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Conference Call

Why Do We Have Inflation?
March 24, 2022, Conference Call
(This transcript has been lightly edited)

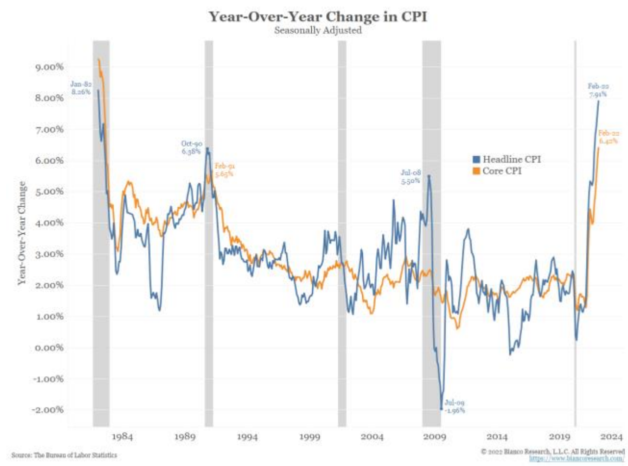
Okay, good morning, everybody. This is Jim Bianco, welcome to the conference call. The typical housekeeping that I usually do before the conference call, I'll drive along on the webcast. If you're on the phone, I'll do my best to yell out page numbers. And if you have any problems, you can give Alex Malitas, Amalitas@BiancoResearch, or just hit reply to any of the emails, if you have a technical issue in the middle of the call.

If you've got any questions, go ahead, and put them in the question window. I've got it up here in front of me, and I'll try and answer as many of them as I can along the way. And I'll take Q&A at the end.

Today, why do we have inflation? I want to go through three topics.

Why do we have inflation? What has caused it, which is the argument to make why it might be persistent. What is the Fed's response to that going to be? And that is their priority, I believe, is prices. They're going to hike, and hike, and hike, and hike until inflation comes down. If they hike, and hike, and hike, and the stock market falls or the economy slows and inflation doesn't come down, they're going to keep hiking. This is a hard thing for people to get their head around. That, for the first time in 40 years, our target is inflation. Our target isn't growth.

I also want to address a couple of other issues as well in the market. That is, what's happening with the commodity trading houses. Why commodity trading is dysfunctional. It's going to stay dysfunctional, at least for the time being. And it's going to continue to lead to this wild volatility that we've seen in markets as well, too. And a couple of other issues along the way.



Let's get started on, why do we have inflation? And let me go through, obviously the most popular check today, which is year-over-year inflation. We're at 7.9% as of February, 6.4% as of February on core inflation. And that's the highest since January of 1982.

Inflation Nowcasting

Latest Data | Background and Resources | FAQs

- **Background:** "Nowcasts" are estimates or forecasts of the present.
- **Description:** We provide daily nowcasts of inflation for two popular price indexes, the price index for personal consumption expenditures (PCE) and the consumer price index (CPI).

Monthly Inflation Nowcasting

	Inflation, month-over-month percent change				
Month	**CPI**	**Core CPI**	**PCE**	**Core PCE**	**Updated**
March 2022	1.11	0.52	0.75	0.45	03/23
February 2022			0.62	0.41	03/23

	Inflation, year-over-year percent change				
Month	**CPI**	**Core CPI**	**PCE**	**Core PCE**	**Updated**
March 2022	8.40	6.65	6.62	5.53	03/23
February 2022			6.42	5.50	03/23

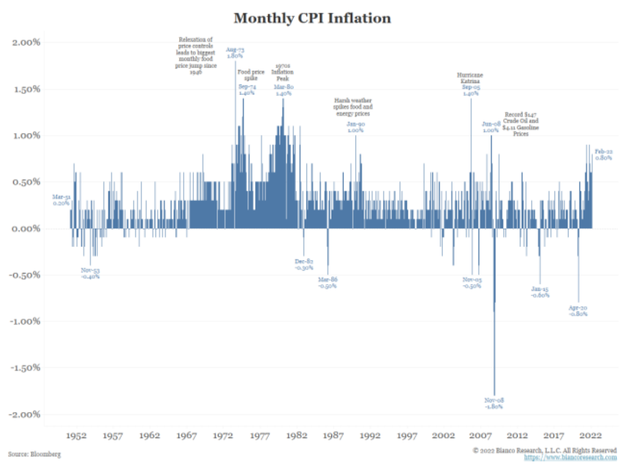
Note: If the cell is blank, it implies that the actual data corresponding to the month for that inflation measure have already been released.

