Rodrigo: **00:01:14** And we're live, all right.

Richard: **00:01:15** It's Friday boys.

Rodrigo: **00:01:16** Mr Julian Brigden, MI2 partners is joining us today. Before we do, we're going to raise our glasses because it is four o'clock to some people apparently not to everybody.

Julian: **00:01:27** Unfortunately not for me mate.

Rodrigo: **00:01:29** All right. So some H20 for Julian. He’s going to hit the slopes later today and tomorrow.

Mike: **00:01:36** Where are you? Japan or something?

Julian: **00:01:36** No, I'm in Vale.

Mike: **00:01:39** Vale, fantastic.

Rodrigo: **00:01:43** Really nice. Now, Mike do you want to go through what people who are watching should not do?

Mike: **00:01:48** Yeah, of course. Don't take anything on this live cast, YouTube channel as advice, especially not from these four skuldugerous individuals on this Friday. This is meant to be entertaining and wide-ranging and educational. So there it is. And if you like it smash the like button and share with everybody in the world, write a great commentary on how great Julian was today and how enlightening he was with conversations with Rodrigo and Richard.

Richard: **00:02:18** And subscribe.

Mike: **00:02:20** Yes, and subscribe.

Rodrigo: **00:02:22** Oh my God, all right.

Mike: **00:02:23** All those things.

Rodrigo: **00:02:23** So, thanks Julian. We have an audience that's fairly quant-based and may not be super keen on the global macro stuff though, I think everybody is a secret global macro player no matter what statistics that they use. Maybe if you can give everybody a bit of your background, what you put out and just let everybody know a little bit more about you.

Julian: **00:02:51** Sure, absolutely. Well thanks very much for having me on the show, as you can see from the color of the beard and the color of the hair on the side, I've been in this business quite a long time now. In fact, it's getting on for 35 years, 35, 36 years. Various different places sitting on trading desks and sales desks, FX which I really and precious metals where I really cut my teeth, a bit of fixed income, consultancy advisory side on the policy side where I worked for a group called Medley Advisors, and then went back to the dark side, worked for another bank and then eventually basically 10 years ago, we launched MI2 partners and it was really at the behest of a couple of clients who were reading my market commentary, and one of them put it perfectly and he said, I can't pay you enough working at that crappy French bank you are working at. Why don't you go and set up your consultancy business? So we did, and we've grown the business organically since then and a few years ago some of you may know, we launched a joint business with Raoul Paul and Real Vision called Macro Insiders. So we have two businesses, we have an institutional business and we have this high-end semi-retail business called Macro Insiders.

Rodrigo: **00:04:20** Well that's interesting to start with that, because I know the story behind why Raoul decided to stop managing other people's money and do what he does today. I'm curious to hear why you didn't just say, I'm going to run my own hedge fund and deal with a bunch of investors and bring in some assets for a … today.

Julian: **00:04:44** It's not my particular skill set. I was always sales and trading, I wasn't a PM, and it's just something that we've never gone down that route. I mean, could we go down that route? We've had conversations, people have approached us, it's one of those things we thought about, and it's a particular chagrin of a couple of my other senior partners because they have managed money. I mean I've got guys who've managed billion dollar portfolios who work for me and that's how we designed the business, and I think they'd be gagging to do it, but it's just something we haven't got around to doing.

Rodrigo: **00:05:26** I found Raoul's...Once like five years ago I heard him say that it is a much more difficult thing when you're in charge of other people's money and you have to make some tough decisions, that he is more willing to do for his own PA or be emotionless about giving the right advice without the pressure of having to get the call right…

Julian: **00:05:48** Whenever we've had these conversations with people about managing money, I've always said to the team if this is the route that we go down, you guys have done it, you do it. I'm going to try and stay as divorced from the physical action management of the money that I can, because it's just not my skill set but I mean it is something, even when we write the research, we really, and the way that I set the firm up was to set it up as though you were managing money. I'll sit and talk about the models and say, well this inflation picture is picking up or the dollar is overvalued against the models and then the other guys who are more adept, we've got a couple of guys are very good at short-term trading, a couple of guys have managed bigger slower moving portfolios and they'll be going, okay well, if that's what you think, if your space is picking up, well this isn't priced right against this and then the guys who are more short-term will say, okay well, this week the technicals are turning, we're going to hit it. And it is that approach and if we hit it, this is where the stop-loss should be and this is where the take profit should be. So our approach even though we write research is very much orientated around trading.

Richard: **00:07:09** I want to pull on that thread that you just began, you just described a little bit of a longer term view, a shorter term more tactical trading. If you can just describe to us in broader terms and maybe get into a little bit more details, your general framework for making sense of the investment world and the toolkit that you deploy towards your calls.

Internal Modelling

Julian: **00:07:31** Yeah. It starts off really with this structural view that's built around a lot of models that we have or leading indicators in some cases, some of the models, some of the leading indicators and that anchors the view.

Rodrigo: **00:07:49** And those are internally developed models?

Julian: **00:07:50** Yes, and it gives you something...

Rodrigo: **00:07:52** I've never seen anything like that.

Julian: **00:07:53** Yeah. I post them once in a while on various things, I've shown them on Real Vision quite a lot, just be the classic stuff and then where we're looking at inflation trends, where we're looking at GDP, and we're typically, our approach is not to build some massive macroeconomic model a`la a central bank builds. I just find those incredibly cumbersome and beyond the scope of what markets trade. Markets typically trade three to six months and so you don't need to build some huge DSGE model to forecast that. What we tend to do a lot is we take a piece of data that exists today, this "tangible", it's not a forecast, it actually is out there and you twist it and spin it until it becomes useful to forecast something that we actually care about -industrial production, GDP. Some countries are greater producing, others are less.

The Germans produce data that will just blow your mind, you can find out what leather production is. It makes it a bit questionable, why they need to produce data on leather production in Germany, but it gives you forecasts on the car industry or glass production or chemical production, all of this stuff which on its own is not necessarily useful, but can be highly useful at catching turns. And then there's those sorts of models and then there's just valuation metrics, the classic being one of the reasons where we started to turn bearish on fixed income versus say break-evens was, and I'm just going to share this one with you and I'll show you what I mean.

Share screen. So this is a classic example, here you've got five year break-evens in orange, and you've got five year conventional, sorry the other way around . Here's the orange, break-evens. So we got into break-evens back in March and we rode it up, but now if you, at the divergence you are greater than you were now, heading into the taper tantrum. There comes a point where you start to look at these valuation metrics and you put them together with technicals and you put them together with the macro models that's showing inflation actually starting to pick up now, and you just go, wait a second, now I've got to actually get out of this thing, now this thing is getting a little extreme. So there's various different types of models that we come together with, and then we have daily meetings where we talk about the trades that we've recommended, do we still like those and market's developments? So it's very much the decision making process that you'd get within a fund, and that was the whole idea because I'm not interested in writing research pontificating about what I think GDP is going to be. Who gives a shit, if you don't make money?

Rodrigo: **00:10:59** Right. You're not writing those way out of the money call options on gold because the federal government's going to, 10 years from now is going to explode, you're actually legitimately looking like a fund would over the next...

Julian: **00:11:11** Correct.

Richard: **00:11:13** You're adding some skin in the game to your call and possibly even trading yourself and...

Julian: **00:11:22** Yeah, certainly I know my colleagues probably do and we run, for Macro Insiders, this is one of the bizarre things about when you look at say the Macro Insider product versus the MI2 product. The MI2 product is very much aimed at an institutional client base. It will trade things that you can't realistically always trade on a semi-retail basis, like euro dollars or swaptions and stuff like that. But we actually run a concrete portfolio for the Macro Insider Guide because that's actually what they want. So it's like long here, stop here, this is the idea and it's all, you can go and see it every month. We update it as Raoul does as well. We do run it on that basis. It is very trade orientated.

