BTC136: THE FED PAUSE & Q2 CURRENT EVENTS W/ LUKE GROMEN

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Preston Pysh interviews Luke Gromen about all the macro current events happening in the 2Q of 2023.

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TRANSCRIPT:

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IN THIS EPISODE, YOU'LL LEARN

- The FED recently paused with their efforts to raise interest rates – what's happening?
- Everyone's talking about the TGA needing refilled, what's actually happening?
- How does the US Government need to issue 2.1 Trillion in the second half of 2023 and what's the impact?
- What is happening with the current number of cardboard boxes and why is it important?
- What's happening in the energy market right now?
- Luke's thoughts on Blackrock Bitcoin ETF.
- What's happening in US – China Relations right now?

[00:00:00] Preston Pysh: Hey everyone, welcome to this Wednesday's release of the Bitcoin Fundamentals Podcast. Today we have back one of our most popular guests with Luke Gromen. Luke is a super intelligent macro and geopolitical thinker, and on today's show we cover all the drama currently on unfolding around the Fed's current rate, hike, pause, whether this is it or will they keep on tightening in future meetings, how the treasury is going to issue potentially 2.1 trillion of additional debt just in the second half of 2023 and what impact that might have.

[00:00:30] Preston Pysh: We talk about the energy market, its impact on treasury yields, the Bitcoin shift that's currently taking place. That was initiated with BlackRock's filing for a Bitcoin spot, ETF, and many other legacy financial businesses trying to enter the fold into the Bitcoin exchange market. This isn't one you're going to want to miss, and so without further delay, here's my chat with Mr. Luke Gromen.

[00:00:56] Intro: You are listening to Bitcoin Fundamentals by The Investor's Podcast Network. Now for your host, Preston Pysh.

[00:01:14] Preston Pysh: Hey everyone, welcome back to the show. I'm here with Luke Gromen. Luke, great to have you man. I got a lot of questions for you today.

[00:01:22] Luke Gromen: Thanks for having me back on Preston, and it's great to be here. It's great to see you again.

[00:01:26] Preston Pysh: Yeah, great to see you. So I think the first thing on everybody's mind is, so the Fed paused, are they pausing here and they're, are they actually going to start up like they're flexing that they're going to do, or is this it?

[00:01:39] Preston Pysh: Are they done hiking? Where, how do you see this kind of playing out from here?

[00:01:44] Luke Gromen: I see this as the latest attempt to ride two horses with one ass, as you and I have been talking about for a number of years. And, and to their credit, by and large, they've done a pretty good job of of, of stringing this a lot.

[00:02:00] Luke Gromen: And what I mean by that is that they are into yet another intractable situation, which is to say if they keep raising rates, they're going to make banking system strains worse. Sovereign debt strains worse. Commercial real estate, worse venture capital, worse and risk. Very much a non-linear prices of some description on the downside that we got a little of in March at the same time.

[00:02:27] Luke Gromen: We still have inflation. That headline is whatever it is, 5.3 or 4%. Yes. It's come down. A lot of the headline decline has been driven by energy, which is, as you, we will probably talk about in a bit, maybe about to start going against them incoming months, inflation's still too high and so they don't want to just say we're done.
[00:02:52] Luke Gromen: And so I think what they're trying to do is sort of ride two horses. One as split the baby, whatever, whatever metaphor you want to use, which is okay, we're going to pause to try to sort of give the, the strains a chance to get their feet under them while at the same time promising to get more aggressive or, or, or still stay aggressive in the back half of the year with the 50 basis points that they talked about with the dot plot that they still have on the, on the menu.

[00:03:21] Luke Gromen: I guess. So I think that's my read of what they're trying to do and we'll see if it works.

[00:03:26] Preston Pysh: Coming out of the debt ceiling issue, the general consensus on Bitcoin, Twitter, traditional finance Twitter, was this idea that they had to refill the, the Treasury general account. You even went a step further in your weekly report and you, you looked at the second half of 2023.

[00:03:46] Preston Pysh: And this is a number that was way bigger than anything else that I had read anywhere else. And you said that you're expecting a $2.1 trillion US treasury issuance in the second half of 2023. And here's the math on it for people that are wondering how you came up with this number. 1.1 trillion of it is just US fiscal deficit.

[00:04:08] Preston Pysh: Another half a trillion to refill the TGA with the general account. And another half a trillion for the Fed quantitative tightening that's currently taking place for a total of 2.1 trillion. Do you still stand by this number? because this was probably like a month ago that you published this number. Do you still stand by this number?

[00:04:25] Preston Pysh: And more importantly, the reason everybody's talking about this is because they're saying it's going to be a liquidity suck in the second half of, of the year. And if it's truly a liquidity suck, this would not be good for risk on assets. And to date, since they've got through the deficit ceiling, it's been anything of the sort the, the equity markets have ripped, absolutely ripped.

[00:04:48] Preston Pysh: Talk to us about what's going on here, because this is crazy, Luke.

[00:04:52] Luke Gromen: It's been confusing to me. I stand by the number, particularly if you get the dollar rising, then you could even add to that number, right? Because you're, we saw last year when the dollar gets strong foreigners sell treasuries, so your net effective issuance.

[00:05:08] Luke Gromen: So I, I think the dynamics are still there. I think there's two offsets. I think, you know, the reverse repo rundown that you can get some liquidity. To basically shift dollars from sort of the left pocket to the right pocket into the TGA and therefore not pull down on bank reserves, not pull, there is an element of that.

[00:05:27] Luke Gromen: I think that is, in my view, it's timing. In other words, you can do that for a bit and there's some bidding up of, you know, relative rates to get the money from the left pocket to the right pocket, so to speak. But that can, that can buy some time. I think the bigger factor in terms of explaining what we've seen with the market just ripping despite all of that, is, I think positioning is, I think for, unfortunately, myself included in there, a lot of people have identified this potential liquidity suck as a serious issue.

[00:06:00] Luke Gromen: I've also added on, hey, you're going to have commercial real estate. You're going to, that's going to be needing to do a lot of refinancing, et cetera, at much higher rates. You're going to venture capital need to do the same. So that sort of the, the aggregate liquidity suck at much higher rates in the back half of this year, I think is still absolutely a key story.

[00:06:16] Luke Gromen: But I think it was a key story that everybody knew about and wasn't positioned for in February when the market was ripping, Hey, everything's great, great, great. And then, oh God, banking March April. Markets were, were pretty tumultuous. And then I think everybody sort of swung to that side. I piled on on that on May.

[00:06:35] Luke Gromen: I still think it's a real issue when you look out over the next six months. So I think it's really a timing standpoint of, hey, we have to unwind some positioning around everybody was positioned for this liquidity suck. And so now you've kind of had like this short squeeze higher when it hasn't happened instantly.

[00:06:51] Luke Gromen: And I think, I still think it's going to happen, but I just think it's a, I think it's a timing and a positioning issue, I guess, if you will, in terms of when we're going to start to see it play out.

[00:07:02] Preston Pysh: So you're thinking it's more of a short squeeze because people weren't positioned for it to start moving up and the lag, they weren't accounting for the lag of, of what was happening.

[00:07:12] Preston Pysh: When you're looking at this move, doesn't it seem or look like, maybe it's a little overdone. I mean, we're talking right now it's the 20th of June right now, and it seems like this move might be a little overdone, maybe time for a correction, but would you say that the general move in equities is going to continue to bid from here?

