

MacroVoices Episode 556

Feature Interview with Luke Gromen

Recorded October 29th, 2026 Hosts: Erik Townsend & Patrick Ceresa Feature guest: *Luke Gromen*

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Luke: There's only one buyer, it's the Fed. Fed's gonna have to print money and buy treasuries, and they will say, "We're not monetizing the debt, and we're not monetizing the..." And it's, it'll all be bull crap

Erik: That was Forest for the Trees founder Luke Gromen. I'm Erik Townsend, and this is Macro Voices, the free weekly podcast targeting professional finance and sophisticated private investors.

Episode 556 was produced on October twenty-ninth, twenty twenty-six. Luke Gromen was ridiculed after his April sixteenth appearance on Macro Voices because many of our listeners thought his prediction that the Strait of Hormuz could remain closed as long as early July was outlandish. Now that the strait has remained effectively closed for fully twice as long as Luke's outlandish prediction, we wanted to bring him back for an update.

And don't worry, we'll start with why the predictions that both Luke and I made for how bad the economic effects of that closure could be have so far yet to be realized.

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

Erik: Luke, it's great to get you back on the show. I want to cut to what I'm sure is already on everybody's mind, which is you were on this program on the sixteenth of April.

Frankly, we got ridiculed when you said this situation in Iran could stretch out as long as the fourth of July. People thought it was crazy. What is Luke Gromen smoking to think it could possibly go that long? Now it's gone twice as long as that. But the predictions that both you and I made in terms of what the consequences would be for global financial markets and the global economy if the Strait of Hormuz stayed closed for even half as long as it's been closed, they really haven't materialized in the way that we feared. So what's going on?

Luke: Yeah, thanks for having me back on, Erik. Yeah, it is, strait is still closed. It's Schrodinger's closure, so it's closed by both the Iranians and the Americans, and depending on who you talk to, it is both closed and it is also fully open at the same time, according to President Trump.

So what we got right was, yeah, the conflict is still going on. There are still constrictions to supply to some degree. What we got wrong was how quickly it would take to ripple through. And then I think there's multiple reasons for that. Number one, underestimated the degree to which China would constrain its demand and run down its SPR reserves initially, and that was a big part of it.

And then the second part, and also other Western SPRs, the United States in particular, and others, right? So there's been a coordinated effort. So that was more supply that came on and th- that mitigated things. And then I think the second thing as it relates to some of the food, etc., stuff, it's kind of this, it's a slightly different version of the same thing that we're finding here, which is this is gonna take a lot longer than expected, as we said initially.

I think part of the food and fertilizer thing, might be and when I say might, I'm hearing that it's the case, at least in, in certain emerging markets, is fertilizer's just too expensive to order, so they're just not gonna order it. And so paradoxically The first stage of a real problem that will show up in food inflation around the world, it's not gonna show up this year.

It's gonna show up in theory in lower yields next year if f- if fertilizer isn't bought and applied, and therefore yields are down. And so paradoxically, that might be some of what we're seeing. It's not like we've lost, s- two billion people. So in theory, they're still eating.

And so what I've, what a little bit I've read on it is that ex- is on the margin, demand for fertilizer's down 'cause no one can afford it. The marginal farmer around the world, particularly in lower income places, can't afford it. And so paradoxically, in something that's ultimately very bullish for prices, for crop prices, row crop prices, initially it might actually be somewhat bearish.

A- and that's been, I think, somewhat confusing to me, and maybe that's first world privilege of "Hey, I know this is a problem, so I would stockpile," but that's, as opposed to, "I just can't afford it, so I just don't buy it. The math doesn't make sense. I'm not going to plant," whatever the case may be.

But we'll see.

Erik: Luke, what I just cannot get my head around is when this first began, as you said, really what happened was there were massive SPR releases coordinated around the world. All the experts that I'm seeing in the oil market are saying, "Yeah, you know what? We've used up most of the available supply buffers.

We've done all of those big releases. Now we're getting to the point where we don't really have a lot of strategic reserves left." Now, China still has plenty. They have been reducing their imports. That's, as you said, contributed tremendously. But the thing is, we're still seeing refineries, particularly Russian refineries being struck by Ukraine, but also in Saudi Arabia and in Iran.

If we take refineries out and we reduce the global capacity for refining products, refineries take 10 years to build. So yes, we're having a crack spread blowout, but it doesn't seem to me that the news is really picking up on the fact that the damage we're doing to refining capacity could be permanent.

Or not permanent, but persistent for many years after the war finally ends. Would you agree with that? And why isn't the market freaking out more than it is?

Luke: It's a great question. It's one of these things that I, as a tourist, I don't fully understand, right? Because on the one hand, my president's telling me that the strait is nearly up and running.

Okay. So there's more oil supply globally. Okay And SPRs are being run down, as you note, around the world. Okay, there's more supply. And the damage to refineries that you just listed off around the world would suggest that there's less demand for oil from those refineries, which in theory, when you add that up, that's a lot of incremental crude now versus, say, six months ago Four months ago.

And yet the price of crude is where it is, higher, much higher than six months ago, and certainly eight months ago. And, you are seeing signs of strain. Obviously, diesel prices in certain parts of the world are approaching \$200 a barrel. So you are getting to some of those numbers that, that some of the sort of, quote unquote doomers thought we'd get to.