Mike: **00:12:16** A real craftsman approach to the idea of building that ensemble that puts together the story.

Structural Macro Frameworks

Julian: **00:12:24** Correct. It's a structural macro framework and it's worked, it gives us the repetition. We played for example the bond sell-off we've been in it recently, but we've been looking for a while and we played it in 2016, we caught it then we looked at it in 2013, and actually it's very similar to the 2016 model. It's just much more powerful arguably and so it just gives you this repetitive process that you can play time and time and time again, within a broad structural framework of where you think policy is, and I'm lucky enough that having worked in that background I've still got lots of contacts in that space, so you could get your head round where central banks think they are.

Rodrigo: **00:13:09** I've always thought, and maybe you can tell me more if I'm right, I've always thought that you probably tend to piss off more global macro gurus than the average Joe, because I feel like the global macro space is about the world's about to end, high inflation, I've been hearing this since the beginning of my career which isn't long. But what I've always found interesting is that when you align with them there's a lot of retweets, and yes we believe that there's going to be inflation, and then when the technicals turn you say no, we actually need to take the opposite side. I think it's going to be bullish for equities or what, it doesn't align with these large global macro trends and I'm curious as to whether you have a lot of enemies based on that.

Julian: **00:13:57** A friend of mine once described it, he goes, the best day for a global macro guy is the sky is grey and it's pissing down with rain, but it isn't just coming vertically it's going horizontally in the wind. So no matter how you stand you cannot stay dry. And he's absolutely right, I mean I sat on an integrated trading room at Flora, many banks and the bond FX guys used to hate those chipper glass half full bloody equity bastards who just, it's just long and it's just going up, and all we really wanted to do is take that glass, smash it and shove it somewhere where the sun don't shine. Yes there is that, but I've learned over the years that's not how you make money. You make money by being long assets most of the time, and that being said, macro comes into its fore, at times when those trends have become truly extended and truly overextended. You catch that turn and that's when you make an enormous amount of money, so I'm bullish equities, I've been very bearish tech in the last couple of months and flagging things that we were watching, we actually shorted the Nasdaq a week or so ago for the macro insider guys, or recommended they short it, and when I look out, I'm super bullish on assets, not necessarily very bullish on US assets, I'll be honest with you. I think that's where macro comes in and I've got a buddy who trades equities and he's been trading my views for the last year or so, he's trading all in equities but it's a macro view.

Mike: **00:15:58** Right. I think the enemy making maybe comes from the storytelling that is more deterministic rather than probabilistic in a mind set, and I think you and Raoul talk about this a lot, which I think is exceptionally important. How do we help investors think that way? Is there any tricks that we can impart so that we can get them moving off of the deterministic, here's where we are and here's what is going to happen, and that's where you get in the fight. You've got a framework and the framework is telling me something different, it may manifest now or later but how do we help people get across that chasm?

Julian: **00:16:43** As I said, if you go back to the initial questions you asked me, how do we organize the firm, you can have a long-term view, but unless it's confirmed with price, it's irrelevant. So we do quite a lot of stuff where we'll say, we've been crapping on for the last six months about this, well it's looking interesting. So if it actually breaks this level, maybe you want to have a stab at it. So I think, price to me is singularly important. The second thing that I think that I've learnt over the years is that nothing is utterly linear. When I was sitting in this policy think tank, Medley Global Advisors for a long time, my job amongst the team that I was running there, was to take the raw information you got from the central banker and look at market pricing relative to that information. And central bankers are definitionally the proverbial super tanker, you cannot turn on a dime, it's very difficult to turn on a dime and so they tend to be, if you think of that as a long linear trade, they're hiking, they're easing, and what you see in markets is markets tend to be like a sine wave over that trend. They get way too bearish, they get way too bullish and my job and the group that I ran, was to talk to hedge funds and real money managers and say we've moved quite a long way from where their central bank thinks, so you need to be a little cautious here, and that's one thing that I would advise people.

You could see this for example, the recovery in the economy that we've seen, we've seen it, we know it's happening, we know the vaccines have been coming for a while, they've started to work and yet we've seen a lot of...and we started actually seeing, what was interesting in September/October of last year, we started to see these value cyclical plays start to pick up and start to work. But what was very interesting is, growth also worked. Growth also worked. And then you start to into how is that possible, and then you realize oh God, PM's actually had a shed load of cash in September/October on the sidelines. So no one had to make that hard decision of I'm going to sell my...

Rodrigo: **00:19:29** One over the other.

Julian: **00:19:30** …growth baby that I've loved for the last decade. Apple, Amazon, Tesla whatever, to allocate to another, you didn't have to make the decision. The actual giveaway was a couple of weeks ago when Warren Buffett sold some Apple to buy the oil company, I think Exxon. And then you're like, oh shit, you haven't got any more cash mate. So now this is when the risks start to rise and so it's little tricks like that. I would say nothing is ever in a straight line, it tends to waggle around, you can trade that if you're so inclined, and the second thing is really this, that you just have to mentally prepare yourself but until it's confirmed by price it is irrelevant, and don't try and jump the gun, wait for pricing to come to you, set levels, set entries, set stops, you can nibble something in tiny so that you can watch the progression and it's constantly either hitting you in the forehead going you're wrong, you're too early, but don't do the classic, I'm going to stick them on the table, I'm going all in because almost certainly you'll be wrong in that situation. Risk management's hugely important.

Mike: **00:20:58** I love the way you dig into the actual economic indicators and you will highlight that, but you're right, you don't act until price confirms. So I do love it. Go ahead Richard.

Richard: **00:21:10** No, I was just going to say I'd love to dig a little deeper into some of these indicators. Niall Murphy has asked, what medium long-term indicators, leading indicators you'd like to use apart from ISM, and I would add into the mix there a little bit of the shorter term as well, and you can add not only leading in terms of economics, but just trading some of the major asset classes and their relevance to your overall framework.

ISM

Julian: **00:21:37** I mean ISM is bloody brilliantly good. It is incredibly good, and some of the German data is incredibly good, and some of the Japanese data. But all of those PMIs...think about how a global economy works. Manufacturing is a small proportion but it tends to be... the service sector tends to be pretty smooth obviously. This is a little bit like the global financial crisis in that the service sector gets whacked quite hard as well, but it's very unusual because typically recessions are caused by CapEx and some inventory cycle, that you get some building and then you go on to recession and those are the things that first turn. So actually manufacturing may be small but it's much more volatile and tends to drag the overall cycle with it. So anything related to manufacturing I tend to watch, and if you think of it as a supply chain, where do you first see that pickup? Well, you're most likely to see it in orders of those big manufacturing economies. So you at the Germanys, the Japans, the Koreas. China you can't really get that much data from them, so those are things to watch because those give you early signs, and you can then twist and spin some of that data if you at like order levels against inventory, that give you even more of an extreme swing when those things start to move.

Those are some of the things that I tend to watch in that respect, that big global manufacturing inventory cycle stuff. Employment tends to be very lagging, it tends to be a very lagging indicator but becomes important because it's a political ball, it is the objective, it's one of the things that worries me, this new Uber employment mandate of the Fed which is verging on social policy, not on bloody macro policy or monetary policy, which is another reason why I really don't feel comfortable owning fixed income really anywhere. I know we've seen quite a big move, so maybe you can tactically begin to nibble, but structurally I don't feel comfortable. If they're really going to deliver on this, this is very bad news. Then you go back to if you're talking about markets, it tends to flip around as to which is leading and which is lagging, FX actually in March of last year was the leading indicator, so the Aussie bounced off the lows before anything else began to rebound, so that was quite a leading indicator. Equities tend to be quite a lagging indicator and I've noticed, it's a gut, but even more lagging than usual and I think the reason is there's so much bloody money in the system now that they sit, they're going no no no, until someone comes and gone hits them once, hits them twice, hits them a third time and then they go oh shit.