Quarterly Inflation Nowcasting

	Quarterly annualized percent change				
Quarter	**CPI**	**Core CPI**	**PCE**	**Core PCE**	**Updated**
2022:Q1	9.01	6.77	7.33	5.96	03/23

Note: If the cell is blank, it implies that the actual data corresponding to the quarter for that inflation measure have already been released.

The other thing that's interesting about this inflation rate is it's only going in one direction. this is from the Cleveland Fed, and they do an inflation nowcast. Nowcast meaning they look at, it's like the Atlanta Fed GDP now, but it looks at the available data to date and they try and estimate what inflation's going to be. And I've used the analogy, this is like taking your 10-mile split in a marathon and trying to then calculate what your finishing time is going to be. You're already partially done, we already know what happened, we're going to assume about the rest of it along the way.



They are assuming that March's CPI number is going to be 1.1%. That's going to be the number for March. It's going to rise 1.1%. And that they're assuming that at the end of the first quarter, we might be near a 9% year-over-year inflation number. This is important to understand the because of what could be coming here.

The Cleveland Fed does, what they do is they start with last month's number, and they then interpolate this month's number largely using the price of gasoline. The price of gasoline has jumped seventy-five cents since fed February 24th. Now, to put that number in perspective, let me go to this chart. Here's monthly inflation, CPI inflation numbers. The highest monthly number we've seen in the last 70 years was August of 1973, at 1.8%.

As they noted here, this was the relaxation of price controls leading the biggest month price for food jump since 1946. That was the old Nixon wage and price controls, came off in August of '73. And you had a giant 1.8% jump in inflation.

The second highest number is 1.4%. It happened in September of '74, March of '80 and September of 2005. Focus on that one. That was hurricane Katrina breaking a lot of infrastructure in the Gulf Coast, leading to a 50-cent rise in gas prices but nothing else. And it still produced the second highest rating in 70 years.

We've got a 75-cent rise in gas prices versus 50 in 2005. And we've got food prices booming, and we've got core inflation booming, and we've got shelter inflation moving up. And we've got the Cleveland Fed estimating 1.1. And they've been underestimating it lately because they don't factor in all those other factors. we could be looking at the second highest, or even a run at the highest inflation, monthly inflation number, in 70 years. This month.

And that will push the core, or that year over year number near 9%. Charles asked a question, inflation is a lagging indicator, the Fed knows that. How might they take that into consideration? For example, might they pause in their interest rate increases when inflation hits a significantly lower level?

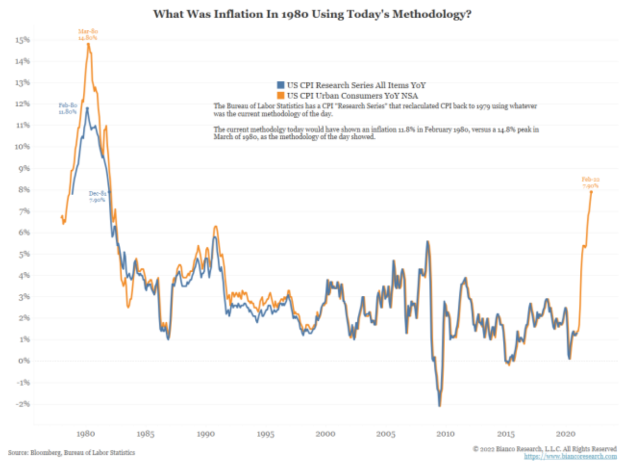
But they're not going to pause now. This lagging indicator is driving policy, whether we like it or not. And to further emphasize this question, it's about politics. And I've said it's about politics. It is about the 40% with less than a thousand-dollar savings. I'm sorry, The Fed cannot, cannot say it's a lagging indicator, cannot worry about stockholders losing money, when two ... And I'm trying to get my point across here by saying it with some emotion. Two days ago, the Washington Post had a story that fifty-six million Americans are retired on a fixed income.