But I don't fully understand so- is it, is China taking it all down, and that's the missing point? And we've certainly seen data suggesting that China has, has

increased its purchases in recent months off the lows and continues to increase them. And that is a fact pattern that would, in theory, square the circle of SPR's run down, refineries not buying as much 'cause a lot of them are, because a number of them are offline.

Strait of Hormuz is seeing very good volumes, and there's no problems there. Is China just buying it all? I don't know. That's something that makes sense. But I just don't know, because like you, I'm a little bit scratching my head based, again, as a tourist just watching general flows of directions, it doesn't quite make sense to me given the narratives that I'm being told as an American.

Erik: We recorded this interview on Tuesday afternoon, October 27th, so two days before our listeners will hear it, and exactly one week before the US presidential election. So it seems like, if I'm reading the tea leaves correctly, the escalation or re-escalation by the United States, if that's what is to happen, is probably been put off until after the election.

Is that your read, and what do you expect between now and the election and also after the election in terms of this conflict?

Luke: Yeah, I, my view on the conflict has been pretty consistent the whole time, which is that Iran has more leverage than the Western narrative suggests because Iran doesn't have to beat the US, it just has to beat the bond market.

And when I said that on February 27th, same thing, people laughed at me. 10-year yield was at three point nine four percent. A couple of weeks ago when we hit five point three percent on the 10-year, nobody was laughing anymore. And we've gotten a bit of a respite there. But I still think there is a level of hubris or non-understanding of what the Iranians need to do and are doing and will likely continue to do, which is the Iranians understand the production rate, the resupply rate of US air defense missiles. And they understand that resupplying those air defense missiles can be done at, say, I don't know what the right number is, let's just pick a number for easy math to make an example.

They can replenish 100 missiles a month. So let's say we can make 100 air defense missiles a month, assuming the Chinese keep sending us rare earths at the same pace they have been at times in the past. That's not necessarily true, but let's just set that aside for now. US can replenish 100 missiles a month in our fictitious example here.

The Iranians understand that, and they understand that all they need to do is keep lobbing drones and missiles at us in a manner that forces us to use 150 to 200 to 300 air defense missiles per month, and they understand that at that point it's just not that complex a line theory calculation. The Americans burn 200 to 300 missiles a month.

The Americans can only replace 100 missiles a month. The Americans are going to run out of air defense missiles on X date, and when they do, then we can hit them with impunity. They will pull resources from other strategic regions, which will make them look weak, and sooner or later, they will have to fold before us.

That's been the calculus the whole time, and this is understood in the US defense and intelligence complex. Whether the Trump administration wants to continue pretending it isn't true or not, I think is the sixty-four thousand dollar question. And, we've seen in the last couple of weeks/months, more things that I was getting laughed at six months ago around, I was hearing that US military bases were taking very serious damage, that we were unable to provide air defense for them.

And people are like, "Oh, you're crazy." And, that has come out as the case. And here too, the Iranians understand the Americans are not going to station troops in the Middle East at a base for which they cannot provide air defense, and the Americans cannot invade. There's all these talks let's put boots on the ground."

America has not fought a war without air superiority, air dominance in eighty years. Americans don't know what that is. There's protocols for it, but they're messy. They're very messy, right? You don't just get to do what we did in '91, where you assemble, a couple hundred thousand troops in the desert in tents and nothing happens.

That's not how that works. It looks more like, "Hey, here come the boats," in the beginning of Saving Private Ryan, except with missiles and drones that you can't provide enough air defense for. I give all of this sort of background context rant. Again, I'm sure I'm screwing a few things up. This is how it's been explained to me in, again, very directional flow terms.

But the point here is that if I'm the Iranians, why stop? Why would I stop this? Especially if I'm getting resupplied by the Russians and/or the Chinese, which is, if you're the Russians and the Chinese, especially the Russians have been being shot at by the Americans via the Ukrainians.

Let's be clear, we've been putting in the targeting and, the reconnaissance data in for the Ukrainians. We do everything for them except hit the fire button with missiles launching at Russian soil. And so if you're the Russians, all day long, you're like, "Oh, great, we'll keep supplying you, Iran."

You just keep doing this. We'll keep helping you with satellite targeting, Iran. Just keep doing this." Because you're r- because the open secret at that level is they know the Americans can't replenish missiles beyond whatever that rate is. Whether it's 100 missiles a month, 120. And that number's going up slowly, but it's not going up nearly fast enough.

And again, it c- really can't go up faster than the Iranians can force us to use what we already have. And so that's-- it's a, the... I think the it's... So when you say, what do I think is gonna happen? I think it's gonna continue dragging on, because I think the Iranians are happy to have it drag on.

I think the Russians are happy to have it drag on. I think the Chinese are happy to have it drag on. I don't think the Israelis mind it, because we shoulder the burden for them, and then instead of, those missiles would just be coming down on them. And in the meantime, it makes the administration more and more unpopular, and it may l- you know, it may be a key reason why, if he loses next week, it's gonna be a key reason why he loses.

Erik: Luke, the other thing that our listeners will have learned that we don't know yet is the outcome of tomorrow's FOMC meeting. What's your outlook and what do you think about this backup in rates? You mentioned the 10-year earlier. Let's go a little deeper on that. Where do you think we're headed?