You saw that with the pandemic, I'm sure you had the same thing as me. I mean I had loo roll and canned food a month before anyone else around here did because...

Rodrigo: 00:25:02 We had tanks being ordered in February that got stopped at the border from the Canadian government because they needed it for emergency purposes. We were ready.

Julian: 00:25:17 I mean we knew it because we had friends in Asia and they were, what ran out? Well, it's not a gastric infection last time I learnt, but anyway loo roll found out, so I was like I better go and buy some loo roll. But equities didn't respond, bonds started to move, FX started moving. Equities just sat there.

Richard: 00:25:41 Commodities, base metals were moving really fast. You could see the commodity space that there were some leading indicators there but equities were just stubbornly moving backwards..

Rodrigo: 00:25:48 … I very clearly remember our CIO tweeting out like late January saying yes the S&P is a teflon market, it doesn't matter what's happening in China, it keeps on going up.

Julian: 00:26:02 Exactly, and of course it does until it doesn't. So I don't think equities have been...it was pretty obvious that this inflation picture was going to pick up, it was pretty obvious that bonds were bloody awfully mispriced, it was pretty obvious that tech had seen P multiplications and become what I refer to as the …. bond, the replacement for the bond, because it grows when nothing else is growing which is what you used to when you used to buy bonds but now you buy Apple or Tesla and so you were like Jesus Christ, does the equity market realize how big a put it's written on treasuries? When those things start to go, this thing should too, but it didn't, it didn't. I mean the curve started to go like this and momentum just kept going like this until one day, the technical figures switch, price confirmed and then you should be ready to slot in, and it goes back to this point, don't pre-empt the price, price action is singularly…

If you're a running a trillion dollar bond fund and there are guys like that, clearly you can't just go one day yours, you have to position into that. And we've got clients like that, and that's why the institutional stuff is really much more about share of mind. But the Macro Insider stuff, no one's slinging around that big position so I can go today, here this level, bang, sell it, thank you bye-bye.

Rodrigo: **00:27:41** Let's talk about a little bit about a lot of the topics you covered, but inflation is what's top of mind today. I remember you were talking about inflation like three four years ago, and what was interesting again is that you had this view of what inflation was going to be like, but you traded around it which is fantastic, so this has been a thing. Where are we today and what are you seeing?

Mike: **00:28:08** I might add one other thing there, you had a great tweet on March 1st regarding the ISM report and the references in that report around labor and tightening, so I think that might be just lay into that, so maybe elaborate on that a little more, you were limited in the characters you could use there.

The Magnitude of Inflation

Julian: **00:28:29** I think that we're in very much a situation that is akin to the 60's and I'll share another screen with you. If you look at the 60's, and this is one that I've been using since Trump got elected. So you've got CPI at the top and you've got government spending, so this was late 50's into the mid-60's, halcyon period of post-war economics in the US, inflation's averaging not even 2%, 1.5%, and you can see it's an incredibly tight range. Kennedy gets assassinated, Johnson wins both houses on a sympathy vote and he pushes through what Kennedy wanted to introduce. It's called Johnson's Great Society, but it really was Kennedy's Great Society, and you hit an economy which was running pretty much firing on all cylinders, doing incredibly well, and it was really unnecessary to do this big bump in spending. And what do you do is you knock inflation out of the range, now back then you had a Fed that thought they could run it a little hot, in exactly the same way that you did now and what you started to do is you push inflation from one and a half really here where they start the program, up to just shy of four, and then the Fed comes in and they hit it, and they hit it quite hard and this to me this is the comparison here is what Trump did, utterly unnecessary pro-cyclical stimulus in an economy that didn't need it. And you do that initial kicker to inflation. Then this is 2018, the Fed comes and hits it, same thing happened back then, the equity market dropped 20 percent here, actually housing stumbled, there were some idiosyncratic things around S&L's at the time but the Fed backs off.

Rodrigo: **00:30:50** Just to recap, you mean 2018 when Powell started tightening after the...

Julian: **00:30:55** Correct, it claims to 1966 here, so inflation drops, obviously Covid has complicated it yet again, but what are we doing? We're basically going into ongoing spending, we're easing into ongoing fiscal spending and we're easing with inflation, structurally higher than when it was say in the GFC. I mean I'm looking at wage models, just looking at them today, average hourly earnings dropped to one and a half percent. Now, average hourly earnings is screwed up because you've lost a lot of people out of the workforce with low wages, but when I look at my models I don't see any of the wage models dropping back to one and a half percent, they're all beginning to base, they've come off the highs around three and a half to 3.8 for average hourly earnings, but they're basing around three and some of them are showing signs of picking up again. So we're easing into these cyclically higher rates and this is what we are. You don't have to go here, this is the 70s. I know people will go yeah, but the point is, we could just be in the late 60's, where we go from one and a half to four to six.

Now for a treasury investor in this period here guys, you lost one third of your money in real terms in five bloody years. This is financial repression, we haven't even got to the 70's. We have still have a pegged currency, we still have pegged oil prices, we still have pegged shipping prices.

Rodrigo: **00:32:44** In six years you halve the purchasing power of an average American.

Julian: **00:32:50** Yea, certainly in fixed income terms, gets eviscerated. Now, fast forward to today, and I've tweeted out some of these, they're not models they're just leading indicators, and you read some of the cost pressure stuff that you're getting on the corporate side and there's, I'm just writing a presentation now and going through it for clients as to where all these pressures are and there's some clearly and Paul has talked about base effects. There's base effects... I'll do stop sharing now. So there's base effects that we're seeing coming through just oil prices. But what's interesting is...

Rodrigo: **00:33:33** The transitory inflation that you're talking about right?

Julian: **00:33:35** Be careful, because it's the rate of change, this is what people forget. If oil is at five and it goes to 10, it's bloody cheap, but that's a hundred percent increase and that's what influences inflation, because it's a rate of change. So the fact now that oil is pushing up again means that what naturally would have happened in terms of a peaking in Q3 is actually now extending into 2022. So that's one thing. Does the natural cyclical recovery in the economy, tend to lead inflation. Higher inflation moves higher as you move up capacity utilization and we are, if you look, we did some of these manufacturing surveys we are like here in capacity, we are here. Now, maybe that'll some of that will get resolved in August and September but you won't even see the price pressure push through until the end of the year. Then you've got huge bottlenecks in the system and I've tweeted out talking about PPI pressures that could be eight, nine percent year-over-year like the like of which we haven't seen until 2008.

And by the way, the largest spread ever recorded, you can get the data for, between PPI and CPI was like 4.3 in '08, so you hit nine, even allowing for the largest spread ever, you could have CPI above four, and don't get me wrong, I think a lot more people are in the inflation camp, I just don't think they're in the magnitude of inflation camp. Remember the old days pre-central banks manipulation of post '08, then bond yields were supposed to be equivalent to nominal GDP. So what happens if we get six and a half percent real, six and a half percent real, and four and half percent CPI?. Ten eleven percent nominal GDP, do you really unwound a treasury at one and half? At some point the system's going to roll over again, and we're going to break, but until we do, that's the game.

Mike: **00:36:07** What are the implications for gold in that circumstance?

Gold, Inflation and the Fed Pain

Julian: **00:36:12** I've said, gold is as expensive as it gets in inflation-adjusted terms, ever. I'll show you the chart and I have said on the Macro Insider site, I'm out of my gold apart from a physical core holding. The end of the world trade, although I do worry that if it's the end of the world there's only two metals you really want, that's lead and brass but...

Rodrigo: **00:36:40** I had that same argument today, you got gold bars? In my scenario gold bars mean nothing.

Richard: **00:36:45** Seize water and bullets.