They, according to the Washington Post, and The Fed reads the Washington Post, they cannot take a hot shower every day because they can't afford their heating bills. They're not eating meat or hamburgers every day because of the big rise in food prices. they're skimping. I'm sorry, that's it. They're going to have to deal with inflation.

And if a fund manager is going to complain about his year, that's why you're getting paid the big bucks, is to deal with it with this year. That's the problem. They have to look like they care about inflation if nothing else.

Yes, I'm arguing it's political. Yes, I'm partially agreeing that there is a lagging indicator to inflation. But all of that, this is, like I've said in these previous calls, we can ask the economists to leave the room. This is all of the PR and political scientists that are helping with this decision that we are having right now.

And so, this is why, when I look at these numbers and I point out we might be looking at the highest or the second highest number in 70 years on inflation, this is why I think we're seeing The Fed ramping up fifty basis points. I'll get to that in a second, let me jump here to the other chart I wanted to point out.



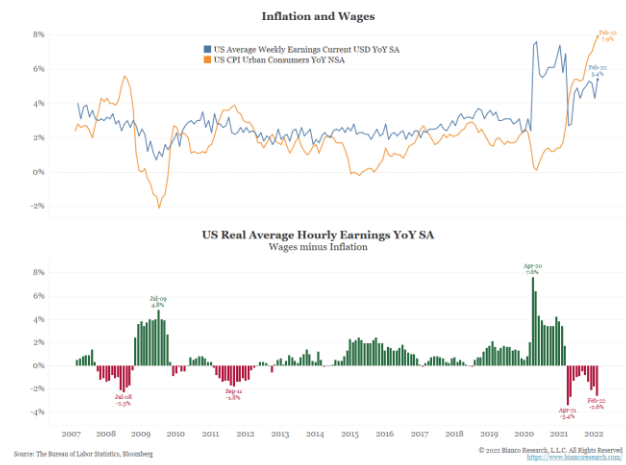
This, the BLS is the Bureau of Labor Statistics. They do a thing called the Research Series. And what the Research Series is, is they recalculate the inflation rate using today's methodology back to 1979. we've heard a lot of people talk about, well, if inflation were calculated like 1980 today's number would be some number significantly higher. Well, let's take the inverse of that.

In 1980, the inflation rate peaked in March at 14.8%. That was where it was reported, in April of 1980, for the March number in inflation. 14.8% year over year. If you use today's methodology, that number would've peaked at 11.8% in February. a three-percentage point drop. We're at 7.9% now. If we get that big number and we're pushing 9%, and we get more follow-through to inflation over the next few months, and we might, we could challenge that number. I'm not saying we're going to go to 11.8, but we could come close to it. And we could start talking about that.

What we're witnessing now is every bit of 1980. When it comes to the inflation, when it comes to the inflation situation in the economy right now. that it is going to be a white-hot political issue that we cannot get around. And The Fed needs to get around it.

And the other thing about the political issue is you're hearing more calls for not only price controls. You know, the left wing, the progressive wing in the Democrat party has been very loud. Sanders, AOC, Warren, even the president himself in the State of the Union was hinting about price controls and shipping costs.

But now you're starting to see, California's going to send a $400 debit card to everybody who's got a registered car to pay for gas. Congress is starting to talk about subsidizing people, or more checks going out. France is talking about it, as Canada is already talking about it. And Germany is even talking about it. If you subsidize something, you get more of it. If you don't like the record high in gas prices, then make the people, give people the ability to pay it, and that will become permanent. And so that's what we have to be careful of.



The other thing you keep in mind too, which is why the public is so unhappy about what they're seeing in inflation is they're losing ground. we have 7.9% inflation wages. Wages are rising at 5.4%. Now, as far as wages go, that's the blue line here. That's a distortion because of the pandemic. It's median wages, and our weekly average earnings wages.

And of course, what happened was twenty million people lost their jobs, median on the lower end, so wages went up because they only calculate who's working. And then they all came back into the workforce, and it went right back down again. But that 5.4% is the highest we've seen in some time, but it's negative. You see all the negative bars. This is what's got everybody unhappy.