Luke: Yeah, the backup on the 10-year yield to me was really interesting and potentially notable from last week. So I'll, I guess I'll answer the Fed question first. I don't have a strong feeling. I think he's either gonna hold pat, or he's gonna raise rates 25 basis points. I don't know that it matters a whole lot right now.

I think raising rates, all else equal is the wrong thing. But I think this backup in rates last week, the tenure fell as much as 20 basis points intraday, which is... I've been in investment research for 31 years. I could probably count on one hand the number of days that the tenure treasury yield fell 20 basis points in a day.

And my guess is it's nine 11, Lehman, the handful of sort of catastrophes that have happened, COVID in my career. And so on some random Thursday... And furthermore, it was a real disconnection from the existing market regime. And what I mean by that is, I got down to my screens on Thursday morning, and, I run through a list of prices just to check in on them and, just see, gives me an idea of sort of what's happening, right?

Click up gold. Okay, gold is down 50 bucks. Okay. All right. If gold's down 50 bucks, then that means oil's up big. Call up oil. Oil's up 3%. Okay, that makes sense. Okay. If gold's down big and oil's up big, it means Bitcoin, which is a, a Texas guess or a Texas hedge read on liquidity, what's happening I bet you Bitcoin's down big.

Sure enough, Bitcoin on Thursday last week down 3% 4%. Okay. That all makes sense. If those three things nailed that, I said, okay, so dollar's probably up DXY. And it was like, oh, it's up a little, but it's not up a ton, but okay, but it's up. And I said, and finally, all of that means that the 10-year treasury yield should be up big today.

And I called the 10-year treasury yield, and it's oh It's down big. That's different. That doesn't make sense. It's, that's why. And, is this a one-off or is this some sort of recognition around whether it's France, whether it's Mideast, whether it's Iran war, whether it's a recognition that the Trump administration is going to lose and they're going to do something that ensures that markets really sell off as a result because, right?

What Trump has said, I think six or seven different times in the last month that if the Democrats win, we will get a 1929-style depression. Bessent has warned/threatened that if the Democrats win, he will be forced to do his planned fiscal consolidation in the span of two months, from November 4th through January 3rd, 2027.

He's gonna have to do all of his fiscal cutting, which fits both gentlemen's personalities perfectly, which is, if I can't win at Monopoly, I'm gonna just dump over the board. And that's what that would look like for markets. And if their internal polling was saying, "Hey, you're gonna lose at least the House on next Tuesday," look, we know from oil markets that they, that somebody, I won't say they 'cause I don't know that for a fact.

It's very strong suspicions, but I don't know it for a fact. But somebody was giving somebody else very big heads up before Trump would tweet something as it related to the war in oil markets. And then we also know from two weeks ago the, when the CFTC went to investigate who that was, they were told to stand down by the Trump administration, that investigation.

Is it possible that part of what we saw last week in the 10-year breaking the correlation with everything else and falling in a way that is 1- literally only has happened in, in 30 years on catastrophic days, was that somebody in markets getting a heads-up from the administration that, "Hey, we're gonna lose, and when we lose, we're gonna dump the board over," which is to say, "We are going to try to implement a fiscal consolidation in two months, and when that happens, stocks are gonna tank Commodities are gonna tank and you're gonna wanna own bonds.

That strikes me as very possible given what Trump and Bessent have been warning. Bessent more eloquently than Trump, but they're basically saying the same thing. So that to me was super interesting, and I don't know quite what to make of it. Since then, 10-year basically hasn't moved. It's basically been pinned at 499 since Thursday.

Now this is Tuesday, right? So we're talking about a grand total of three trading days. So I don't wanna play too much a five-minute macro, but that Thursday move in 10-year yields to me was very noteworthy, peculiar, didn't fit, and those are the types of things that really get my spidey sense up.

Erik: Luke, let's turn to the equity market, which has been rallying really pretty briskly since the beginning of April, but we just broke an ascending wedge pattern to the downside.

Been a fair bit of turbulence in the last few weeks, and I'm looking at this and I'm saying, "Okay, markets hate uncertainty, and we're headed in just next week to the midterm elections," as you just described. Is that what this is about? Or is this AI credit bubble and AI CapEx boom actually at risk of a bust, which everybody's been worried about for months and months?

Is that finally coming to a head? I can't tell which it is. What are your thoughts?

Luke: Yeah, I can't either. I think there's probably elements of both. And it's weird because in theory, based on what the Washington hands that I've read, 'cause it's

not my bailiwick, based on people whose bailiwick it is, they've said that if you get some sort of big blue win, it's actually really good for liquidity 'cause nothing will get done, and everything...

It'll be a horse trading of you spend your money the way you want, and you give me to spend money I want, and nothing gets cut. And that, in theory, would be good for-- bad for the dollar, good for gold, good for stocks. But if there's uncertainty around the election or if Trump contests the election, as I've seen serious people talking about in certain areas and it drags out, that wouldn't be good for risk, I wouldn't think.

So I think that uncertainty point around the election, I think that's very well taken. Then I do think the credit side of what we're seeing on AI, and then the secondary credit side, which I think is still very early days, right? We're seeing tons of discussion around, hey, what are Oracle credit default swaps doing, or what are other hyperscaler credit default swaps doing, and where is this deal priced and, some of the circular financing concerns and all those things.