Julian: **00:36:51** Yeah, but if you look at gold in inflation adjusted terms, you will see that it's as expensive as it ever gets, share screen, did I share?

Mike: **00:37:10** Yeah it's coming. Or Ani fell asleep, I'm not sure.

Julian:	**00:37:17**	Pedal faster, come on. So I've been looking at more cyclical stuff frankly and I think that...
Rodrigo:	**00:37:28**	Ani is saying that you haven't pressed the share button yet.
Julian:	**00:37:32**	I think I have, I've got a spinning wheel which means it's not working, not responding, here we go, hopefully I won't lose you guys.
Richard:	**00:37:42**	Yeah, don't crash on us.
Julian:	**00:37:44**	I'm trying not to.
Rodrigo:	**00:37:47**	We can imagine. Is it a line that shows that gold is more expensive than ever?
Julian:	**00:37:54**	It's a totally straight line that goes back to the 80's.
Richard:	**00:37:55**	Golden line.
Rodrigo:	**00:37:57**	All right, I can use my imagination.
Julian:	**00:37:59**	Anyway, I think the problem with all of these things is, it's what comes next, when's the next stage of the...so you get this personal inflation, you get this burst I think it's much stronger than people think, I think the employment rebound is much stronger, it's beginning to look much stronger than I thought certainly. The wage pressure is much more embedded than people realize, I think this sets bond markets up for...right here right now maybe we get a bit of a pause, it's only because you're getting some of the sell-off in the equity market and there's that natural feedback loop. But I just think fixed income is still grossly mispriced, the problem is going to be for the dilemma this sets up for central banks, because their natural inclination, and I've been saying to a lot of clients that the Fed wants their cake and eat it, and they've talked to policymakers and obviously with Yellen in the White House or in the administration, you've got this sort of symbiotic relationship, they've got now to underpin what treasury is doing and treasury's planning...I mean the numbers are insane, insane guys, it's been very clear from a policy perspective that that was going to come through. So they've been saying, we'll underpin this don't worry, we'll help you, we'll do all these things, well what do they do if these numbers just become so great? I think they've got one of two options. The first one is they push back against government and they basically tighten on government.
Rodrigo:	**0:39:46**	Dollar up.

Julian:	**00:39:48**	Dollar up, bond yields up, front end of the curve crushed, but it would annihilate the US equity market I think. The odds of you getting a huge broad VAR shock as we call it, value at risk shock, in other words all risk models get stressed by that move, I think is so great because you'd be talking Apple back at 1995, exactly where it was pre pandemic. I think that is a real risk. So you'd crush the housing market, the housing market would be annihilated.
Richard:	**00:40:30**	You're talking about a raise in short-term interest rates.
Julian:	**00:40:32**	I'm talking about a true tightening, but you took a blowout, you're talking a blowout in treasury yields, treasury yields go up to two and a half. I don't think the economy can take that. I do not believe, I think all these equity guys who stood up there and say, we can go back to two and a half three percent, just don't realize the degree in which we've had PE multiplication since COVID. Apple PE went from 25 to 45 at the high, it's come down because their numbers were good but look at Tesla's PE, it just went parabolic. And so that's one option for the Fed, they do what they typically do.
Rodrigo:	**00:41:15**	They're independent.
Julian:	**00:41:17**	Yeah they're independent, and the bond market is beginning to realize that that is a risk. We saw it in 2013, no we won't tighten, yeah we actually need to taper. What, you told us you weren't going to taper, bloody hell. So that's risk number one and that's option number one, and I don't know whether that's a valuable one because I just don't think that we could clear the level of debt that's going to be issued and the numbers are ginormous. We are running debt levels that a banana republic wouldn't be allowed to run, and we will run those numbers for the years to come. So you just can't clear the market at a natural clearing rate, which brings us to option number two. And option number two is basically that the Fed gets in bed with government and truly does some sort of yield curve control/essentially MMT, and that they artificially suppress bond yields in order to support asset prices and clear the debt.
Richard:	**00:42:29**	Operation Twist is already a hint.
Julian:	**00:42:31**	Yeah but it's not enough. One of my hedge fund clients said to me that by their calculations, the Fed needs to increase QE to 300 billion a month, because I think Morgan Stanley did some work at the end of last year.
Rodrigo:	**00:42:51**	Where are we now - 60?
Julian:	**00:42:52**	Now you're 80 on treasuries and 40 on...
Richard:	**00:42:58**	40 on the mortgage.

Julian:	**00:43:01**	So, you'd really have to step it up because the numbers are just startling guys, Morgan Stanley did some baseline work and this is before the Biden election, and their number was a deficit between from 2021 to 2025 inclusive, so those five years of 16 trillion basically. Add in the two that we've just spent which aren't funded, add in possibly another one in the infrastructure thing that might not be funded, a lot of it's going to get funded and people don't realize there's going to be some bloody enormous tax increases going to come through. You are talking let's say the easy calculation is 20 trillion over five years, so for a year, total private sector savings, in aggregate, in totality in the US economy annually is 1.8. So even if you drained out every red cent, you crowded out to use that old economic expression, every red cent of savings from the private sector in the US which would be bad, if we couldn't put any money in the equity market and it went all into the treasury market that would be a bit bad, if we couldn't win the commercial real estate, if we couldn't do it to banks it would be bad. But let's assume that we can do that, where's that 2.2 going to come from?
Rodrigo:	**00:44:19**	Well, the Fed's got to at some point say we're not going to be independent anymore, you're now a player of the government.
Julian:	**00:44:27**	Absolutely.
Rodrigo:	**00:44:28**	But you've been hinting at this.
Julian:	**00:44:27**	Not a pleasant thing for them to do, this is a viscerally, you asking them to essentially hand over their independence and abandon their current metrics and clearly you can see from the comments of people like Bostic and even from Powell that this is not something that they want to do lightly, and it's just exactly what happened in the 60's. In the 60's, Bill Martin who was the Fed president at the time was looking at all this spending in a pegged exchange rate mechanism, and was looking at the gold leaving the US and the current account deficits building and it was putting pressure in the system, and he was made with the choice. He could accommodate government spending or he could push back, raise interest rates, stabilize the system, and he came to the conclusion in a famous commentary, he said the Fed is independent within government but it is not independent of government. In other words, if it is the objective of government to run these numbers, to make these societal changes, to reduce minority unemployment, to redress income imbalances, to address everything that led to the horror of Black Lives Matter, if governments decided to do that, it's not my job to push against that.
Rodrigo:	**00:45:55**	Up against the will of the people, so they have a lot.
Julian:	**00:45:56**	Will of the people. But the point is we aren't at that point, the Fed kind of as I said, wants to have their cake and eat it, thinks that they can run both that they can let

this thing run hot and then taper or raise rates, and they're delusional because there's too much leverage in the system for them to do that. So I think we have to see that reset, you've got to keep punching them until one day they come in and say okay, your name's the Fed, 10-year yields are one percent or one and a half percent, and then at that point it's very clear what you do. You kybosh the dollar, because in the same way that if you run a pegged exchange rate, there used to be this thing called the holy trinity when you ran a pegged exchange rate, and it was if you've three metrics, money supply, current account and exchange rate. Solve for two, because you can't solve for three. So if you want to peg your currency, you can peg your currency and you control your capital account, but you can't solve for the money supply. Sorry you set your interest not the county account, you set your interest rates. So you can't solve for everything and your interest rates are given to you.

Now if you think about it from where the Fed is now, if they want to peg bond yields and support equities and they want to peg bond yields at an uneconomic non-market clearing rate because we can't afford to clear, because you'll crush the spending and you'll crush the equity market, then what you have to do is you have to underpin that and what has to give is the currency, and that's when you go back to your gold trade.