And I've talked about this before. The Wall Street Journal had a poll last week, and 50% of the public, now 50% of the public, said the number one issue in the country is inflation. Twenty-seven percent of the public said the number one issue in the country is Russia-Ukraine, and everything fell off beyond that as well. To the president's approval rating, according to Reuters-Ipsos, a couple of days ago is the lowest it's been in his presidency. He's below Trump at this point in his presidency.

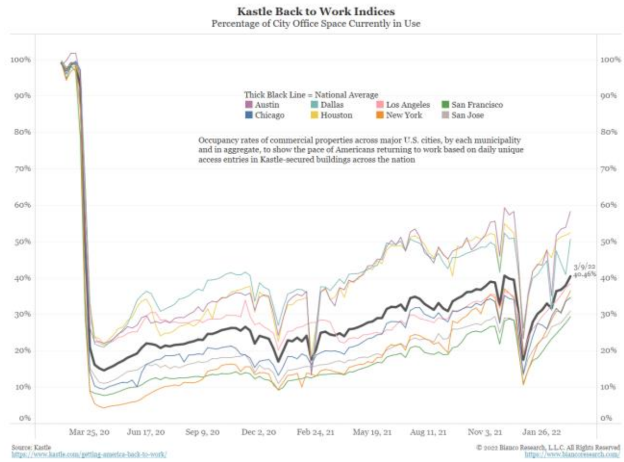
Why is that important? Because Trump was setting the records for the worst approval ratings in the first five hundred days. And now Biden's starting to break some of those records. And it's all about inflation. coming back to Charles's question, yes, is it a lagging indicator? Yes. And what are they going to do about it? Treat it like it's a leading indicator. Because it's such an important issue. And why are they treating it like a leading indicator?

Because The Fed is so God-awfully late to the game. They only stopped with QE earlier this month. they should have stopped QE a year ago. They should have started raising rates eight months ago, that would've gotten them in a little bit of a different position. But they're so God-awfully late to this, they have no choice but to deal with it.

But the title of this piece is Inflation. Why do we have inflation? Now the mistake you'll hear is, it's a bunch of one-off supply chain problems. It's a bunch of supply constraint problems. Every inflation has a supply constraint problem. And every time we have one, we misread it. Famously Arthur Burns, who was the Federal Reserve chairman from 1970 to '78, kept dismissing the rise of inflation in the seventies because we had the Arab oil embargo and gas lines.

And as matter of fact Steven Roach, former chief economist at Morgan Stanley who worked for Arthur Burns in the seventies, he was so insistent that inflation, to put it into modern terms, he was so insistent it was transitory that they created core inflation in the seventies. X food and energy. Because they wanted to show that inflation was not a problem. Roach was on the team that actually helped to create it.

And he's actually written about this, that it is eerily familiar. All of the learned PhDs that tell us that it's transitory are saying the same exact things that the learned PHD said in the seventies. And in the seventies it was an embargo. Today it's a supply chain problem. In the seventies it was a war with Vietnam. Today it's a war with Russia, Ukraine. And they refused in the seventies to believe that inflation was persistent, not transitory, just like a lot of economists and a lot of people in the markets believe that's the case today.



Why is it persistent? And I'll start with this chart right here. Kastle, back to work, office, and use. We are only using 40% of office space according to Kastle is a key security card system and it's in millions of square feet across the country. And they're looking at their systems and they publish a number, what percentage of their office space are people swiping their key cards to actually get in, are in use? And they're saying it's about 40%. Only Dallas and Austin are above 50%. Nothing's near sixty, and everything else, which includes New York City, is down around 30%.

We're not recovering anywhere near pre-pandemic highs. This is the entire work from home remote work phenomenon. I've argued on these calls. The most significant economic event I believe of our lifetime is that we sent everybody home for a year, up to two years. We sped up the remote work, work from home movement but that we've had by 10 or 20 years.

Where we should be today, we're where we should have been in 10 or 20 years when it comes to remote work. We are making a, we collectively as an economy, are making a giant push to get everybody back to work. President Biden has given speeches that we all have to go back to the office. Eric Adams, the mayor of New York has given speeches. Everybody's got to go back to the office.

I think what's going to happen here is this number's going to trend up for a little while more, maybe several months, a year. And then over the next several years, it's going to start right back down. We're not going back to a hundred percent. We're not going back at all. In fact, Wall Street Journal had an interesting story two days ago. All of these stories I mentioned are highlighted in our news clip's what we're reading section over the last couple of days.