And I get those things. And there's a second derivative credit concern that I'm still ba- seeing basically nobody talked about. I've posted on X a couple times about it. I've been writing about it for clients for several months now. But it is the dynamic that there is \$19 trillion in consumer debt outstanding.

Mortgages credit cards, auto loans primarily. And that means, so 5% of that number is call it a trillion dollars for easy math. So if you assume that AI is going to really displace a lot of white collar jobs And I think there's been a pretty robust debate around that. I think it's foolish to think they won't, but there's been a robust debate about it.

But I think in the last literally two weeks, the side saying that they're-- that AI is going to create a lot of white-collar job loss has started to strike some serious body blows to the side that everything is gonna be fine for white-collar jobs. You had Kroger lay off-- talk about laying off, I think thirty-seven percent of their corporate workforce.

Kroger's business model hasn't changed in a long time. They sell food, right? So this is AI related. American Express last week came out and said, "We are firing five percent of workers because of AI." Barclays came out last week, said, "We're

firing five percent of workers 'cause of AI." And then of course, yesterday, Microsoft is buying out twenty-seven percent of their workforce.

Yikes. And the reason I bring up these numbers, and this is the credit side that people just-- the second derivative of credit side that no one is talking about, and I think they're not talking about it 'cause there's nothing to say. There's nothing to say. Which is all of these people getting laid off, they're not gonna find another job, not easily and probably not at the same wage because the AI's hitting everybody all at the same time in, in, in finance and tech in particular, but white collar more broadly.

And if you just play that out over several quarters, that nineteen trillion dollars in consumer loans, let's pretend five percent of those default as a result of AI n-just sometime in the next two years, three years. Five percent, that's roughly a trillion dollars. So by way of comparison, the entire equity capital base of the United States banking system, according to the Fed, is two point six trillion dollars.

So every five percent default rate increase on consumer debt as a result of AI unemployment or deflation in wages is equal to forty percent, four zero percent of the total equity base of the United States banking system. You see the problem here? And that's the side that no one's talking about yet, and I think they need to be.

If forty percent of the equity capital base-- So what are banks gonna do if AI starts to create this, this joblessness? they can stop making loans. They can sell treasuries that they're holding for as high quality liquid asset to raise capital, but oops, now you're gonna have another seller of treasuries to go alongside foreigners, to go alongside Scott Bessent, et cetera.

They can issue equity, which the market isn't gonna love if banks start issuing trillions of dollars of equity, 'cause oh, by the way, that's somebody else who's gotta issue capital alongside Scott Bessent, alongside AI, and now the banks. Oof. That's not good for risk. Or you slow the economy down a whole bunch.

But none of those are good out-- None-- That doesn't work for our debt position. We have to grow out of our debt. When we slow down, we don't grow out of our debt And so I think s- it's almost like, to me, the last two weeks, particularly around this Microsoft news I think was like the we're gonna need a bigger boat moment for the employment argument around AI.

And I think that's-- I think some of what we're seeing with the toppiness of the market that you're describing and the fact that bank stocks have rolled over and consumer credit has rolled over and Blackstone has rolled over and Blue Owl has rolled over, American Express, Capital One, all these stocks, they've massively underperformed the S&P over the last three to six months.

Why? If AI works, why would I wanna own any of this stuff? Makes no sense. That to me is the more troubling thing, and it's the more... I wonder if that isn't starting to factor into the mind of the market that of just this gigantic credit problem that we haven't even started discussing really publicly yet in a major way.

We're still very focused on sort of the narrow tranche of, hey, can they keep blowing through a trillion dollars or \$600 billion, whatever the ridiculous number is, a year in capital and as the rates go up because, because they're, and we haven't even gotten to the consumer side of this. Hey, if this actually works, we're gonna have a credit default cycle in consumer that makes '08 look pretty tame.

So that-- It's a ramble there. It's a thought stream, but that to me I think is starting to get I know what factors into my mind. When I'm managing my own money, I'm sitting in thirty percent of my liquid net worth in cash and Tbills, 'cause I look at this and I just go-- I don't like shorting stocks in a rigged market where, liquidity is provided to, supply when it's needed because we're in fiscal dominance and, so any time the Treasury market acts, ugh, they're gonna step in and do something.

But yikes. I don't know how this is gonna play out, but that's-- the fact that this isn't being talked about yet, while some of these names are not acting great, makes me cautious.

Erik: I'm trying to get my head around the policy response, and particularly whether and to what extent it would matter or make a difference if we did see this AI CapEx boom start to fall apart.

Because the Trump administration's been incredibly vocal saying dominance in AI and energy is the, that's the, the whole thing for them. That's their priority. You look at David Sacks in his role basically telling Anthropic to pound sand when they wanted to slow things down or regulate AI.

We're not gonna regulate anything. It's full steam ahead. Okay. So let's imagine that we do see this CapEx boom starting to, as rates back up, it runs out of steam

and the ability of private credit to finance that continued AI CapEx spend starts to dry up. Do we get a Trump administration policy response, which is all of a sudden there's a bunch of government money to bail out AI in order to keep it going in the name of national security?