Richard: 00:47:55

Sidestepping a little bit this whole normative versus positive analysis what you think should be done versus what is likely going to happen, it seems like both Europe and the US are setting the stage for something along those lines, Christine Lagarde is now at the helm of the ECB, she's not a central bank, she's a policy maker, she's of that world, and the appointment of Yellen to the treasury seems to be bringing some form of alignment with the Fed as well. So given that scenario, isn't it likely that we're going to see this realignment of those two, let's say the convergence of those two branches into one?

Julian: 00:48:35

No. I think people forget. I mean independent central banks not a very, they're a relatively new invention. Treasury and the Bank of England when I was a little boy in the 60's was this one and the same thing right, so yes, I think this is exactly that and you go back and look at these cycles and this is another thing that I'm a big student, I don't believe anything is ever different, I think we have cycles, I think things like the Fourth Turning, the Kondratiev Wave and all this sort of things are functions of that and I think we're at one of those periods where if it weren't for fiat currencies and the ability of government to essentially print money, we'd be in a pretty shitty place. We'd be in what I call the Heads On Sticks Phase where you're Louis the 15th and the Sinkula of banging down the door of the Bastille and just about to storm Versailles and put you and you Mrs. head on a stick. I really think we're at a societal turning point that those things are necessary, and we've just voted in a government in the United States with that visceral belief to deliver, and I think that eventually the central bank is going to be dragged down that route.

I don't think it's an easy thing for them to do, I think it's a painful thing for them to acknowledge, that's why we have to inflict some pain, and I think this is the beginning of that pain.

Rodrigo: **00:50:06** Let's talk about that. We saw, there's been a wobble in the markets both bond and equity markets, because everybody's seeing inflation but the Fed's like look, this is transitory inflation. That seems hawkish to me. So it reminds me of 2015 or might say 2018, until they give in completely are we in for that jagged type of scenario as that tug of war begins between the Fed and the government, is that what you're seeing?

Transitory Inflation

Julian: **00:50:35** Well**,** it's really between the Fed and the markets, but yes I think that's the case. As I said I think this is a Fed that still wants to believe that we live in a normal world, a normal world where they can ultimately shrink the balance sheet and raise rates, and I think they're truly delusional because they've pumped up asset prices to a point where you can't do this. I remember writing a piece when they started talking about tapering back in 2013, and said can the Fed successfully shrink the balance sheet, the answer was no bloody way, no bloody way. Because the feedback loop between financial assets and the real economy is one in the same these days.

Rodrigo: **00:51:22** I've just gone out of... I've said so often and Richard can attest to this that Powell will never make that mistake again in his career, that he will never let 2018 happen again, I wonder if he'll just give up, that tug of war will be last week ,and then he's going to give up on it. Hey, this is more like me hoping by the way.

Julian: **00:51:41** I know, and I and I do understand that but one of the things that I've heard from policy contacts is they're quite, and even Bloomberg's written about this, they're central bank guys, they seem to be quite happy about allowing the curve to steepen. And I think that comes about because of a visceral, my understanding talking as I said, talk to mates who talk to these guys still, is that they've been deeply worried about bubblicious stocks. So let's takes some of the strain and everything will be fine and it'll all settle down. Well maybe we can, but it is going to be like threading the eye of the needle, it's bloody hard to do it to just have Apple, Amazon, Tesla, Netflix, …, all these things drop and everything else kind of rally, and not create some sort of like VAR shock across portfolios so that everything drops.

Richard: **00:52:43** It's good for banks though, it's good for the Wall Street guys. And the fact of the matter is the growth tech stocks, they are much more sensitive to the 30 year than to the 10, or much less so to the shorter term rate. So some of this could be sort of assuaged by a rotation of equities. Obviously it's painful in the market cap weighted world that we're in with the S&P, they've occupied such a large part that if they fall tremendously, or even in any meaningful way, that brings the whole market down even as the other portions of the market are catching up.

Julian: **00:53:18** I'm not sure if I'm right, but I listened to Bloomberg this morning driving my daughters to school, and they were saying that I think it was Amazon and Apple are equivalent and I might be wrong in that, but they're basically equivalent to banks and industrials. And so this is the problem, don't get me wrong we've been fans of that cyclical rotation trade, but it's hard to do it in, with these relative weightings, and I don't think we've seen even a capitulation in some of these tech names yet, you can just look at it . Maybe I was looking at like the VWAP, the average price that stocks, that something had been more over a period, for ARK, so ARKK off the lows of March. The VWAP comes in at I think it was like 117.60. So that means that this morning not sure exactly where it is now, but this morning we were half the stock purchased or half the stock traded since the lows of March, was underwater.

Rodrigo: **00:54:41** So 50% of the people who've been buying over the last year...

Julian: **00:54:45** We're losing money right now. And the thing was is you haven't seen a capitulation. If you look at the flows you just haven't seen the capitulation. If you look at vols, look at the VIX, look at positions in VXX, shares outstanding in that. There's been no capitulation yet. I still think this is a gift that keeps giving and this is nowhere close. The Fed can't capitulate with the Nasdaq down 10 bloody percent, they don't give a shit about where Tesla is. Tesla could go to zero.

Rodrigo: **00:55:24** Tesla needs to go to a thousand before they do something about it.

Julian: **00:55:29** Yeah, it's just got a hundred. No, a thousand, but no, even then it doesn't matter. I remember look, in 2000 when the Nasdaq went the S&P didn't go. The Nasdaq went in March, the money rotated into the S&P and the Dow and then the S&P stayed up until September and the Dow, which was bigger and a more important indicator back in those days than now, and it wouldn't be quite the same, but the Dow didn't go until May of 21, and only then did the US show signs of going into a recession because the Nasdaq was just a bubble. It's just like Tesla, Tesla is a bubble. The price action we'd be writing to people, look this is a classic bubble. So it has to start impacting and only when the Dow went and you started to see real problems in the economy, did the Fed ease. I mean the Fed hiked with the Nasdaq down 40 percent. I'm not quite saying it would be exactly the same this time but the point is they don't care about individual stocks. What they're looking at is the big macro picture.

I do think they could be panicked if we saw housing activity collapse, because mortgage rates have just become unaffordable and we were writing about this recently, the average FICO score, and let me get this right, I'll pull up the screen. The average FICO score in Q3 for a home purchase was the highest in 20 years, because it's all rich people who bought this stuff, and the medium...where is it? Sorry I'm just trying to find it so I don't make a mistake. I think it was 686, was the median FICO score. I mean those numbers are off the charts people just can't afford it. So 786 is the highest level in 20 years was the medium FICO score for a mortgage, with only 10% of mortgages extended under 683 and by the way 10%, the average FICO score for a millennial is 680. So who's buying all these bloody houses, it's wealthy people, it's the guy moving from New York city to Greenwich. When his junior tries to move to Stamford, good frigging luck. Because the house price has gone up 10 or 20 percent, mortgage rates just backed up, he doesn't have the income to support it anyway and he can't even get the sodding credit.

So that's when I think the Fed will start to get concerned, if you saw a precipitous drop in housing just like you did in 1966, you get the equity market and the housing market down together. Then I think things could get a little interesting, but the point is we need more pain. Tesla dropping to a hundred.

Richard: **00:58:42** The plumbing of the system I think makes...they're sort of maybe fighting the last war in the sense that the credits market froze, money markets, repo markets back in 08, and I think the recent scare in the repo market is still very salient and so I wonder if you might talk about that and how that plays into what the Feds real possibilities for next moves are considering how scary the repo market got for people who are actually watching this.

Real Possibilities and the Fed

Julian: **00:59:14** This was a fundamental problem that you saw a lurching, you saw this tightening of, as you started to see a lot of new issuance, you saw this problem that the banks were actually starting to get...their balance sheets was starting to get crowded out by the sheer quantity of treasuries that they were taking on board, the prime dealers, and remember these are the biggest banks in the United States.

Richard: **00:59:44** And they can't not buy.