[00:07:32] Preston Pysh: Cause I can tell you from a momentum standpoint, everything that I'm looking at is suggesting that the momentum has shifted. Like the sell off that we had in 2022 is over from a momentum standpoint. And it, it, it really is feeling and looking you know, depending on which, which metrics you're using from a momentum standpoint.

[00:07:50] Preston Pysh: But it, it sure looks like the momentum is, is done on the bear market and we're now in a bull market with respect to equities only.

[00:07:57] Luke Gromen: Interesting. Yeah, I think you still have to work through this. Credit issues, I think you're the liquidity suck of government, the liquidity suck of CRE liquidity of vc.

[00:08:09] Luke Gromen: Now where could I be wrong? Is, is to the extent there is a, a shift in where we are going from a tipping point where these deficits just go to straight fiscal dominance basically, where they, these deficits are now just inflationary and equity start to reflect that. But I, I still think we're going to get, I still think the amount of liquidity sec, you've gotta have refill TGA, what's going on with deficits?

[00:08:37] Luke Gromen: What's going on with commercial real estate vc. And then I think what's going on with energy as well, that to me, what I said before, everything, you know, I think the CRE VC fiscal is still, I, I think is still, you know, the TGA, the liquidity sector I think is, is very well understood. So those factors I think are all very well understood.

[00:08:58] Luke Gromen: I think those are priced in. What I don't think is priced in is those three factors in the context of an energy price that starts rising and there's not a thing the government can do about it to get it back down with SPR with Shell. And then you start talking about second half of the year where uhoh headline inflation moving back up, head fla, inflation's back to six, it's back to seven.

[00:09:19] Luke Gromen: And that I think is what is not priced in at all at this point, is really the overlap of that credit issue with what I think is likely to happen with, with headline inflation around energy.

[00:09:31] Preston Pysh: Specifically, I want to get into the energy piece and how this equates back to the bond market, but before we go there, I guess I'm just, I'm really trying to zoom out and trying to understand why we're seeing what we're seeing in, in risk on equities, and you're also seeing it with gold.

[00:09:49] Preston Pysh: You're seeing it with Bitcoin.

[00:09:50] Preston Pysh: Where does all this buying power that has manifested itself, that has been jam packed in into fixed income for the last 40 years. It has to go somewhere. There's nowhere else for it to go. And I think anybody in fixed income is looking at it right now, Luke, and they're saying they can't recover from this.

[00:10:07] Preston Pysh: They're not going to be able to control. This is what I think the broader market is saying when they're looking at fixed income bonds, they're saying, none of this is under control. This has to keep selling off. They have to monetize this debt collectively across the G7.

[00:10:21] Luke Gromen: Right.

[00:10:22] Preston Pysh: I guess this is the question.

[00:10:24] Preston Pysh: Are fixed income investors, have they finally figured it out that there's no end in sight and that they're the patsy at the table and they're now trying to front run that buying power into something that gives them some type of scarcity? And that's either equities or that's gold and Bitcoin. Like that's the only place you can go PE ratios.

[00:10:46] Preston Pysh: Do they even matter, Luke? Do they even matter at this point? If the fixed income market is that much of a disaster? And that's the general consensus as to what's happening.

[00:10:56] Luke Gromen: That is, that is the $64,000 question. And, and as you know, this is something we've been talking about for some time, is, is that ultimately, you know, my view's long been, ultimately the bond market's going to wake up and say, oh God, we're the sucker at the card table and we need to squeeze into, like you said, equities, gold, bitcoin real estate, et cetera.

[00:11:16] Luke Gromen: And is it possible? It's now.

[00:11:19] Luke Gromen: It is, it is. And that's, I think you raise a really good point in bringing that up, which is, it's so easy to get focused on, okay, here's the credit crunch. And if everybody knows the credit crunch is coming, then it's the credit crunch no longer is going to be priced. You know, like that's discounted.

[00:11:36] Luke Gromen: So what's the second derivative to the credit crunch? The second derivative to the credit crunch is, is are they going to let the system collapse in that credit crunch or are they going to go back to printing? And we know what they're going to do. The Fed has shown its hand, they fed, showed its hand in March.

[00:11:50] Luke Gromen: Fed had a chance to end inflation. Now all they had to do was stand aside, say Oprah, you've got all that money in Silicon Valley Bank on and unsecured deposits. Goodbye. Goodbye. And if you'd have done that and you'd let a bank run happen and you wipe out unsecured depositors, you basically take all that currency you created over the last however many years.

[00:12:12] Luke Gromen: Certainly a lot of it in the last three, and a big chunk of it goes in one instant and you would end, you would end inflation. Now, that was the option for the Fed ending inflation and. You get policy makers say, and, and a lot econom say, well that was too draconian. You can't do that. You can't reist on the banks too big to fail.

[00:12:33] Luke Gromen: That's fine. And I tend to agree because there's systemic political issues of just letting it all go poof.

[00:12:40] Luke Gromen: However, there's no half pregnant. You either let it all go poof, or you're now an inflationary regime. You're now in an Argentine with US characteristics regime. And, and when you layer on sort of the excitement about AI, like the thing that's been making me most uncomfortable about this sort of this next three to six months, hey, there's this credit con coming is exactly what you described, which is what if we crossed the Rubicon?

[00:13:06] Luke Gromen: What if we crossed the Rubicon in March? Where now the bond market goes, okay, they're not going to let banks fail and they're not going to let the treasury market go get, get too bumpy. And if that's the case, why do I own duration? Why do I own bonds? Yeah. Like this is, and, and to your point, You're starting to see signs of that again, like I was looking at church history that the 10 year guilt on the UK just broke out higher September high.

[00:13:31] Preston Pysh: Where, where things were breaking, you know-

[00:13:33] Luke Gromen: Where things were breaking. And we haven't even gotten to the oil part of this movie yet. Yeah. Where like, and that's why when you read, you know, what, what we write a lot of is this barbell approach of like, I have very high conviction in how this movie's going to end, which is they are going to print it all, they're going to do yield curve control.

[00:13:51] Luke Gromen: They're going to, you know, basically make borrowing, they're taking real rates way more negative than anybody thinks possible, negative 15% like they did at the end of World War ii, maybe more. Via some measure of printing, yield, curve control, et cetera, et cetera. And bond holders are going to get killed on a real basis.

[00:14:07] Luke Gromen: It'll be a debt jubilee or a restructuring on a real basis. And I've always said those is particularly in the last year, year and a half, like I, the short run, I have no conviction, as much conviction as I have. Very high conviction at the end game, the short run, no convection. And so it's that flexibility of, of that.

[00:14:24] Luke Gromen: But I would readily concede, is it possible we've reached that tipping point where the bond market is waking up again? Yeah. I would fully concede that. And that that's possible. And you've got some inflationary factors that could be waking them up as well. Right. Number one, the I increasingly the increasing idea, you know, it's talked about by Warren Mosler, Lynn Alden, myself, some others that deficits are inflationary rate hikes are now inflationary because they're adding to the deficit.

[00:14:53] Luke Gromen: And then some of the stuff that, that we've written about recently in terms of energy, peak cheap energy and Shell possibly rolling over that I think is another inflationary pressure on the come.

[00:15:04] Preston Pysh: Well, I mean, just look to, to that point, Luke, that these higher rates are inflationary. That's a really hard concept for a lot of people to wrap their head around.

[00:15:14] Preston Pysh: But when you go back to this number that you published recently, for the second half of 2023, 2.1 trillion has to be issued. Like you're at a point now where they don't have the inflation under control. Sure, it's come down, but the amount that they're going to have to monetize and then we start talking about the oil thing, which we're going to get to, is where I think the typical bond investor in the market, like the first year, I think they were all kind of like, oh yeah, this is going to be transitory.