I could certainly see David Sacks advocating for that. W-what do you think? Is that if they wanted to push something like that, they'd probably need to do it before any change of power in the Congress. After the midterm elections, we've still got a lame duck period until January.

What could happen between now and January?

Luke: Yeah. The Overton window's wide open. Yeah, Sacks said, "Hey, we don't want any regulation," blah, blah, blah, and then his administration turned around and banned DeepSeek from any government programs and from any companies that sell into government programs.

So-- A-and that's-- Look, I'm not naive as to why they did that, and that's a regulation, that's a moat that they helped try to put up around the economics of OpenAI and Anthropic. So Sacks, whether Sacks had any say in that policy or not, I don't know, but the fact is he's a part of the administration, and the administration put that in, and so the administration, at the very least, made him a hypocrite because they did intervene to put a moat up under auspices of, "Hey, we need to keep the Chinese out of here."

Which might be the right thing to do, but that's a moat. Yeah. AI's now too big to fail. I-I-I-- If, and I hear credible rumblings that subject was broached in Washington over a year ago. What happens if something happens? How are we gonna step in? Will we step in? That was a subject that, they began discussing contingency plans for, I hear.

So if the credit mania bursts, then yeah, there's gonna be massive losses. You're gonna have a recession because it's, at least it's a big chunk of marginal growth in this country. Unemployment will rise, blah, blah. And so they're gonna have to step up and do something because, we're... Even with this mania, US interest plus the entitlements and plus Veterans Affairs is running at 105% of receipts.

And so if that mania bursts, receipts are gonna fall pretty sharply. And, the offset might be a marginal respite for interest rates for a bit, right? Because now all of a

sudden, maybe they wouldn't be competing with Bessent to raise debt, and the amount of debt that Bessent was gonna need to raise would need to go up by \$400, \$500 billion.

So nearly the entire amount that they're raising. Because if we had a recession, the deficit rises in this country. Last three deficits gone up by 600 basis points, 800 basis points, and 1,000 basis points of GDP. 600 basis points, let's use 600 to 800 throughout the extreme case of COVID. 600 to 800 basis points of GDP is 1.8 to \$2.4 trillion.

So that's how much more of the deficit's gonna go up in a recession. So we're running \$2 trillion deficits today. In a recession caused by a bursting of the AI mania, you very easily could add another \$2 trillion deficit. So now you got a \$4 trillion deficit. You gotta finance that extra \$2 trillion. So I've seen people say hey, if AI slows down, yields will really come down at the long end and Bessent can issue there."

It's like, eh, I think they'll come down for a second on sentiment and on, that, that narrative. People will trade that narrative for a second, and then Bessent will give his first QRA, his quarterly refunding announcement, and go hey guys, we thought we were gonna have to issue two trillion a year.

It's actually closer to three and a half trillion." And the long end will go, "Ugh." And that'll be that. That, to me, is... I don't know what to make of it other than I would fade the bond rally all day long. Because one way or another, someone's gonna borrow that money, and the market's been demanding a higher rate.

The one way I would not fade is if the Fed was involved or if Treasury was doing buybacks or they shifted a bunch to the short end, whatever. But I don't know what the policy response would be, because a recession is just not a policy option at all. Because, oh, by the way we just said in a recession, you could easily add \$2 trillion to our \$2 trillion deficit.

So we would have 4 trillion a year in issuance. That's bad enough. But now in a recession, remember what I just said about credit losses for the banks. What are they gonna sell to offset credit losses? Treasuries. Okay, so now they're joined in Bessent. So whatever the f- what-- \$4 trillion from Bessent, we'll probably add two, 300 billion a year from the banks in Treasury selling.

Now we're at \$4.3 trillion. Dollar's gonna rise in a recession, as it always does. Dollar was up this year. Foreign central banks are on pace to sell almost \$600 billion since February in Treasuries, foreign central banks. Throw another \$600 billion on top of that, we're up to almost \$5 trillion in effective deficits.

Now let's factor in the fact that 8% of the treasury market is owned by hedge funds out of the Caymans. They're not gonna be grossing up into a recession. They're gonna be de-grossing everything, including treasuries. So let's say they sell another, I don't know, \$200 billion dollars worth of treasuries.

We're at \$5.1, \$5.2 trillion worth of treasury supply, and who's the buyer? Mom and pop? As they're losing their jobs? Pensions? As they're paying out early withdrawals, who are also a big owner of treasuries? No, there's only one buyer. It's the Fed. Fed's gonna have to print money and buy treasuries, and they will say, "We're not monetizing the debt and we're not monetizing the tenets."

It'll all be bullcrap. That's okay. But that can't happen. that policy response we talk about, that can't happen until you have a crisis because otherwise it's just handouts for the banks. You gotta scare people first.

Erik: See, the thing is, I think there is a very realistic setup for a crisis, and the analogy I would use is the 2000 dot-com bust.

And look, the bet that was being made there was a correct bet. They-- everybody thought the internet was gonna be a really big deal, and they were right in that call. But the thing is, the market got ahead of itself, and we just had too much malinvestment in all the wrong dot-coms. Y- what you've got now is this massive credit-driven spend out on AI, and it is giving the US frontier labs the lead.