Julian: **00:59:46** No you can't not buy.

Richard: **00:59:49** They're not allowed to.

Julian: **00:59:55** You got to keep doing it. This caused a real tightening of, it was basically crowding out the balance sheet, and if they'd let it go to the extreme and this is why they had to come through and flush the system with cash again and try and stabilize things, but we just saw with the seven year auction that they were left holding the bag again. Now they've relaxed some of the rules, this supplementary leverage ratio, the SLR enabled them to kind of carry more treasuries, not have to put capital against that, so things have helped out but this is a fun... look, this back up in bond yields I think will attract buying. the BOJ's move to cap JGB yields, I think is important. Treasuries started wobble when the Japanese yield started to spike, so that may help, you'll get something, you'll get a stabilization in, at kind of current levels. But if equities go straight back up again, then bonds are going to go again. And then you add the inflation growth recovery story, bonds are fundamentally stable, so maybe we get this short bout of month, couple of months even where things sort of tread water and we're in this little phony war where bonds nip up a bit and equities wobble a bit, but the amount of issuances coming down the pipeline, I'm afraid is just going to necessitate the dealers unless they totally suspend and go back to pre Dodd-Frank kind of rules.

It used to be that if you're a Treasury Prime Dealer, you could net your position so you could take your longs and you could short and you could net them down to zero, and treasuries were zero risk weighted. So you could have the biggest damn book that you wanted to have. And then they started to introduce all this stuff and a friend of mine was COO of Citibank's global fixed income business, and he was going into the Fed and pleading with them, don't damn well do this. Don't do this because if you start to put that I have to hold these things on my book, I have a return on equity metric, so I have to put up equity against these things, and capital against these things, I have a return on equity metric, it means me as the second largest primary market maker for treasuries in the world, ain't going to be carrying any inventory and won't want to take this...

Rodrigo: **01:02:30** All on the Fed right now since then.

Julian: **01:02:33** So I think it's the lot, as I said you could roll back Dodd-Frank, politically it's going to be quite a smelly one to do.

Richard: **01:02:43** Especially under a Democratic administration.

Julian: **01:02:46** Correct. Especially under a Democratic administration. So I truly think that this is up to the Fed. We just have to force the Fed to the point that they capitulate and as I said it will not be a painless process, because what you are asking them to do is viscerally repugnant to them.

Richard: **01:03:11** What does that capitulation look like? I'm trying to kind of set the stage here of so what the mechanics...

Julian: **01:03:17** No, I think it's a combination of a broad risk off VAR type event in markets where everything is kind of selling off.

Richard:	**01:03:28**	Let's step back a second, what is the Fed doing? What are the actions that are indicating the fifth capitulation …
Julian:	**01:03:38**	… so you pressurize them by getting weakness in the economy from the back up in rates, let's say housing goes, let's use that ‘66 analogy. Housing goes, markets are under pressure, dollar’s pushing higher, all of the things that they don't want to happen, that they structurally believe are still necessary, that you're tightening financial conditions on them basically, and they don't want that to happen clearly and you push them to the point. And then I suspect what they do is they will hide and what you'd really like is treasuries under pressure at the same time so you create that. That's where, to go back to our first question about risk parity. It’s not that I think it's a bad strategy but you're really stressing that whole 60-40 thesis, you've got nowhere to hide kind of thing.
Rodrigo:	**01:04:30**	That conversation wasn't live, so I want to make sure we know risk parity is 60-40, bond equity, not the actual Risk Parity which includes commodities, bonds, TIPS and the like.
Julian:	**01:04:38**	Right. So that kind of balance, the balanced portfolio, let's call it a balanced portfolio.
Rodrigo:	**01:04:43**	The Levered Balanced Portfolio.
Julian:	**01:04:45**	Yeah. It's very difficult to find a hedge, and let's be honest, even in that environment commodities are probably going down too because you're having to de-gross your books, you're having to reduce your risk on your portfolio. If gold is up you're like thank you very much as we saw...
Rodrigo:	**01:05:00**	If there's a liquidity crunch everything goes down.
Julian:	**01:05:02**	Everything goes down. So I think you need that kind of liquidity crunch and you need the Fed to come in and step up their purchases.
Richard:	**01:05:17**	On the longer end, it has to happen on the longer in order to actually flatten the yield curve because...
Julian:	**01:05:23**	I think it probably does have to happen over the longer end. That will fall down the curve because I’m actually a little concerned that if you're say causing this stress just like now where bonds are not backing off even though equity is weak, because of the data, so fast forward to let's say September and one of the things that I've been listening to is companies talking about, we just can't find people, we want to bring people back to work but we can't find them because this unemployment's just got extended to July. So people are just sitting there going, I’m not going to take 15 bucks an hour, I’m going to sit and play with my

Xbox and I'm going to wait till August and it runs out and then companies will be offering me 20 bucks an hour. What happens in August if you get a million non-farm payroll number? I mean some blowout bloody number with average hourly earnings jumping and the same time you're printing the highs on inflation.

Richard: **01:06:29** Good news is bad news.

Julian: **01:06:33** Today, 10 years or 30, so I don't think it'd go far, but we'll come out and buy shed load of 10 years. In that situation all that's going to happen is the belly of the curve five years 2023-2024 Eurodollar's just going to go, so you'll just get a bear flattener as the curve, the Fed comes in and pushes this bit down but this bit will just go bump like that. I think they're going to have to think very hard how they do this, and I think they just have to increase QE and say we're going to be buying down the whole curve.

Rodrigo: **01:07:13** Hey whatever it takes type an error.

Julian: **01:07:12** Whatever it takes kind of situation, and as I said when that happens the dollar just gets annihilated.

Mike: **01:07:23** Where's the deflation that occurs? What's the deflation, is there ever an increase in productivity or anything? I hear this this sort of counter narrative on occasion which makes my... I hate shaking my head.

The Two Options

Julian: **01:07:36** What we need is we need to get out of this right. There's two options. Option number one, Debt Jubilee at some point. Option number two is rapid nominal GDP growth which destroys the value of the debt, erodes the value of the debt over time, and it can happen quickly. Like I said, five years in the 60's, given where bond yields were and term risk premium was where it is exactly now, I mean ours was actually just recently negative. What you earn from taking the risk in 10 years as opposed to just rolling your money kind of in overnight or short dated. In those six years from 65 to 70 you eroded the value of a treasury by 30 percent, by a third.

Rodrigo: **01:08:31** Is that what you mean by Jubilee?

Julian: **01:08:31** No, Jubilee would be say, forgiving student loans.

Rodrigo: **01:08:43** What you're describing is inflation that brings debt down...

Julian: **01:08:46** Or more rapid than normal GDP. So you peg bond yields at two and you're growing at 6.

