been probably a dozen big corrections along the way.

Nothing moves in a straight line. Bonds definitely don't, stock markets don't, and the gold market doesn't move in a straight line either. But you're quite right that the run-up in real rates has been a serious crimp this year, and it's happened alongside the fact that a weak US dollar turned into a strong US dollar.

And so anything priced in US dollars, ex-cept oil, for obvious reasons it's been a tough year. Gold is priced in dollars. So those two important correlations, the dollar and real rates, has caused gold and silver, precious metals in general, to have a, have an off year after a, a great year last year.

I think that this is a, we're in a, a corrective phase. But is the secular story over? No. Now, like I said before, I started the business in October nineteenth, nineteen eighty-seven. The stock market was down twenty-two percent that day. And in fact, from the August peak, because of Alan Greenspan, who we ultimately called the serial bubble blower, but the maestro, may he rest in peace, came in guns a-blazing, just like people think Warsh is gonna be.

And the market was down thirty percent from the summer of 'eighty-seven into the fall, down thirty percent in a matter of months. you look at the chart today in the S&P five hundred, you can barely see it on the long-term chart. The secular bear market didn't end for... till nineteen ninety, ninety-one. It went on for another three years.

So yeah, I think we're in a corrective phase, and I did cut our gold position in our model portfolio earlier this year, and then I started adding again in this corrective phase. the, the secular bull market really will end when the fundamental factor ends, and the fundamental factor is the key source of demand, which is central bank reserve reallocation from US dollars into i-into gold bullion and global central banks continue to diversify into gold.

That hasn't changed even in this period. It's been a rough period for gold for most of this year. That hasn't changed. That's the fundamental positive story. The 10-year bear market in the 1980s was nothing more than the central bank shifting to Treasury bills and out of gold, to a point where the share of, FX reserves and gold

in the vaults at the world central banks went from a high of 70% in 1980, got as low as 10% in 1999, and now we're basically about 30%.

We haven't even undertaken the full mean reversion trade yet. The day I see that the central banks say we're done in this diversification, that'll be the day that the bear- the bull- the fundamental bull market ends, and we're not there yet.

Erik: David, I can't thank you enough for another terrific interview.

But before I let you go, I do have to push back on one thing. You gave our listeners a, a list of important dates in the market. You left out a couple of really important ones. One, September 10th, which already happened. That was the launch of the ROSI ETF in Canada on the TSX. I'm sure our listeners wanna know if there's any plan to eventually launch that in any US market.

And the other date is October 6th. That's if you order right now, when you will receive your copy of *Bear in the Bull Ring*, your new book. So please tell us about those.

David: The book is called, as you said, *The Bear in the Bull Ring*, and it's just really a collection of, ideas and themes, convictions reflecting my life as an economist in the financial markets for the past 40 years.

So it's really all the collection of all those experiences and how it's shaped my philosophy not just on the markets, but on life till this very day. Let me just say that I had a eureka moment in late 2002 to 2022 when I kept on getting asked how I would grade my career and I was always too scared to respond.

I- my standard answer was that if I make it to Cooperstown for economists, it'll be for at-bats, but probably not batting average. When people stopped chuckling at that, that quip, I realized I had to do something maybe a little more concrete, so I said, "Why don't I just put my money where my mouth is?"

And, and create a model portfolio, ETF-based. Because, I have 2,300 clients in 40 countries and from all different walks of the financial markets. And so our research mirrors our diverse client base. And I said why don't we create a model portfolio that mirrors the depth and the breadth of our research?"

So I did that, and, it's done extremely well, and it's not correlated with anything except the quality of the research at my firm. So it's diversified across all asset classes and all geographies. It's unconstrained. And my own client base, the same client base that pushed me to start my business in 2020, which I should really thank everybody for 'cause it was the best decision I'd made professionally, were the ones telling me to start this to actually get this listed as an ETF.

And I found this platform, Corton Capital, in Canada. They're an ETF provider. They are the portfolio managers on the fund. I am the economic guru on the fund, and really the model portfolio feeds into this ETF. So Corton Capital provides the registration, the, the compliance, the back office, and so it's really a great marriage where the fund is based off of the research at Rosenberg Research.

And so yeah, it launched a few weeks ago on the TSX. There is a Canadian and US dollar version And I am in the process now and getting the ball rolling on getting it listed on the NYSE. And my legal counsel tells me that the timeframe should be sometime January, February of next year.

Erik: We'll look forward to having you back for an update in a future episode.

Time now to bring in Patrick and Massil for our Macro Voices Trade Desk segment. Patrick, where's the trade?

Patrick: Thanks, Eric. David's argument is that the energy shock could ultimately do more damage to growth than creating lasting inflation. If wages aren't keeping pace with necessities, households have less to spend everywhere else.

Add higher borrowing costs, and that squeeze is already showing up in housing, retailers, and other economically sensitive parts of the market. But the major indices remain supported by a handful of very large companies. How long can those leaders hold up if the weakness underneath continues to spread?