[00:15:43] Preston Pysh: This is just because, because of Covid, they had to do this thing, right? And then it's going to go back down into like a half a percent of inflation, like everybody grew accustomed to for a decade. Like we can't produce inflation was the narrative prior to, to covid. So everyone was just expecting that to come back.

[00:16:01] Preston Pysh: And I think you're starting just in the past six months to maybe nine months, everybody in the, in the bond market is starting to come to this realization and they're saying, hold on a second, I can do this math. And this math is suggesting that none of this is under control. And, and actually we might be past the Rubicon, right?

[00:16:21] Luke Gromen: I think that's where they're at right now. Yeah. I think the bond market is broadly, I think there are starting to be people doing that math and, and when you look at the math particularly, you know the point that Warren Mosler makes where, look, what's the difference between a $600 billion stemi where you hand the money to everybody?

[00:16:39] Luke Gromen: And the Fed raising rates to increase deficits by 600 billion because of interest. The money comes from the same place. The only difference is the marginal propensity to consume of who's getting that 600 billion stemi, stemi or the 600 billion interest stemi. And so when you see it just goes to wealthier investors.

[00:17:00] Luke Gromen: And so their marginal propensity to consume tends to be lower. They do things like invest. They do things like buy higher end, you know, vacations and, and things like that on a slower basis. But the money ends up in the economy. So I think between, I think that's on one there, there's a growing marginal part of the bond market that is seeing that, but I still regularly see bond.

[00:17:23] Luke Gromen: You know, I had a conversation with the bond market veteran, you know, yesterday, like was saying, you know, on Twitter, where we were saying, look, you know, you get me a, a recession and the bond market, you know, rates will go back to one. And people would be begging to finance, you know, to, to finance us deficits at one.

[00:17:38] Luke Gromen: And you know, my reply was that once you get over a hundred percent debt, the gdp, d, p and deficits of 8% of GDP with unemployment where they are, if you take G Big G, which is nominal GDP growth, if you take big G below rates like the deficits rise non-linearly toward infinity, especially in a country that finances or that where marginal tax receipt are driven by, by the stock market, which we once again are seeing play out in absolute spades.

[00:18:07] Luke Gromen: This, they're going to be cha, the deficits going to be X and they'll say, oh, we'll buy that. Except by the time they get there, it's actually X, you know, X times 1.3 and then they almost get to there, then it's X times 1.8, then it's the deficit will just keep running away from them if big G goes below R And that's the, like the math, I still think the majority of the bond market doesn't realize that.

[00:18:33] Luke Gromen: You know, as I, as I said recently, and I've said for much of this year in a couple different presentations, like for the first time in on, on record, in any investor's living memory, the risk free asset has risk, treasury bonds have risk.

[00:18:47] Luke Gromen: They are either, they're no longer risk free. They either have duration risk, or they have credit risk.

[00:18:53] Luke Gromen: Because if, if you're willing to go into deflation, again, it's this, once debt deficits get so big, it's the, it's the same problem with the banks. You could have stopped inflation. Just let a bank crisis happen. Let uninsured depositors money go, poof, that was your choice. But if you're going to bail 'em all out, then you've chosen inflation.

[00:19:11] Luke Gromen: And right now we're still in the sort of this belief that you can be half pregnant of, Hey, you know, yeah. They're going to not let banks, you know, unsecured deposits go poof, but they're, they're still going to fight rates. We're going to pause for a second. We're still going to do 50 more later this year. And you raised a really good point, which is, At some point the bond market's going to figure that out.

[00:19:35] Luke Gromen: I don't think it has yet, which is why I still think you get sort of, and I'm not sure the policymakers understand that. And that's my big fear is like, oh, they make one more mistake. But I would readily admit I'm being cute and, and my personal positioning, my investment recommendations are, are a reflection of that recognition that I might be being cute because we've been talking about you want to own gold and Bitcoin and some of these sensitive, inflation sensitive assets because that's where they're going well versus, you know, do they make one last mistake.

[00:20:04] Preston Pysh: What I think is also important to highlight here is when we're looking at these equity indices, these moves are being driven by like seven companies. It's not like the whole market is being, that is driving these indices. And in fact, I think Apple has set a, a new all-time high even through the, this big bear market that we went through in 2022.

[00:20:24] Preston Pysh: Apple's already setting new highs. One other key important thing that you sometimes reference in some of your writings is a comparison using TLT, which is a 20 year iShares bond, ETF, in the denominator of a stock comparison. So what, what do we mean by that? Instead of looking at the NASDAQ in dollar terms, you look at the NASDAQ in 20 year bond terms and what I think is so fascinating about this comparison, you also do it with gold where instead of gold in dollar terms, you look at gold in 20 year bond terms.

[00:21:01] Preston Pysh: And if you would be making this comparison, imagine a chart where you have gold or the NASDAQ in dollars and then you also have the same exact line, but you re denominated into into 20 year bonds since 1980. You would've never outperformed in that bond denomination in the denominator. You would have never outperformed the dollar for up until the 2020 Covid event.

[00:21:27] Preston Pysh: But after the covid event, all of a sudden you're seeing that re denomination with 20 year bond down in the, in the denominator is ripping relative to the dollar. And that's because of, of this selloff that I think, I don't think they're going to get this under control. I think if, if a person is continuing to do that redenomination in the 20 year bonds, you're going to continue to see that comparison just rip away from, you name it, in dollar terms from here on out.

[00:21:55] Preston Pysh: And I think that that's a really important consideration because anybody, the all weather risk parity portfolio is all about having a very sizable, a levered position in long duration bonds and anybody implementing that from COVID forward. I think is going to get just destroyed, absolutely destroyed, moving forward.

[00:22:18] Preston Pysh: Yeah. It's a huge drag. Right. I'm, I'm curious if you would agree that, that you think risk parity at this point in time to whatever this event is that we're describing is a train wreck of a portfolio management moving forward.

[00:22:33] Luke Gromen: Yeah, I've, I've said the classic 60 40 is not going to work in, in what we're in and heading toward, which is to say, I, you know, or I refer to as the 60 40 portfolio.

[00:22:47] Luke Gromen: Right. Which 60% bond, 60% stocks, 40% bonds, 0% gold, and Bitcoin. That is where the overwhelming majority of investors are. And I don't think that's going to work. I think the stocks will be fine and I think long duration bonds are going to get killed versus everything, but especially on a real basis, but especially against.

[00:23:08] Preston Pysh: Equities. Yeah.

[00:23:09] Luke Gromen: Bitcoin equities. Because the only way they can make the math work is with severely negative real interest rates. And this is just, we're still in the sort of between two trapezes moment, the half pregnant moment of, well they can get it there. They're still, you know, that's, you know, where's the bubble?

[00:23:27] Luke Gromen: The bubble is in faith that they can, that they can get back to 2% and sort of put Humpty Dumpty back together again. Cause I agree with you, the Rubicon was crossed in 2020 in terms of where that took us beyond the debt threshold. You know, there, there's been, you know, there's been great research on that by Reinhardt Rogoff.

[00:23:46] Luke Gromen: Brian Hirshman at Hirshman Capital ran through that data and cited it said once a country gets to 130% that the GDP over the last hundred 20 years, 98% of those countries have defaulted on their debt. Either via a restructuring or much more often via a sustained period of high rates of inflation that basically severely repressed, punish, hurt the purchasing power of long duration bond holders.