But as Matt Barry has pointed out on this program, only a lead by six months or so. China is not very far behind. And that means if we had a credit bust in AI, it would legitimately risk A- China taking over and basically becoming the dominant power in AI globally, and that really is a genuine national security risk, in my opinion.

Okay, you know what Bessent is gonna say to that. The answer is no. From a policy standpoint, we will not allow that to happen on my watch. Okay, he's probably willing... It's not like Bessent is a guy who's sheepish about taking bold policy moves. So- there, there could be almost any policy response to stop an AI bubble from bursting.

Okay, how is that going to be received politically as we get into what could be a lame duck session where maybe even both houses of Congress have been taken by the Democrats, but they haven't taken office yet, and Bessent's trying to move policy actions through Congress before the, The lame duck session ends.

And then meanwhile, on top of all this, now Luke, I don't usually-- I'm not one of these guys who picks through S1 statements trying to, find little risks where they have to disclose, we're Citibank and if, if there's gonna be a new online form of credit, maybe it poses a risk to our business.

But here's a direct quote from Anthropic's S1 just filed for their IPO: "Concerns have been raised both within our organization and by other researchers, regulators, policymakers, and industry participants that sufficiently advanced AI systems could, if not developed, deployed, and operated with inappropriate safeguards, oversight, and security measures, pose catastrophic or existential risks to humanity."

Okay, I'm pretty sure there's never been an S1 statement filed with the SEC before that says, "Oh, by the way, in terms of just minor things that could go wrong that you might wanna look at in terms of reviewing our IPO, our stuff could end humanity." I don't think anybody ever said that in an S1 before. So if you were trying if you're thinking about how a, a setup could come together for a really strong left versus right, Democrat versus Republican, you got Scott Bessent and David Sacks probably saying, "We cannot allow the AI boom to stop."

It is a matter of national security. It must be supported no matter what." Who could possibly give the Democrats better ammunition than this S1 statement that says, "Oh, by the way, it risks humanity, an existential threat to humanity"? That's bigger than Bessent's claim of a, a massive economic crash.

How does that get litigated between the midterms and the actual handing over of power on January 21st? What is the forest for the trees outlook on that one?

Luke: Reminds me of that cartoon. There's a cartoon that's three people sitting around a fire in rags saying, "We ended up destroying the earth, but for a moment there, we really created some shareholder value."

And I don't know how it gets litigated between Election Day and when people are sworn into their new seats. The thing that keeps sticking out in my head or the

splinter in my brain about all of this, or one of the splinters in my brain about all this, is that even if Bessent and Sachs say we're not gonna let that happen and they stop it, I wonder if it's a booby prize, which is to say, by luck of the draw or whatever, China's one-child policy means they have a catastrophic demographic problem.

Ask any China hawk, any China bear about it. China is screwed 'cause their demographics are shrinking. And yet, if AI actually does what it says it's gonna do and Bessent and Sachs et al. won't let it fail if-- even if it would collapse under its own weight, and America, unlike China, does not have a catastrophic demographic issue in the traditional sense of the word.

We have a growing population, very heterogeneous population that can barely get along as we speak today, and now you're gonna start whacking people's jobs in five and ten and in Microsoft's point, twenty-seven percent chunks. In the meantime, over in China and Japan and Korea, with their catastrophic demographics, they're still gonna get hurt by AI taking jobs so fast, but they're homogenous cultures with rapidly shrinking populations.

And I look at this and go, "I know what happens to cultures with very heterogeneous growing populations and not enough jobs." Google France Google Middle East, right? You can see how this is gonna go. And so that's why I say even if Sachs and Bessent say this isn't gonna be allowed to happen and they succeed, which they very well-- They probably are saying that, and they very well probably will succeed, what will they win?

Show them what they won, Bob. Here's the next five years of social unrest in the United States, and maybe that's what all the flock cameras are for. Maybe that's what Palantir's for. Maybe that's what all this is... And now we start to get to a really kinda dark place. But that's why I look at this and kinda go, "I really wish there were more second and third derivative thinkers around this administration rather than the obvious move that's right in front of you."

And some of that's a nature of our politics, and some of it's a nature of our culture, but it is what it is. And that's why I look at this and go, "When will this be litigated?" I don't know if it'll be litigated between November and January. But if AI does what I think it's gonna do, I think it's gonna start getting litigated in twenty twenty-seven.

And how do I think it's gonna get litigated? I think it's gonna get litigated with Molotov cocktails in city centers around the United States, just like it's getting litigated in France right now, just like it's been getting litigated in the Middle East for decades. And it's an unpleasant thought and, I'm sure I'll get plenty of, "Oh, you're such a doomer, Luke," but this is just critical thinking.

I'm sorry. If you're gonna start importing lots and lots of people to have a growing population and its heterogeneous culture, and then you start whacking the good jobs out, you would have to be a moron who doesn't read history to understand how that's gonna go. Pick up Peter Turchin's book, *The End Times*.

Elite overproduction plus massive wealth inequality, it always ends the same way. Always. So I- that's when I think it'll get litigated. It'll start to get litigated in twenty twenty-seven in accelerating political instability in the West and in the United States as AI does all of this

Erik: And I certainly think there's room to expect a pretty interesting presidential debate in twenty-twenty-eight.