Rodrigo:	**01:08:52**	In real terms you're seeing-
Julian:	**01:08:55**	Correct, in real terms you're growing at six and eight, and you can do that quickly. So I'm not convinced that we're going to go back into a deflationary environment. I think you could have bouts of where prices will dip a little bit, but as I said if you compare this to 2008-2009 we are starting this and this is, we're spending much more money than we spent in 2008-2009 and we're running much more extreme monetary policy than we were in 2008-2009. We're doing it from higher inflation with headline inflation and even core inflation, we're doing higher wage growth, and it looks like that chart that I showed you in the 60's where you kind of do this oscillation, but every single new low is higher than the prior low.
Rodrigo:	**01:09:49**	Yep, higher highs lower lows.
Richard:	**01:09:52**	The … alternative doesn't really seem feasible because of what it does to the system, for the insurance company, for the banks. It doesn't seem like it's anywhere near part of the conversation. So you're left with either growth or inflation to erode away the real value of the...
Julian:	**01:10:10**	Yeah, it's the combination that's why I keep saying nominal. It's that combination of real growth and inflation and I don't know what the number is, let's say it's six, I mean in an ideal world you'd have four percent real growth, two percent inflation, but bugger it. If you can't generate the four percent real growth, you'll take two percent real growth and four percent inflation.
Richard:	**01:10:33**	This is what I'm trying to get at though, Drukenmiller and some other people have been talking about how we're vastly been underestimating productivity and we're overdue for a rethink about how we're measuring economic growth, do you think this alternative the scenario that you're describing, of growth in nominal GDP would necessarily have to some degree, pass through this imagination of how we measure economic activity?
Julian:	**01:11:06**	Maybe you do it like that, I don't know whether it really matters. If you go into, and this is where you go back to, this kind of real versus nominal stuff and I'm a bit of a cynic. I know central banks love to talk about real. Last time I looked in my wallet I didn't go, I've got 20 bucks but it's really only $19.75. It was worth 20 bucks three months ago and now it's worth this. People don't think like that and markets aren't necessarily...
Rodrigo:	**01:11:39**	The South American here will have issue with that statement, but yeah, you lucky developed nation people have never been able to conceptualize...
Julian:	**01:11:52**	Lucky so far.

Mike:	**01:11:52**	This is the hidden opportunity for central banks to capitalize on, that's the 60's is that people don't view, they don't understand real, and they don't view real. So it's a wonderful way to boli the frog. Nice and slow, no one really notices it, but they notice it.
Richard:	**01:12:16**	Well the 70's was a little faster, I think that frog would have jumped a couple of times.
Rodrigo:	**01:12:20**	Yeah, yes. It was a big drop in purchasing power for sure. It wasn't like seven thousand percent like what I've experienced in Peru and you've experienced in Brazil.
Richard:	**01:12:32**	It wasn't Zimbabwe, it wasn't … Republic sure but it was meaningfully higher than anything we've experienced in the last four decades, so it does change the dynamics and people might start looking at their wallets
Rodrigo:	**01:12:41**	… of information. It has a whiff of sophistication.
Mike:	**01:12:47**	It absolutely chokes off spending. As a kid who grew up in that era.
Julian:	**01:12:53**	But remember this is also part of the wealth transfer we have to go through.
Rodrigo:	**01:12:59**	That's an interesting point actually.
Julian:	**01:13:02**	I remember one of my colleagues mother, his father died quite young and his father had worked for a big, he was very senior for a big UK company, and they had the pension and mommy went shopping at Harrods and it was fun, it was in those old days of the corporation really used to take care of you, and he was a senior exec. He died, she gets a big death benefit, she gets a full-on nice pension, they used to go shopping at Harrods. That was in this in the 60's, and then by the 70's he was subsidizing his mother's income because the value of inflation had just eroded that. But that's the way it needs to happen, we need millennials to be able to buy million dollar homes. Because we all own million dollar homes, who the hell is going to buy them off us. We don't want them to fall to half a million dollar homes, because we'll be feeling pretty pissed off.
Rodrigo:	**01:14:06**	Retirement plan involves the sale of that home.
Julian:	**01:14:10**	But you need the wealth to transfer and the way you do that is run rapid nominal GDP, push wages higher, and it's not going to be easy to do but maybe we can do that.
Rodrigo:	**01:14:24**	You haven't heard me say this Julian but I've said this before, born and raised in Peru. The reason we came to Canada was because inflation went up seven

thousand percent in six months, my grandfather retired, accountant his whole life. He was offered to be given a million dollars in US dollars, a million dollars in Peruvian sols. He took the million dollars, equivalent US dollars in Peruvian sols, within six months which is massive back then you could imagine. That went to zero for him in Peruvian sols. My next-door neighbor at the same time was being evicted from his house because he couldn't afford his mortgage payments, happened to have a few dollar bills, US dollar bills under his mattress when the inflation happened, he paid off his mortgage with a couple of hundred dollar bills. So he got to keep his house and my grandfather got to lose it all. That's an extreme example of what you're talking about, what we're dealing with right now is a massive wealth gap that needs to be fixed in one way or another, and there's pain in all of this but this seems to be a clear agenda from the current population.

Julian: **01:15:30** Totally, I mean visceral. I talk to a lot of friends who I know in the policy space and it was always when I was at Medley Advisors, so kind of extreme view mix internally between the Democrats and the Republicans in the firm and actually was great because it gave us both sides kind of view and they had contacts in both sides administration, but when you talk to the Democrats, they will tell you this is an administration that it's almost like a religious zeal to fix some of these discrepancies and it's hard to argue that now is the right time to try and do it. It's not from a debt perspective, it's not necessarily from an economic perspective from a social perspective, God almighty we need to deal with this thing.

Richard: **01:16:17** Julian, I want to shift gears just to go to something that I've read in your work time and time again which is the US dollar cycle, and I kind of wanted to get your thoughts given the scenario that you just described and the trees of possibilities that you think might happen, what happens to the dollar here and could this time be different, given that we now have an emerging China which still doesn't have enough of a bond market depth to have and all the capital controls that they have there but you have China, you have the European pole, you have a rise in protectionism and you have the Bits in the sky the crypto world now as an alternative. So how does that multifaceted problem adjust to your framework for the US dollar?

The U.S. Dollar Cycle

Julian: **01:17:06** I think the first thing to say is, I keep doing the analogy to the late 60’s and you talked, obviously you were talking about the 70’s as well. In the late 60’s as I said we had a pegged exchange rate, so the process was elongated. I think these things firstly. I think things are happening much more rapidly and it's partly because we don't have the fixed exchange rate. But we came out of Bretton Woods when the system collapsed. The pegged system collapsed in currencies and the dollar fell 50% against the deutsche mark and 50 against the yen. Why shouldn't the same thing happen again? Is my fundamental. Insanity is repeating the same thing and expecting a different outcome. We're heading in that same direction, we've got a central bank which ultimately I feel we're not there yet, we have to go through the pain, there's some steps that have to click into place, but I think given the alternative, there is no alternative ultimately, but it's going to have to underpin the US debt markets and as it does that the dollar is going to start falling, and I have models already which is suggesting an accelerative rapid dollar decline.

Rodrigo: **01:18:25** What are the knock-on effects of that, for other asset classes.

Julian: **01:18:29** As I said, I think it's hugely inflationary, that's hugely inflationary. You take the dollar and you overlay over like G7 inflation it's perfectly like an inverse relationship, hugely inflationary. It's great for obviously your precious metals but probably more silver than gold because ultimately a falling dollar is globally reflationary...

Richard: **01:18:55** Emerging markets.

Julian: **01:18:57** Yeah, so Raoul says it's a great expression, he goes look, "if I know where the dollar's going I just need to buy commodities and EM and go and sit on the beach for ten years". Basically he's right.

Richard: **01:19:10** Can I push back here a little Julian because I can't imagine the ECB, the BOJ just watching the dollar tank, which makes the US and their exports that much more competitive on the global landscape. I can't imagine the ECB and the BOJ and some of these other major central banks allowing their currencies to value so far against the dollar because of what it does for their economy. We have been since '08/'09 in this sort of zero-sum game of currency wars and competitive devaluations and all that fun stuff which I'm sure you know well.

Julian: **01:19:43** Here's the thing, yes, but dynamics change a little bit. The first thing is, how are they going to stop it happening? If they want to stop it happening they have to run, pari-passu their QE with the Fed's QA. How are they going to do that, because if you look at the dollar against the relative balance sheets it's a pretty decent indicator. How are they going to do that?

Richard: **01:20:20** They can buy the dollar.

Julian: **01:20:14** Really the ECB is going to come in and start selling euros and buying dollars. Unilaterally, that's going to be politically pretty friggin explosive in the US, where the US will be saying at least initially in the decline, this is just a correction because our currency was way overvalued for a long time, so you're a manipulator. I mean there's all sorts of horrible things there, so I don't think they can buy the dollar, I don't think they've got the assets that they can generate domestically which will allow them to keep up with the Fed. The European governments are not going to run 15 to 20% of GDP deficits like the US treasury is.