[00:24:12] Luke Gromen: And that's where we are. The one example in that whole case, the 2% was Japan. And we're even seeing Japan now having trouble, right? So it's, you know, forever. It's like, well, what's the 2%? It's like, well, it's Japan. Oh see, well, we're just Japan so we don't have to worry. Well, even Japan is now going, oh yeah.

[00:24:27] Luke Gromen: I think we're beyond Rubicon on it in terms of there's, there's no getting back, there's still faith that we're going to get back. And in terms of the, you know, the capital management is really as a time horizon thing, right? Mm-hmm. So for, for me, where I'm at in terms of this credit crunch side, you know, it's a concern that these policymakers are willing to try to sort of one last fight outta credibility.

[00:24:51] Luke Gromen: One last whoosh. I readily can see that we might not get one last whoosh, which is why I'm still very overweight, cold Bitcoin. I still have a lot of equities very overweight industrial equities, especially tied to electrical generation in my own personal investments. But it, it is I agree. I agree. Like the math is done, like they, that is like, it's all over, but the crying now, it, it's in the cake.

[00:25:14] Luke Gromen: Now we're just sort of waiting for it to be marked to market and play out.

[00:25:20] Preston Pysh: Luke, one of the things that I think is hard for a lot of people to wrap their head around is the difference that you're seeing in these top 10 equities on these indices that are driving the indices to very high levels relative to what feels like a recession and extreme difficulty for the common person as they're going through.

[00:25:41] Preston Pysh: If, if you have a small business or even a, a medium-sized business, It, it's a struggle to this day right now, like everybody I think is expecting a recession. So they're like, how in the world can these equity markets be demonstrating a momentum shift? And when I look around everywhere I go, you can see it, you can feel it that there's this recession brewing.

[00:26:03] Preston Pysh: I'm going to throw up a slide real fast here that, that was in your newsletter, and this is cardboard box recession. I found this to be a really interesting chart. And what it is, is it's showing the amount of cardboard boxes based on the, the square footage of the boxes that's shipped annually in the us.

[00:26:26] Preston Pysh: And what you're showing is that this has been going down drastically, which is, you know, for people that just want a simple way to understand this, it's just Amazon shipping a whole lot less packages than they were a year before. And it's, it's demonstrating recessionary levels of shipments right now today.

[00:26:44] Preston Pysh: Which I think demonstrates the, the middle class and lower class in the US is struggling. They, they aren't able to break ahead because prices are so dang high. Help us understand this dislocation that we're seeing in the indices that are being driven by 10 companies and the reality of what everyday people are experiencing in their, in their economy.

[00:27:06] Preston Pysh: What, and what do we expect moving forward in the next six months to a year? Does that even become crazier or more dislocated? Like what, what do people can, can they think about this?

[00:27:18] Luke Gromen: Yeah, I think it's a, it's a great point. It's a great framing is, you know, cardboard box, and that's a chart. I'll, I'll credit that to Jeff Klein top at, at Charles Schwab.

[00:27:25] Luke Gromen: That's his chart. I thought that was a great chart, so I, I highlighted it. You're seeing it in RV sales, which are a great leading indicator. They have plummeted two years in a row. They, you've seen it in net heavy duty truck net orders and week for six months. These are, these are things I've always used in, in 28 year career.

[00:27:44] Luke Gromen: They've been great leading indicators of weakness US federal tax receipts on a trailing three month, or they're treasury receipts, excuse me. This is all in, this is tax. Everything the government takes in, they are down on a trailing three month basis, year over year, down 20%. There's only two times in the last 20 years that they've been down X 2016, a timing issue only two times prior times 2008 and 2000, 9 11.

[00:28:09] Luke Gromen: Great financial crisis. So you're seeing these signs that we're already in a recession in a lot of these metrics, and the fact that the markets are at ripping the way they are led by whatever, very narrow leadership of tech around a theme of ai. Reminds me very much of early in my career in the late nineties, we went into, you know, you had a Southeast Asia crisis.

[00:28:35] Luke Gromen: You took the US industrial sector into a very severe recession, beginning around summer of 98. And the US industrial sector stayed in recession with some sort of bumping around some fake recoveries or, or faints of recoveries, really, till oh two. Early oh three, late oh two, early oh three. So you, you had this three, four year period of time where it was just oil was death, industrials, death, and at the same time, the Nasdaq around a theme was, hey, new economy, we don't have to worry about Parker Hannafin and Eaton and ExxonMobil and, and all of these old economy stocks because the Internet's going to change everything.

[00:29:19] Luke Gromen: Productivity and, and earnings and earnings are so old economy. We're looking at eyeballs and clicks and, and it's, to me, very reminiscent of that time horizon. Where do I think AI's going to change everything? Yeah, I do. Do I think it's going to change it faster than the internet?

[00:29:40] Preston Pysh: Yes.

[00:29:41] Luke Gromen: Do I think the productivity enhancements that people are excited about are going to come fast enough to offset the recession that's happening and those sort of, a lot of other areas now?

[00:29:58] Luke Gromen: It didn't then, and I don't think it's going to now. You also had back then, if you remember going into the 2000, you know, the year 2000, oh God, all the computers are going to shut down and the Fed injected a little bit more liquidity, make sure the banks had money, make sure and, and that sort of was the last little turbocharge of that, of that run.

[00:30:16] Luke Gromen: So it's when you say, Hey, how would you explain it to me? That is the analog where you have a very narrow market with a theme that is the very powerful theme. You know, to me it's really interesting is ironically, if AI is more successful than expected, sooner than expected, unemployment's going to rise, deficits are going to explode, and you're going to get bond market problems faster.

[00:30:42] Luke Gromen: That 2.1 trillion deficit, yes, effective issuance number is going to get much bigger, much faster. You're going to have a bond market problem. And I just continue to be of the view that if you have a bond market problem, apple's not going to go up. If there's a bond market problem, full stop. NVIDIA's not going to go up if there's a bond market problem initially.

[00:31:00] Luke Gromen: The response to the bond market problem. Absolutely. We'll send it to the Moon ex. Exactly. And and that's why I go back to that, that that is still my base case, that we're going to have another bond market problem. For a number of different catalyst reasons. But I concede that the bond market just goes, you know that it's possible.

[00:31:17] Luke Gromen: You know that, hey, what we're seeing is the bond market going well, screw it. They're coming back quick. Go ahead.

[00:31:21] Preston Pysh: When you say a bond market problem, are you really saying the mid to small banks that have all these bonds on their, on their balance sheet, because we already got a taste of that, it resulted in more bank failures per market cap than the 2008, 2009 crisis.

[00:31:36] Preston Pysh: Whether people realize that or not, is that still systemically in the system and is that still brewing but just kind of has been kicked to the right a little bit on the timeline? Or did they actually get all this under control?

[00:31:50] Luke Gromen: The banking problem was just a US fiscal problem at that's like, that's the key is it's.

[00:31:57] Luke Gromen: So they didn't get it under control because it's a deficit problem. They regulated these banks into buying this stuff since 2014 when foreign central banks stopped buying it. And the whole gambit was, as long as inflation's low, then we're fine. We can keep this going. And inflation went up and then they had to raise rates and, and then realistically they shouldn't have, but they should have just let inflation run hot for a bit.

[00:32:20] Luke Gromen: And, and we probably in better shape than we are, you know, now we're even in worse shape. They need negative real rates. They need a sucker at the card table to hold 31 trillion in US federal debt at a negative 10 to negative 20% real rate. And that balance sheet doesn't exist outside the fed.