But we don't wanna jump ahead of ourselves too much. Luke, as always, I can't thank you enough for another terrific interview. I always really enjoy our talks. But before I let you go, please tell our listeners what you do at forestforthetrees.com and what people can expect to find when they visit fft-llc.com.

Luke: Yeah, thanks, Eric. we aggregate a large amount of publicly available data in a unique manner, trying to do-- identify developing economic bottlenecks to help our clients make money. And if they wanna learn more about how we do that, et cetera, they can go to fft-llc.com for more information or check us out at X, @lukegroman, L-U-K-E-G-R-O-M-A-N.

Erik: And now it's time to bring Patrick and Massil in for our Macro Voices market desk. Patrick, where's the trade?

Patrick: Thanks, Eric. Luke's argument raises a credit risk that extends beyond the company's financing the AI boom. If AI displaces workers and reduces their earning power, then the outstanding debts still need to be serviced.

Productivity gains for businesses could therefore come with deteriorating credit quality for consumer lenders. Capital One's exposure to credit cards and auto

lending makes it a candidate for expressing that concern. The technical backdrop adds to the case. The stock peaked back in January and has spent much of the year under pressure.

Following earnings, it's pivoting at its fifty-day moving average. A failure around this level would reinforce the bearish structure and leave the stock vulnerable for another leg lower. With Capital One, symbol COF, trading around two hundred and four dollars and eighty-eight cents, I'm looking at the January fifteenth, two thousand and twenty-seven, two hundred by hundred and seventy-five bear put spread trading around five dollars and ninety-six cents net debit.

The twenty-five dollar spread offers a maximum profit of nineteen dollars and four cents per share against that five dollar ninety-six commitment, giving it approximately a three-to-one risk-reward ratio. Now, with the implied volatility on Capital One near the bottom of its one-year range, owning even the January two hundred put outright for seven dollars and ninety-five cents is also a reasonable alternative for seeking greater downside participation.

We're expressing a specific vulnerability in consumer credit through a stock already showing technical weakness with a defined capital commitment and more than three dollars of profit potential for every one dollar risked. 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, we've had the Fed announce no rate hike yesterday, and there's a huge round of big tech earnings this week. But what stood out to you the most?

Patrick: Let's start off with talking about the mixed earnings reaction.

Microsoft higher, Alphabet sharply lower, and no convincing bullish impulse across the market. The AI spending cash flow is now under scrutiny. Microsoft's quarterly free cash flow was, like, \$18 billion versus Alphabet minus \$9 billion. Growing distinction between funding the build-out versus delivering returns.

Now, particularly with Microsoft, we wanna really see whether it can follow through. That's gonna be the big test. It's now approaching its previous high. Will it retreat and will the big money sell into the strength, or will there be genuine follow-through? It's gonna be a really big tell. At the same time, Google, with this gap down, has really solidified a very clear downtrend, and it will be pretty hard for it to recover immediately.

Now, the NASDAQ is now below its fifty-day moving average in what is essentially a bear flag, and we were looking to see whether any of these Mag Sevens could meaningfully turn the entire NASDAQ trend back bullish. There's no sign of that yet. Now, the S&P 500 continues to trade above the critical levels around seventy-six to seventy-seven hundred, where there's a number of systematic sell zones where we would see CTAs and vol targeting funds and other things potentially start to unwind their strong bullish positioning.

Now, overall, even though the market's breadth has been improving, this really does continue to be a Mag Seven story. They remain a thirty-five percent weighting in the S&P 500 and have been the core part of the market that has been able to maintain this bull trend. With the Mag Seven basket now trading at its fifty-day moving average, the big question here is that did Google somehow take the wind out of the sails of this Mag Seven basket, and are we seeing the beginning of a little bit of distribution here?

Think it's gonna play an critical component as to whether the S&P is gonna be able to hold above those key levels.

Massil: Okay, but what did you take from the Fed's message yesterday?

Patrick: The market was expecting a hawkish hold, and they got it. It was a bit of a softer press conference in terms of the tone, but overall, when you look at the actual reactions of the market to the FOMC, then pretty much the market got what they were expecting 'cause there was no real big surprise or move in the repricing of any of the assets.

Now what was interesting Warsh did acknowledge some tightening of financial conditions but fell short of calling it actually tight and no declaration that the bond markets have already done enough tightening. And what is the overall response? Surprisingly the SOFR and short-term treasury bond yields are relatively

unchanged in the reaction and even the longer duration bonds like- 10 and 30 year have stayed within the range of the previous week.

From a, a response, the Fed basically gave the market what they priced in and there are no immediate reactions. I think other parts of the macro space like what oil does next are now gonna play a much more pivotal role in the week to come.

Massil: And now when looking at the dollar, did the Fed change anything meaningful?

Patrick: Really the dollar trend would have reversed if there was a dovish pivot, and there wasn't. So at this moment, the prevailing bull trend in the dollar remains intact. But the one currency pair to completely focus on is the euro. While we've seen all... the, in the pound and the Canadian dollar and the Aussie all have bounced and retraced a lot of their weakness, the euro remains along its 52-week lows.

It and if this one 111 level gives out, the euro may be starting another leg down. And because the euro is such a huge weighting in the dollar index, that alone may drive dollar strength even without the dollar rising on funding stresses. And certainly a very interesting setup here.