That creates a reason to consider protection against a broad equity correction. Three-month volatility is still near the bottom of its one-year range. Yet the fourth quarter brings a full earnings season, two Fed meetings, a midterm elections, and potentially greater clarity about the Strait of Hormuz.

Carrying reasonably priced protection through the calendar looks like an attractive trade-off. So here's the structure. With the S&P five hundred trading around

seventy-six fifty-three, we're looking at buying the January fourteenth, two thousand and twenty-seven SPX put option at the seven thousand four hundred and thirty strike, with about a hundred and five days remaining.

The strike is about three percent out of the money, carries roughly a thirty-cent delta, and is quoted at a hundred and thirty-six index points. The out of the money strike reduces the premium commitment while targeting that left tail risk. With implied volatility near the lower end of its recent range, I prefer owning the put outright, retaining the positive gamma and vega to capture both equity downside and potentially volatility repricing.

This insurance costs just under two percent of the index notional, with the risk limited to the premium outlaid. The expiration break-even is near seventy-three hundred, roughly four point seven percent below our reference level. Although a sell-off and volatility expansion could offer the opportunity to monetize well before the expiration.

It's a defined premium hedge against left tail risk through a consequential fourth quarter. 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: All right, Patrick, last week we discussed the significance of the 10-year Treasury yield breaking above 5%. And looking at it today, the bond sell-off just continues to be the story as yields now reach five and a quarter. Now, just yesterday, we got a softer than expected inflation report, which offered relief to the short end, but really didn't move the long end.

What would the market need to see to stop the bleeding?

Patrick: The bond market continues to be the epicenter of where all the chaos is happening. Now, a few weeks ago, we were talking about how crude oil was in the driver's seat, driving higher inflation expectations, which was certainly pressuring the entire bond market.

But since then, oil has backed off, and the bond market continues to decline as yields are pressing some unprecedented levels that we haven't seen in decades.

The... We have basically a 10-year yield that this morning has traded above the 530 basis point level, a 30-year yield that's now gone above 560 basis points.

But it's not even the level alone, it's a- the the rate of change that can't be ignored. We've seen an acceleration in the selling, which is creating an incredibly large amount of anxiety about this move. What's interesting about this is a lot of people are speculating that the oversold condition of these bond markets was gonna warrant a balance.

But when you have a \$30 trillion freight train moving this way, it needs some form of a catalyst at some juncture here in order to stabilize. And and clearly, at least as of this moment, we haven't seen any messaging from central banks that is at least providing any sort of a catalyst to turn this.

Now, obviously, this is sending shock waves throughout all risk pricing, and we'll talk about that. But these bond markets are right across the entire curve, continuing to be under substantial amounts of stress.

Massil: Yeah, I definitely wanna talk about those effects 'cause when we talk equities, last week we highlighted the divergence between the strong headline indices and weaker market internals as we experienced high dispersion in stock returns.

Now, up until now, we've seen that stocks continue to absorb the bond market pressure, but my concern is whether that resilience extends much beyond the mega caps. What are you watching to distinguish a market that can withstand higher yields from one that is simply delaying the risk of turning lower?

Patrick: Let's be clear that the S&P 500 is not actually a very good indication of what is actually happening under the surface. We have actually seen a substantial correction happening in risk assets. As an example, right now the median stock in the S&P 500 is sixteen percent off of its fifty-two-week highs.

When we're looking at the breadth in terms of the number of stocks in the S&P 500 that are above their fifty-day moving average, it just hit twenty percent, which basically means four out of five stocks in the S&P 500 have broken trend on the downside. This is at a time when we're seeing sustained selling on the equal weight S&P 500 index, the Russell 2000 breaking down.

There's substantial stress on this equity market as the S&P 500 market cap weighted index is simply not reflecting this. It continues to hold along fifty-two-week highs, giving a perception that the equity market hasn't started to care about this. The real puzzle to solve here is can we have the Apples, m- Metas, and the Nvidias of the world continue to diverge and continue to trend to mask this, or are they eventually going to succumb to the pressure and inevitably cause a break?

This is significant because the S&P 500 has a very large amount of systematic trading done around it, and this market cap to weight index is staying above a lot of very key sell triggers. And the interesting part is that if the S&P, for whatever reason, was given a catalyst to drop even a hundred and fifty S&P points, we become in a sell zone where you have a gamma flip occurring.

It would potentially see rising implied volatilities, which would start to impact vol targeting funds and of course, trigger many CTA sell triggers that could create, tens of billions of dollars of sell flow that that could change the tide. The bottom line is right now the cash index is holding up, and there isn't an immediate concern.

The question is how long can we see funding stresses in the dollar and in the rates markets continue like this before the stock market has some sort of material impact? Now, let me give a glass half full way to end it. If, for whatever reason, we see the bond markets stabilize and a catalyst is given before this breakdown happens, the broader equity market -- is getting oversold enough that if it bounced, that could actually spur a rally in the S&P.