[00:32:39] Preston Pysh: Yeah. Okay. And that's, that was the point I was-

[00:32:41] Luke Gromen: And they need to hold it at that rate for years. They need to hold, and this is not like, oh, for just one year, they need somebody to hold 31 trillion in US federal debt at negative 10 to negative 20% real rates for three years. They need someone with that balance sheet, that balance sheet's not there.

[00:32:54] Preston Pysh: But by implementing such a policy, let's say that you were, you could sit in both seats. You could be at the Fed and the Treasury right now, Luke, and you could implement whatever policy you want. The real result to the economy is further consolidation of enterprise. These 10 companies that are driving all these indices on the equity side would just further get consolidated, and you would see just total destruction across mid and small cap companies.

[00:33:23] Preston Pysh: They just can't compete at this point because of these policies, which then causes further unemployment issues, which then, so like we're truly talking about a dying patient when we're talking about any G seven country. So like these policies, I, I understand what you're saying from a mathematical standpoint to makes total sense, but it doesn't actually solve the social unrest that's happening in society because of these policies and what they're doing.

[00:33:52] Preston Pysh: And I'm curious if, if you would highlight any points in there that you disagree with me or that you think are even, or, or maybe if you're agreeing with me, what is something else that we're not thinking about that that pops out of these policies from an everyday consumer market participant standpoint that the Fed is not talking about, they're just talking about the numbers and trying to make it all balanced and keeping enough li liquidity in the system, but like we all know that, that they're turning society inside out through these policies.

[00:34:24] Luke Gromen: Well, there's, there's two things they can't control, and I think both of these things are things that are not priced in. Number one is you, you refer to a bit with ai, right? With this technology consolidation of enterprise. You know, our, our friend Jeff Booth. Highlighted it, it is in his, you know, his great book The Price of Tomorrow, right?

[00:34:46] Luke Gromen: The, the Deflation Driven by Tech is nonlinear and it's fundamentally incompatible with the money system as it exists. And AI takes everything he talks about in that great book and turbocharges it, yes, at, at, at an accelerating rate. And so while people are excited about productivity and the improvement for earnings, it's going to be an improvement for earnings in the very short run, in the grand scan of history, as companies, you know, you think about what this does.

[00:35:15] Luke Gromen: This takes unemployment to the moon as you are placing high wages. It takes government receipts through the floor.

[00:35:23] Luke Gromen: It takes deficits to the moon, it takes unemployment up. And then you're basically, it consolidates power and with a very small number of corporates who have all of the power. And a government that can't fund its military, can't fund its entitlements, can't fund its debt, can't fund any of it without the Fed printing the money.

[00:35:45] Luke Gromen: And so paradoxically, ai, the success of AI that everybody's excited about is fundamentally incompatible with the currency system, the debt back currency system we have. AI ensures the death of the monetary system as it exists you that you need. You can't have a debt back monetary system with ai. You will have to have the neutral reserve asset be something that is energy tied, something flexible, face value, gold bitcoin that you have.

[00:36:18] Luke Gromen: You could have de facto be equities in there, right? You could basically have surplus deficits recycled into equities, which then again gets into your initial point of like, Hey, the market's kind of acting like, like, wow, this very possible. I would readily concede that and that's why I would never be, never comp, you know, totally out of equities.

[00:36:36] Luke Gromen: I always want to have a good size equity exposure, because this is, this is happening so fast, you can't forecast it. So number one, the Fed has, I don't have any idea and there's nothing they can do about it if they do, number one that, that what is happening in AI and tech that everyone's so excited about is guaranteed to destroy, it's fundamentally incompatible with the debt back currency system number one.

[00:36:57] Luke Gromen: Number two is the gambit that the US government ran last march to dump the SPR to bring oil prices down, to break Russia, to break inflation. The whole gambit was, It has, Russia has to break and inflation has to come down before Shell rolls over.

[00:37:17] Luke Gromen: Because if Shell rolls over, they're done. Because Shell has been 90% of global oil supply growth over the last 10 years.

[00:37:26] Luke Gromen: Shell decline rate is very high. If you shut all the wells down today, it's going to fall 20 30%. That's 90% of production growth over the last 10 years. And the bottom line is, is they ran the SPR down. They got inflation down a bit, but now SHAS rolling, which means they're done. And that's the other big thing.

[00:37:44] Luke Gromen: I think the Fed has no idea, is probably too strong. They're not factoring in, the markets are not factoring, which is to say the decline in headline inflation from energy inflation to deflation over the last 12 months is roughly a percent percent and half as it sets in the last report from May, whatever.

[00:38:01] Luke Gromen: That number's going to reverse, which means your headline number of 5.3 that everyone's comforting themselves about without a severe recession, that really drives oil down because again, oil supplies are now going to to start falling faster than demand has ever fallen in any recession. In 60 years, you're going to take inflation headline inflation back toward six and a half, seven.

[00:38:22] Luke Gromen: You're done. They're done. And that's the other thing I don't think they get, it's the thing that markets don't get. You maybe bond markets start looking at when we see some of these bonds, but those two things, and that's part of the reason why I'm like, when you let off with, Hey, is this possible? It is possible.

[00:38:35] Luke Gromen: It's why I keep talking about this barbell is anybody who tells you that, like, Hey, here's for sure how it's going to go run. Cause like no one's, no one's ever seen. Like I could, I could paint you a couple different pictures on AI. I could paint on energy. I know the data, but it this, this combination is so toxic, so unprecedented with so much leverage.

[00:39:01] Luke Gromen: Like, wow.

[00:39:02] Preston Pysh: So you have a quote on this Shell comment that you have, six counties in West Texas are now 100% responsible for all global oil production growth. And you're saying that that is rolling over is am am I understanding that? Correct. Okay. So when I read this Got it. When I, when I read this in your report, I was kind of like, there's no way that's correct.

[00:39:27] Preston Pysh: Like, that sounds crazy to me that these six counties in West Texas are the ones that are responsible for, for the global oil production growth. Help us understand what you're getting at here and why the Shell rolling over is such a big deal with respect to oil prices, because I think people that are looking at the market with this 40 year track record of what happens next.

[00:39:52] Preston Pysh: They're looking at bond prices, they're looking at inflation coming down, they're looking at the Fed, pausing, and they're saying, all right, here comes the recession, which means oil prices are going to collapse. The oil industry is going to be behind the power curve, and we're going to get a drop in in oil prices from here on out is what I would think if you took a person looking at the history would be expecting.

[00:40:16] Preston Pysh: You're saying that you don't think that's what's about the play out, so explain to us hundred hundred percent.

[00:40:20] Luke Gromen: And then I think every one of the hundreds of PhD economists is the Fed are doing that. I think most Wall Street strategists are doing that. I think the bond markets doing that. And they're not looking at the geology of Shell and they're not looking at what has transpired over the last 10 years.

[00:40:35] Luke Gromen: Now that quote is from a report by Goring and Rosensweig great energy research firm. They made available, publicly available their one Q 23 commentary on May 31 of this year. And I would encourage all listeners to Google it, download it, read it. It's unbelievable. And yes, that's what they highlight, which is they highlight six counties in West Texas, and the Permian are now a hundred percent of global, not global production growth.

[00:41:02] Luke Gromen: They highlight or excuse me, varus another energy consultant on Bloomberg was quoted 90% of global production growth over the last 10 years has come from US Shell. You can see Shell is rolling over everywhere, but the Permian and what, what Go Rosen note in that report is the Permian's going to roll over in the next six to 12 months, 18 months at, at most at current price, current prices, which is a critical, critical caveat.