Overall, the US dollar bull trend remains intact, but increasingly it really is the euro that we just have to watch.

Massil: All right, Patrick, we have to turn to oil right now because we keep seeing flows coming in and buyers keep coming in to hold the asset. What are you specifically watching here?

Patrick: The key observation to make is that every piece headline we get, there's only a modest price response, and almost always oil regains itself back to its previous highs in any reasonable period afterwards.

So we continue to have an environment where oil is trending higher and very likely anticipating a re-escalation of the situation in the post midterm period. At this moment, you crude oil remains in a decisive bull trend, and it would take some sort of a geopolitical disruption at this point to disrupt this trend.

And so at this stage a technical upside is back to the \$120 previous highs on WTI and Brent could certainly clear the previous highs if that was underway.

Massil: All right. Now when we turn to gold, it's trading at a key psychological level, right at \$4,000. What would it need for the asset to trade higher or break lower?

Patrick: Gold really needed a dovish pivot from the Fed and some sort of a change in the macro backdrop, and that just didn't happen. At this moment, gold is trading along its \$4,000 support line, where were the lows of the summer, and there is simply no accumulation happening whatsoever. It's a distributive chart and there's no sign of buyers anywhere.

At this moment, the prevailing downtrend is the one that's the path of least resistance, and without an immediate catalyst, gold remains at a risk of a breakdown 'cause a key technical breakdown like this would leave room for even a 5 to 10% further drawdown. Overall, I remain very bullish gold long term, but on the short term, there is clearly a distribution cycle underway driven by macro catalysts, and it's just a matter now of waiting out to see how the dust settles and when the actual inflection point or turn point in the gold trend materializes.

Massil: All right, let's turn to copper right now because we keep seeing the shoot of price action and topping formation. But what are you seeing in the charts?

Patrick: Going back a month or more, copper was the most bullish commodity out there in terms of positioning based on commitment of trader reports. Everyone was decisively bullish, and there was a fundamental reason behind it.

But what's interesting is that over the last three months, copper has failed to break to a higher high and reward that bullish positioning. Now we've seen some deterioration in the price and just now bouncing back to the six seventy level near its fifty-day moving average. This is an important moment where we're going to find out whether or not the bulls can neutralize this weakness and get this back up to it, the fifty-two week highs to set up a breakout.

But right now, with the way the price action is deteriorating, any breakdown below six fifty could squeeze out the very crowded trade. At this moment, I would remain relatively neutral copper until we see some, a sort of technical price action showing some meaningful accumulation.

Massil: All right. When looking at the bigger spectrum of equities, stocks, commodities, was there anything else on your screens worth highlighting?

Patrick: I wanna highlight the uranium disconnect because the U three oh eight is trading around ninety-one thirty a pound, holding well above ninety dollars. But at the same time, the equities remain in a decisive downtrend and continue to be hurt considerably. Clearly, those uranium equities have been dragged down with a lot of the AI selling that has been going on.

It will be interesting to see when these uranium equities finally can start banging out short-term lows and whether that ends up being a critical buying opportunity. Also worth noting is what's been happening in Brazil. Clearly, there was a huge shocker. Everyone was expecting Bolsonaro to win, and that was being priced into this market.

At this moment, we saw a huge gap in the twenty to thirty percent level on the downside in reaction to the election results. and the question now is, was this one big buying opportunity, or is there still further weakness to come? Overall we've seen price stability over the last couple of days.

Will we have a full recovery back to the thirty-seven or thirty-eight level on the EWZ, which is the Brazil ETF? Certainly, one of the more lively markets in this environment.

Massil: All right, and what are the key things to watch from here?

Patrick: To me, it remains about earnings. Not only do we have Amazon coming up and Apple next week, but with this asking questions like, will Microsoft hold these gains, or will we find it giving them all back in the next couple of trading sessions?

Will Alphabet find support? There's so many big questions, but the Mag Seven remain the focal point. Can the Mag Seven bullishly resolve themselves in the post-earnings period because they are that important to the indices and what happens next in the S&P and the Nasdaq are really hinging on this And clearly the other thing to watch is those November 3rd midterms, and more importantly, a lot of the geopolitical developments that might happen prior to them.

Will the administration be able to sort out some sort of a, a short-term peace deal with Iran? Will they be able to work out a deal with Canada? A lot of different things are in play, and the midterms become an inflection point for this. And the week leading into this midterms is gonna be pretty interesting to watch.

Massil: All right, Patrick, let's turn to this week's positioning pulse. What stands out the most in this week's COT report?

Patrick: Massil, we definitely have to talk about corn because the USDA corn production forecast was raised to 234 million bushels. It's a higher yield, less support of the bullish scarcity story.

This is happening after just a few weeks ago we saw some of the highest positioning scores for large speculators in terms of being bullishly positioned on corn. So we saw roughly 166,000 net contracts sold over the last two weeks, both long liquidation and fresh shorting. So we are s- clearly seeing traders being shaken out of this trade.

It's very evident the way that the price is dropping. this went from a very bullish environment for these ag stories to now aggressively being washed out. This is certainly one to continue to watch in the weeks to come. That's where we're gonna wrap up this week's Trading Desk.

I'm Patrick Ceresna.

Massil: And I'm Massil Beguenai. See you next week.

Patrick: Have a great trading day.

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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