Rodrigo: **01:21:03** Yeah, there's too many there's too many constituents that have something to say about that.

Julian: **01:21:05** I don't see that.

Richard: **01:21:07** Not if the alternative is driving them into a recession.

Julian: **01:21:11** Hold on, think. There's two other things that come into play. The first thing is Germany and Northern Europe, is highly correlated to what emerging markets in Asia does, and a weak dollar will start to help. If all of a sudden Brazil is functioning well again and...I know I get it and the Saudis are functioning well again.

Rodrigo: **01:21:40** Of course they are, the commodities go in up emerging markets they're making money we're all gold.

Julian: **01:21:45** So they get that and the other thing is that ultimately when push comes to shove, the ECB is a more inflation sensitive bank than the Fed is. They don't have the debts, it's certainly in the country.

Richard: **01:21:58** The Bundesbank you mean?

Julian: **01:21:59** Yeah, because of the Bundesbank, and the Dutch and these other central banks. So there is a point at which higher inflation, and you can look at the dollar actually against European inflation, and actually is pretty decent indicated because oil prices will be going up and not all of it will be offset in currency terms, and steel prices will be going up and all these things just like now, and it's quite possible that the ECB will allow it to take some of the strain. But where the dollar, I'm not saying in a nasty collapse, the euro goes to 160. But what will happen and what hasn't happened up until now, is the area of the currency market that hasn't seen any dollar appreciate a dollar weakness is EM. So EM has to see it, and for that to happen you've got to peg US yields, you get the fiscal spending that comes through which actually this is true concrete demand for some of the commodities that you produce in emerging markets, and that will slowly percolate.

Brazil was going to go in what, 2011-2012 was going to be the new emerged economy. A beer in Brazil cost you like 20 bucks because dollar/Brazil was at 150, and everyone was like oh my God it's great, and they forgot one bloody thing. If the dollar turns on you, you're screwed and the only thing that's really changed for Brazil is the dollar's move. I know it's not exactly the world's best president there at the moment, you've got some structural issues now, it's not as easy as it was back then. But just think the … which people were trying to pile into Brazil at the cycle high of the Brazilian economy in like 2011-2012. The one big variable that switched, was the dollar.

Richard: **01:24:10** The terms of trade worsened so much because soy and iron ore which are main exports worsen the bid. We always have a lot of governance issues in Brazil and granted I do have a little bit of negative home country bias, so we have a saying in Brazil that Brazil is always the country of the future, but the future never converges so it stays in the future and … and it never materializes, so granted.

Rodrigo: **01:24:36** A quantum reality. Peru is the same way, we're gold, zinc, copper, we had the best years during that dollar down, the U.S equity markets were the worst performing markets from 2003 to 2007, emerging markets annualizing at 35 percent, global developed we're annualizing at 22 percent, it was the amazing work that the politicians did in those south American countries that really got us out of it.

Julian: **01:25:07** It's funny you bring up Peru. I had a good friend of mine Carlos Garingo who worked with me, and he was probably like you, he's one of those Peruvians who went to the English school and hung out with all the guys who were either going to leave and go to the United States and become doctors or Wall Streeters, or they would do that do their MBA and then go back to Peru and run the country.

Rodrigo: **01:25:29** I'm eventually going to save the world.

Julian: **01:25:32** And he showed me, he said I've got this thing from this buddy of mine who runs, he's writing this for the finance ministry. We're going to set up this sovereign wealth fund in Peru and we're going to take all this money with commodities high, we're going to shut it away and then we'll have this counter cycle fund that we can build roads and do all these things. And I said okay mate, you better put a bloody great big dollar hedge on, and he went what? And I said because that's all it the only reason why you've got this money to play with is because the dollar's weak, and then the dollar basis...

Rodrigo: **01:26:01** 100%. And my brother is about, I shouldn't say. But anyway, he still works in Peru, he's here with me in Cayman but I'm telling them like your heydays are coming. This is going to be the best time for you, he's in M&A, people are kind of I don't know if I should do business in Peru. They're going to be coming, it's going to be fantastic.

Julian: **01:26:20** Just depends on getting those conditions to weaken that dollar, right here right now I'm actually short dollars, we've been short dollars for a bit and we're long dollar/yen which is kind of a candlestick one but we short euros probably a little, we were a little early but it's beginning to work and...

Rodrigo: **01:26:38** This is why I love you man, you just sold us on something, you want to buy it back, what the hell?

Punching the Fed in the Nose

Julian: **01:26:42** No, the point is, this is now the pain environment. We're punching the Fed, we're beginning to try and punch the Fed on the nose to get them to make the steps that initiate the next big trade, but it's a process of pain and it's a process of crisis and bad things happen in that environment. The dollar just doesn't go straight down, it could squeeze a bit. I don't know whether it goes up that much but it's a trade.

Richard: **01:27:18** I like William Ackerman's question there given your short-term negative views on the gold but then your overall scenario for the coming years, wouldn't that maybe get gold up? And I would just throw in bitcoin and some of the other cryptos. I'll try that again to see if this will...

Rodrigo: **01:27:35** Will wrap it up with bitcoin of course.

Julian: **01:27:38** Great, the one that everyone just gives me shit about. Look, here's the thing, gold is the growth commodity. It is the commodity that tends to do well in an environment of monetary debasement but no actual economic growth. It's not that it necessarily does badly, and I think in the environment I'm talking about where you get the Fed pegging it, it will perform. But other commodities may do a hell of a lot better and that's because they're the value plays, and that's where I've shifted my focus, as I said I have a core holding in gold, but the other precious metal I prefer is silver ultimately. I think silver's going back up to 50 bucks, I do not think that gold is going to four thousand dollars.

Rodrigo: **01:28:35** We wrote a paper on, a commodity paper on a quantitatively based, how do you get exposure to commodities, and part of the discussion is that people think that, inflation, it's either TIPS or gold, but inflation actually depending on the type where we are in the cycle will happen in softs and energies and hards and like precious metals, it'll happen in TIPS in different ways, so this idea that you're kind of covered with this one precious metal is just not right, you need to diversify your inflation hedge.

Julian: **01:29:13** And it's not just inflation, when growth comes through, when true growth comes through, copper outperforms gold. And when gold goes down, it just means copper is a better trade than gold.

Rodrigo:	**01:29:25**	Massive growth during the mid 00's and it was the same idea. So this just like this is the only way it seems a little silly, you want to have a thoughtful commodity portfolio that can take advantage of the opportunities when they arrive.
Julian:	**01:29:40**	Correct, and as I said we've shifted more into...we've been buying things like DBA which is this agricultural softs play. It's not the greatest physical thing to actually trade but there's not many great ETFS around there, I'm sure they'll be out in six months' time but yeah so I don't have a gold trade on at the moment.
Rodrigo:	**01:30:03**	Thanks Julian, it's been an hour and a half, I met your wife over email and we have a William … says thanks and tell Gretchen hello. So we'll end it with that, thank you so much for your time, been a long-time fan.
Julian:	**01:30:18**	Pleasure, thank you very much gents.
Rodrigo:	**01:30:18**	We hope to have you again at some point to discuss risk parity.
Julian:	**01:30:24**	Yeah we have to we have to do it later in the day so I can actually have my beer too.
Mike:	**01:30:32**	We can drink in the morning it's fine. The other if you make it down to Grand Cayman make sure you come drop us a line as well.
Julian:	**01:30:39**	Sounds like a plan, thank you gents, thank you.
Richard:	**01:30:41**	Thank you for joining us.
Rodrigo:	**01:30:44**	Thank you so much.
Julian:	**01:30:42**	Pleasure, see you.