[00:41:32] Luke Gromen: And he says, well, that's fine. So what Luke? Well, so what? Let's take oil to one 50.

[00:41:36] Luke Gromen: Yeah, it's not rolling over anymore, but oil at one 50. Headline inflation's back to seven and a half. Seven and a half. Headline inflation. The bond market is throwing up on itself, seven and a half. Inflation, apple, Nvidia, all these tech go-go Stocks suddenly are getting dumped like crazy. Seven and half.

[00:41:51] Preston Pysh: How about from the banks? Tell us what happens with the banks at that point.

[00:41:54] Luke Gromen: The retail banks, oh, we, we go right back to it because you're going to be having rates rising up against it. So now they're more and more upside down. BTFP usage is going to be going at dust that are going to be rising.

[00:42:03] Luke Gromen: Stagflationary impulses are going to be rising. So you're, there is a latency around what's happening in energy that is shocking to me. You can see very clearly, we know the percentage of global growth. That Shell has been, we can see, I've highlighted it to, to clients. It's in the report you're citing that if you look at the big four US Shell basins, Permian, the Bakken, Andra, and Eagleford, the decline rate of legacy production has gone from 5.8% last August, 5.8% per month to 6.1% per month in January of this year to 6.4% per month in June of this year.

[00:42:43] Luke Gromen: Now, that's not to say you're going to decline at a 72%, you know, 6% times 12% rate. The rate of decline declines the once you stop producing. So again, the annual rate of decline of Shell if you stop all production today would be probably 2025, maybe 30% at the high end. It'd probably lower end at 20 to 25%.

[00:43:02] Luke Gromen: Here's the problem that the street is missing. If you go back and look at global oil demand over the last 60 years. Up and down annual production or annual demand growth? The worst. The two biggest declines in global oil demand growth. Were 1980, down 3.3% globally and 2020 when we basically shut down the world economy down, I think it's 8.3 or 8.6% year over year.

[00:43:30] Luke Gromen: So if 90% of production growth is now rolling over at current prices, and if you stop it, it's going to fall 20 to 25 in a year. Your marginal source of production is going to fall more than demand has ever fallen in any scenario. By a multiple. And that is where the SPR comes in. Right? So the SPR, they've run down, that's helped things.

[00:43:54] Luke Gromen: But again, by virtue of doing that, now the SPRs at this lowest level since 1986 and that thing is not infinite. In fact, it's not even as useful as they say. because you get down, I'm told you get down to the barrel, the bottom of the barrel, and there's, who knows what's down there, it's crap. It's might be unusable.

[00:44:09] Luke Gromen: And they don't know where that level is. They're pulling it out of cave. Yeah, you're looking at an energy situation where unless oil rises a lot, which again, turnaround, headline inflation, turn around the entire, the Fed did it narrative turn around everything that is in the market today, or you're going to start having supply problems, which do the same thing.

[00:44:32] Luke Gromen: And you're going to have supply problems with the banks. You know where they are with SPR R, where it is. And with Shell, I mean, do you need higher energy prices? The oil prices in particular, significantly higher to prevent a severe.

[00:44:48] Luke Gromen: Supply issue that will accomplish the same thing effectively. And that is not in the market.

[00:44:53] Luke Gromen: That is a, like that absolutely not in the market in terms of what that would do.

[00:44:59] Preston Pysh: So as I'm hearing this, the, my immediate thought is, okay, well how long is that transition going to take the play out where it starts manifesting itself potentially in higher prices? Because, you know, you hear things like this and then it takes a year or two years for it to play out and it's, and it's kind of lost in the noise of other factors that are now driving the price, whether that's on the demand side or, or whatever.

[00:45:22] Preston Pysh: I'm kind of curious, do you think that this rolling over that you're, that you're seeing in Shell is something that could actually manifest itself in the market in the coming three months or?

[00:45:32] Luke Gromen: Yes.

[00:45:32] Preston Pysh: Really?

[00:45:33] Luke Gromen: Yeah. Next. Yeah, because, and the way I think it's going to manifest is I think you're going to see oil 70, 72, 75, 80, 82, 85, and I don't know what the number on oil is that makes people go, oh, but you know, people are going to start doing the math.

[00:45:47] Luke Gromen: I'm like, Hey, oil it 78 is now in September is now up year over year on year ago, and up year over year on year ago means the energy on headline CPI is up year over year, which means I need to take away the negative 1% benefit. The headline from Energy, I need to add. Headline's now going to be six again.

[00:46:16] Luke Gromen: And when the headline goes from five whole market headlines.

[00:46:23] Luke Gromen: And when headline turns around, it goes to six to seven, then that's where I, that's why I say, I think in the next three, four months, you're going to start to see it because the energy situation is like, it's rolling. It's rolling as we speak. And you know, maybe I'm wrong, maybe it's six months, but I don't think it's a year.

[00:46:39] Preston Pysh: Where are they at with the SPR? So I know once it started taking off there, at the beginning of 2022, they stepped in, the government, stepped into the market with the strategic petroleum reserve heavily. Like we were probably going to 150 plus if they didn't step in with the magnitude of, I'm going to call it printing, oil printing that popped out those swaps.

[00:47:00] Luke Gromen: Yeah. Those were just oil swaps with our, with our, with our allies.

[00:47:04] Preston Pysh: Have they, because I haven't really been clo tracking it very closely over the last quarter. Are they still aggressively in the market manipulating that price or have they really kind of ticking their hands off the SPR? I know it hasn't been refilled.

[00:47:19] Preston Pysh: I think they're still draining it slightly. What's the current status of that? And then-

[00:47:24] Luke Gromen: That's the last I saw.

[00:47:25] Preston Pysh: Okay. How much more, I know we're at all time lows, but could they do another drop? I'm calling it a drop like they did in early 2022 to stop the price from exploding higher. If what you're saying is realized and the, and the price does start to take off again, have they fired their shot?

[00:47:45] Preston Pysh: Are they done at this point?

[00:47:47] Luke Gromen: I would think they could, but again, that, that's something I don't know. And I don't think there's a lot, I've not read anybody who knows sort of what the level they can go to. It's a little bit of a mystery because this stuff's been sitting at the bottom of salt taverns and whatever, Louisiana for 40 years just sitting there.

[00:48:05] Luke Gromen: And it's not like they sent scuba divers down into this stuff to sort of, you know, do tests of what's at the bottom and, and what shape it's in. It's is, I've not read anybody that that does that. So I don't know that they know how far they can do it. But let's set that aside. Say, okay, yes, they can do that.

[00:48:21] Luke Gromen: Then we start to get into a question and, and it's almost related back to your initial point, but you get into a situation of an emerging market with FX reserves, right? Where the whole market knows what an emerging market has in FX reserves. And at first when they intervene, the market goes, oh right.

[00:48:38] Luke Gromen: They, they actually go along with it. They help the central bank. But there's a magical point in these emerging market currency crises where once they go too far down, like once they burn down their FX reserves too low, the market starts to work against 'em and goes, they're going to run out of dollars at this pace and at this date, and let's press it.

[00:49:00] Luke Gromen: Because once they're outta dollars, they have to devalue their currency and then we know it's, that's what George Soros did, right? It's what he did to the, the Bank of England. In essence. You saw it in the Southeast Asia crisis with Indonesia and Thailand back in the late nineties. Same thing. There's a dynamic to this that the same thing will happen in my view, which is to say the whole market knows where zero is on those salt caverns.