So which one will prevail? Will it be this oversold market being impacted by rates will bounce, or are we going to have these mega caps join the selling? That is gonna be the puzzle to solve in the week to come.

Massil: All right, let's turn to the dollar because it emerged as one of the biggest winners from this bond carnage.

So cash may actually be king here, especially when we look at it against across all major currencies. It-- the dollar just remains in a clear breakout. But do you believe that the dollar could keep pulling higher, or will changes in rate expectations undermine the move?

Patrick: Here we have the US dollar index breaking to fifty-two week highs, and the currency cross that it is doing it against is the euro.

The euro broke to fifty-two week lows, and we clearly have momentum building in this trade. The big question here is that what is driving this? Obviously, the rate differentials are a factor, and they have, in the last few weeks, been widening, which is contributing to all of this. But when looking at the countries that are most dramatically impacted by terms of trade and the stresses coming from the Strait of Hormuz Europe is being disproportionately impacted by this, so that continues to only add further fuel for this breakdown.

Now, with the euro breaking down below the one thirteen handle, we have a situation where the euro could head down to one ten or even one oh eight which would only accelerate this US dollar strength. Overall this-- with the rates rising and the bond markets under stress, this really could be a sign that there is genuine funding stresses happening around the world and certainly only builds further case about the growing macro stresses that are existent here going into these midterms.

Massil: All right, Patrick, let's talk about oil, 'cause right now we've seen volatility driven by headlines. What's going on in the market?

Patrick: Mid-September, we saw crude oil trading north of a hundred, and there was certainly a lot of concerns about that. Things have really stabilized, and we've now mean reverted giving back half of those gains, and we're sitting down in the ninety-plus dollar area doing about a fifty percent retrace of the prior advance.

We basically now have an oil market that is waiting for the next catalyst. Is there going to be a peace deal? Is there going to be more flows through the Strait of Hormuz, or does the situation escalate? Obviously, there's a political driver for trying to keep this situation stable going into the midterms.

It would be very interesting to see whether or not some accelerated move happens before the midterms or whether this trade range will prevail throughout the month of October.

Massil: All right. Last week, we asked whether gold could withstand a stronger dollar and higher yields. We got our answer this week because gold gave up the four thousand two hundred dollar area.

Now, what do you make of this recent price action in precious metals?

Patrick: What is clear is that gold is being impacted by these macro stresses. We have higher real rates, a rising US dollar, and clearly the macro backdrop that we thought we were seeing in July, August, where there was a potential operation twist and easing messaging from Bessent that basically drove many gold investors to believe that we were at the inflection point.

That simply never materialized. At this stage, gold is giving it back o-ver... pretty much back to the summer lows at this stage. We'll be very likely that we can even retest the four thousand level along a support line. The bigger question here is that is this just gold now establishing its trade range and basing formation until the macro conditions favor a gold bull run, or will there be tight liquidity conditions that basically create the selling pressure that could still have one more leg down and wash it out temporarily down to thirty-eight hundred or something like that?

At at this point, we were bullish gold, and still long term, the bull case is quite s-intact. The question only now is that how long will it take for the macro conditions to lighten up to allow the backdrop from which gold would be most responsive to? The key here is that the technical levels would require gold to sustain price action north of forty-five hundred to pivot the technical trend back to the bull side.

There's a lot of work for the bulls to do to turn this trend back up. At this stage, I'm anticipating into the elections that gold will be far more range-bound and consolidate in the weeks to come.

Massil: All right, Patrick, for this week's positioning pulse, let's go back to equities, and more importantly, let's hone in on the Nasdaq because the latest report shows a substantial increase in speculative net longs.

But most of that change actually came from traders covering their short positions instead of new bulls entering the market. Now, when we're looking at that net positioning over open interest chart, we haven't seen the Nasdaq leaning this bullish since twenty seventeen. Now, with the technology sector still carrying much of the bullish weight, what does it mean for the tech-heavy index as we move into year-end?

Patrick: We already talked about the fact that these mega cap tech names have been holding this market together. But when we look at the commitment of trader reports, this story is fascinating to me. We just saw the large speculators go from

the 80th percentile to the 100th percentile in just one week, and that's on a one-year, three-year, and five-year look back.

Just to put that in context, a month ago we were at the 57th percentile. So there has been a huge positioning pivot to the long side of the Nasdaq. Week over week, we saw almost 8,000 contracts added to the gross longs and almost 12,000 contracts gross shorts covered. And so that was almost a 20,000 contract swing week over week.

So this continues to show this divergence because we're at the 36th percentile on the S&P and at the 7th percentile on the Russell. So there is a clear flip to being aggressively long exposed to the Nasdaq on a relative basis is one of the most interesting flips that we saw in the COT reports.

And it's... If anyone wants to see that for themselves, check it out at cotsignal.com, 'cause this is fascinating to see how this aggressively this flip happened. 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 Erik Townsend, and this is Macro Voices. We'll see you next week.

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