[00:49:23] Luke Gromen: The whole market knows that. The reality is they probably can't get the zero. There is some amount of volume in there that is unusable. They know how much they've burned it down and they know they've knocked the price down with it. If they come out and do, let's say they come out and do another big shot, Hey, we're going to get it back down.

[00:49:42] Luke Gromen: You know, oil's up to 80 again. We want it back at 72 things. Number one, the market's going to go there. We know, we don't know how much more they got, but they don't got that much. It's the same thing as an emerging market with currency reserves. Number two, the whole market is going to start realizing, oh my God, they are putting a second and a third and a fourth bullet in the head of Shell by doing this.

[00:50:03] Luke Gromen: They're ensuring that Shell is going to roll over, which just makes it, and so paradoxically, you could get into a situation like you get with a troubled EMM where they come out and shoot their shot. An oil goes up and now they're done. Now they're done. Because now you've got, and that's I, to me, when I layered at my sort of tactical outlook near term of like, Hey, you have this credit crunch coming.

[00:50:27] Luke Gromen: I think everybody knows about the credit crunch liquidity suck. I don't think anybody's really focused on the liquidity crunch credits. Credit suck, credit crunch liquidity suck and, and, and banking stuff is overlaying what is possible slash likely going to happen to oil barring a very severe recession.

[00:50:46] Luke Gromen: And by virtue of what happens to oil, what happens to headline CPI, what happens to rates and, and the daisy chain that I think that will reset off for a time and, and to be clear, that will force more liquidity, et cetera, et cetera. And I fully concede I could, you know, maybe the market's looking through the valley on that.

[00:51:03] Luke Gromen: I'm there for that. I'm not fully there for that, but I've got positioned in case I'm wrong on that. But that's, the market is like the bond market credit stuff. They're just not paying attention to this energy thing at Hall.

[00:51:14] Preston Pysh: Hey, let's transition gears here just a little bit on the Bitcoin side. Luke, I posted right before we started talking about an hour ago, I posted this post, I said, I'm sorry, but after watching BlackRock, fidelity, Citadel, Schwab, and now Deutsche Bank, all apply for Bitcoin, ETFs, spot exchanges, et cetera, only a few days after the SEC dropped the TRO on Binance and Sue's Coinbase, how can't you think that this entire past year was a giant inside job coordinated between the Wall Street parasites and government regulators so that they could catch up?

[00:51:48] Preston Pysh: It's got 3000 likes in an hour. It seems to have resonated a lot with, with people, and I'm curious to hear your thoughts as somebody who's a very pro Bitcoin that understands the, the rationale behind it and seeing everything that transpired this past year. And I just find it insane that you have, I don't even know how many companies.

[00:52:12] Preston Pysh: Apply for a Bitcoin spot, et f for the SEC to shoot every one of them down. And then within a week, literally a week after they go ens Sue Binance through an emergency order. And then the whole time Gary Ginsler has been saying, well, we can't actually assess what's happening with spot markets and that's why we're not going to approve Bitcoin, ETF.

[00:52:36] Preston Pysh: They slapped this emergency order a lawsuit on Binance, and within a week, BlackRock of all companies files an et f. And just so people are aware, their track record of having ETFs approved is something like they filed 550 and only one has ever been disapproved out of, out of like their 550 that they've applied for in the past.

[00:52:58] Preston Pysh: So very high probability that this is going to go through. And I just, I just shrug my shoulders and just am disgusted. By what appears to be just government, big Wall Street bank coordination. I'm curious to hear your thoughts.

[00:53:15] Luke Gromen: You're, you, me in some trouble with that lead in?

[00:53:20] Luke Gromen: I have two thoughts. Number one, anytime someone tells me, well, we have free market capitalism, like I kind of go, okay. Like, okay guy. Okay. And I think unfortunately, so, you know, there's some wild west stuff, and this is to be clear, this is not sort of say there's some wild west stuff that probably needed regulation in the crypto world.

[00:53:42] Luke Gromen: Like of, of like the insanity offshore. What I understand the need for some, for some regulation in the crypto world, not, you know, whatever. So, but it's, if you've been paying attention, and I know you have over the last 20 years seeing something like that as you laid out, you just kind of like add it to the pile, right?

[00:54:02] Luke Gromen: Like it's not surprising to me. The other thing, it does get my antenna up on having spent as much time in gold as I have over the last 15 years and, and really going down that rabbit hole. And it's something you and I have talked about before, which is historically the way the Western policymakers have attempted to control Gold's price is by allowing the unadulterated proliferation of unallocated paper derivatives on gold itself.

[00:54:35] Luke Gromen: In other words, there's a bunch of demand for gold. Two things can happen, the price of gold can go up, or the amount of unallocated paper promises on gold can go up and gold's price can remain relatively static. And the latter is, has been an oversimplified version of what has happened really since the mid eighties on some level with some periods of time where that wasn't the case where the price was allowed to rise for one reason or another point being.

[00:55:02] Luke Gromen: Anytime I see favored governmental parties, BlackRock, I would say in particular in that case, very, very politically connected, shall we say, looking to get into paper derivatives around Bitcoin. I want to be, I want, it gets my attention. And that's not to say that's going to create the unallocated or just the creation of unallocated paper promises is a way, is the playbook for controlling gold.

[00:55:34] Luke Gromen: I'm not saying that's what's happening here. Maybe they're going to get a bunch of money and they're going to bid Bitcoin and, and you and I have talked before, Bitcoin's very different from gold in, in that it's very, it's much harder to do to Bitcoin than it is to do to gold centralized storage. And, and, and, and so maybe it's just an attempt, maybe it's not attempt.

[00:55:54] Luke Gromen: Maybe they just want to be there and it's going to be let to run and away we go and, and hey, great. In which case, like whatever. It's just an example of sort of, you know, government connected people getting the contract sort of a thing. That's my stream of consciousness on it. I don't have a strong opinion on it one way or another.

[00:56:09] Luke Gromen: My antenna is up. You and I have talked about it. I don't think they can do what they, I don't think they can do to Bitcoin with the expansion of unallocated paper like they've done to gold centered in London for, for years and years and years. But those are, that's the stream of consciousness around it.

[00:56:25] Preston Pysh: I'm going to give you an option for the last question then we're going to wrap this up. Do you want to talk about commercial real estate or would you like to talk about the China US relationship? Let's talk about the China US relationship. All right, let's do it. What are your thoughts?

[00:56:38] Luke Gromen: Take that for a thousand. We're dating ourselves there. Some, some of interview like who the hell's Alex?

[00:56:43] Preston Pysh: Well, what are your thoughts? because I mean this is, this is really heating up, I guess for the audience. You're so good at being able to zoom way out and really kind of make things digestible for people. So like, what are the critical variables with this relationship that's happening between the US and China right now?

[00:56:59] Preston Pysh: Like, what are the key things at play? And then maybe we can talk about things that are more nuanced that you, that you really want to dig into.

[00:57:06] Luke Gromen: I used to, I used to play golf every, every Saturday with my late father-in-law who was a teamster official, never had a day of college education in his life. And we usually played with two of his teamster official buddies, two Italian guys who collectively between the two of them, never had a day of college education in their life.

[00:57:24] Luke Gromen: And this was in the early two thousands. And so the China thing and China and the wto late oh one. And then they started seeing their, you know, their membership get, you know, the factories go overseas, et cetera, et cetera. You know, to China. To China to China, and you know, these guys, but they're very street smart, right?

[00:57:40] Luke Gromen: They're for, for a number of different reasons. They were very street smart. And these guys are, their comments were always the same. Yeah. Our factories go in there. I understand why our factories go in there, but why aren't they thinking ahead like this? We're sending jobs to a communist country. We're sending factories.

[00:57:57] Luke Gromen: We're saying this is, you know, great, these companies are going to make more money in the short run, but it's going to kill us in the long run. Mm-hmm. And so you have three guys who never collectively had a day of edu of college education between them, had this thing figured out in like oh 4, 0 5. And what's interesting to me is our think tank Washington political class now sounds like.

[00:58:21] Luke Gromen: My late father-in-law and is two teams to official buddies 20 years ago, and they, they're educated, you know, they're, they're, they're educated, beyond educated. Their degrees have degrees, have degrees. And you can see how much Washington has benefited from this China arrangement. And so when I, when I see Washington squawk the way they're squawking, finally they're squawking because they're losing.

[00:58:45] Luke Gromen: When they were winning, when they felt like they were winning, when they felt like they were the senior partner in the relationship, Washington wasn't squawking. They were, say, they were telling Teamster, teamster members getting laid off, learn to code. Now they're squaking about China. So number one, I think the fact that Washington.

[00:59:03] Luke Gromen: Is squawking tells you it ain't going well. Where there is a, there's a serious, and it says, I'm reading the book Chip Wars by Chris Miller. It is so reminiscent of Japan. Like they loved Japan, they loved it until they started losing to Japan, then it was a problem. So that's number one.

[00:59:22] Luke Gromen: Number two, Biden's running the Trump playbook. Like people might not like Trump, but Trump created an awareness in Washington that wouldn't have happened otherwise. You look at what Biden's doing. Biden is out trumping Trump. I mean, we had a chart in our piece last week highlighting that that that indu US private manufacturing construction spending is 190 billion run rate.

[00:59:43] Luke Gromen: It's like tripled in the last two years under Biden. So they're running industrial policy and it's the right move. It's inflationary, et cetera. I guess the third thing I'll close with and then, you know, we can kind of talk about is this idea of decoupling. Is the same lack of second derivative thinking by a lot of the same people in 2003, except on steroids.

[01:00:09] Luke Gromen: Except it won't take 20 years for them to figure out how, how wrong they're, if you hard to couple from China, you are talking about instant severe inflation. Yes. Globally, co supply, chain collapse, debt market collapse, global central bank yield, curve control.

[01:00:28] Preston Pysh: And that, because there's no seems to still, there's no appreciation for how anything actually gets made or produced or where it comes from, or how much of it is like, it's just zero for anybody that would actually suggest that with a straight face.

[01:00:48] Luke Gromen: I hear. And it's, it's, you know, but I'll other people say, oh, there's, you're crazy. You know, the US economy way better and I want to ask people, Let's say that when was the last time you spent a lot of time in a not top 15 US city. When was the last time you, you did?

[01:01:05] Luke Gromen: Because if you did, you would start to see a lot of these places look like emerging markets already.

[01:01:09] Luke Gromen: Yeah. Based on what has happened over the last 20 years, there has been a hollowing out of labor capacity of manufacturing capacity. And the military, you and I have talked about this before, has been squawking about this increasingly loudly for the last 15 years. Because to your point, you know, I think it was US Marine Corps general Barrow famous Sidd, right?

[01:01:27] Luke Gromen: Amateurs study tactics, professional study logistics, military is in the logistics business. Full stop. You know, you can say we're going to fight a war and let's just print the money. And you're like that's great, but our tanks take diesel. You mor on. And that's like an oversimplification of sort of a lot of the think tank world Washington, which like, we're just going to use the dollars like that chip sale.

[01:01:49] Luke Gromen: What? Yeah. To do what?

[01:01:51] Luke Gromen: The dollar doesn't make on a factory line. They don't, you know, they don't bill, the dollar doesn't bill. Now you can do that and they're starting to do that. But again, there is still this belief in Washington, well I can print the money and reshore and I can keep the status quo financial system.

[01:02:08] Luke Gromen: No, no, you can't. If you want to do that, if you want to shore, you know I said this at a conference in 2021 I, I said, look, the US has to choose, does it want to make stuff? And if it wants to make stuff in shore, if it wants to compete with China in this global power competition, the bond market has to die on a real basis.

[01:02:29] Luke Gromen: In other words, you are going to print the money, build the factories, make the stuff here, but then inflation's going to go nuts. The fed's going to have to cap yields because the US government's debt load has run up their debt doing stupid shit for 20 years. US government can't afford more than five, 6%. So the Fed's going to have to cap rates, the dollar will suffer.

[01:02:48] Luke Gromen: Bond market will suffer. And that's what will have to happen. And it is what it is. It's funny, like people say, well, China's the next Japan, but they always leave out how did, what was the first step we did to start to, to fight Japan? We devalued the dollar massively against the, yet at the Plaza Accord.

[01:03:04] Luke Gromen: And they always want to leave that part out. So it there's, yeah. So you're getting me animated now.

[01:03:08] Preston Pysh: This is why I gave you the option, cause I knew you'd pick the, the good one.

[01:03:14] Luke Gromen: Yeah. There's, there's, so yeah, the decoupling thing is like, it might need to happen, like, let's be honest, like if, if deco, if you know hard decoupling happen, you're the appropriate allocation to bonds and especially long duration bonds is zero.

[01:03:28] Luke Gromen: It's actually less than zero. You want to borrow as much money as you can that you could afford, et cetera, et cetera. But the appropriate, the appropriate allocation of bonds is zero because inflation globally coupling with China was disinflationary. And it spreads strange credulity to think that decoupling in any way, let alone a hard decoupling, would be also disinflationary.

[01:03:49] Preston Pysh: Luke, this is always a pleasure. We could talk literally all day, just the two of us. It's funny because when I call, I know when I call you from time to time just to pick your brain on various things, it just keeps going. Like, we just can't stop talking when we get together. And it's always a pleasure and I know your time is, is very valuable and I appreciate you always making time to come on our show and have these just amazing conversations.

[01:04:14] Preston Pysh: Give people a handoff to your website, which I am a subscriber of. I get so much value out of your weekly newsletter your book, or anything else that you want to highlight.

[01:04:26] Luke Gromen: Oh, I appreciate, I mean, first off, let me say it, I get as much as, as I, I learn as much as I share when every time I talk with you.

[01:04:31] Luke Gromen: So I appreciate it. Thanks. I appreciate you, me back on in terms of more people with more in wanting to learn more information about where they can learn about our product at both Mass Market institutional fftt-llc.com and they can find out more or they can, they can find me on Twitter at @LukeGromen.

[01:04:52] Preston Pysh: Luke, thanks for your time.

[01:04:54] Luke Gromen: Absolutely. Thanks for having me on.

[01:04:56] Preston Pysh: If you guys enjoyed this conversation, be sure to follow the show on whatever podcast application you use. Just search for, We Study Billionaires. The Bitcoin specific shows come out every Wednesday, and I'd love to have you as a regular listener. If you enjoyed the show or you learned something new or you found it valuable, if you can leave a review, we would really appreciate that. And it's something that helps others find the interview in the search algorithm.

[01:05:24] Preston Pysh: So anything you can do to help out with a review, we would just greatly appreciate. And with that, thanks for listening and I'll catch you again next week.

[01:05:44] Outro: Thank you for listening to TIP. To access our show notes, courses, or forums, go to theinvestorspodcast.com. This show is for entertainment purposes only. Before making any decisions, consult a professional.