And in the Wall Street Journal story they talked about Manhattan. And they talked about the tale of two Manhattans if you want to put it that way. On the one hand, residential real estate in Manhattan is absolutely on fire. Rents are through the roof. Home prices, or condominium or co-op or home prices are through the roof. There was a comment, it was in that story, maybe another story I read about Manhattan real estate, that basically, if you're going to list your house, just list it at a dollar.

Because within the average, Redfin says the home sells within six days. And 48% of the homes do trade above their listing price. Half the homes in America trade above their listing price right now. the reason you want to list it for a dollar, just get it out there. Hey, my house is for sale. And open the front door and let everybody come through and let the bidding war begin. Because that's how every house is sold right now.

And don't worry about what you think it is, the bidding war will tell you what the maximum value is. And within a week you'll know what the price is, and you'll accept that bid, and you'll be on your way. That is actually happening on the majority of homes in the United States. just list it for a dollar, and let's just get the process started. And that is really happening in Manhattan.

And the story said, why? Because people like the urban lifestyle. They want to live in Manhattan. Then they looked at Midtown Manhattan. Eleven percent of all office space in America is in Midtown Manhattan. And again, I'm quoting the Wall Street Journal story. That's in a depression. That's not even 50% usage. It's not going to go much more above that. It's going to start to trail off.

There's a big discussion of what you're going to do with all that real estate. Are you going to convert it to a residential? The problem is an office tower has a giant, wide footprint. Nobody wants an apartment without a window. a lot of that office real estate would be two-bedroom apartments in the interior of the building with no window.

And so, they likened it, Manhattan midtown office real estate, to the Rust Belt manufacturing in the early seventies. It might just wind-up withering and dying over a period of a decade or two or three, much like a lot of the Rust Belt cities that relied on manufacturing started to die in the sixties and the seventies.

At the same time, a mile, and a half away, the residential market has never been better. All of the Gen Zs and the Millennials want to live in Greenwich Village, want to live in Soho. And they have absolutely no interest whatsoever in going to an office tower in Midtown. there is a gigantic change in the market.

I'd actually, I heard somebody talking about real estate, just a couple of other quick fun facts about real estate. There are more homes under construction, I forgot the exact number. Bill McBride, Calculated Risk, is where the statistic comes from. He runs the Calculated Risk blog, and he focuses a lot on real estate, bill McBride does.

There are more homes under construction now than any point in the last 50 years. And the biggest reason is not because starts have boomed, but because supply chains are so stretched, we've got all of these partially built homes that should have been done, but they can't get done because they're missing certain things.

The big one, and believe me I know this sounds trivial, but it actually is important, a hundred percent of garage doors come from China. Hundred percent. If you can't get a garage door on your house, you cannot get a certificate of occupancy from the building code to let people move in. There are tens of thousands of homes that are done with no garage door, people can't move into them. Because they cannot move into them until they get a garage door. this is one of many examples.

we have more home under construction than we ever had. List your house for a dollar. Six days on the market, 48% go over list. I don't even want ... I heard somebody talking on a blog and they said, I don't want to call what's happening in the housing market a bubble because it doesn't have bubble characteristics. And it's just broken. The housing market is just broken.

And broken, what I mean by broken is everybody that has more than three weeks of experience in housing or real estate, you don't know what's going on. We don't understand this market. This is a completely different market. And I didn't even talk about office real estate, too. A completely different market than we've ever seen. The dynamics and everything else about this market has completely changed.

why do we have inflation? Well, our life, our economy, has been structured around the reality of we go to work five days a week, eight hours a day. We get up in the morning, we get in our car, we go there. Everything we buy, all the services we require, the is all predicated on this idea we leave the home for 40 hours a week. Well, a big part of us is not doing that, and more of us don't want to do that as we go forward from here. It has changed the economy in a lot of different ways.

Another way you can look at this, from my friends over at Arbor Data Science. And what they show here is Google mobility, and Google mobility is showing you the workplace mobility is still down 10 to 20% or so from where we were pre-pandemic. Meaning the amount ... What Google does is they take your phone, and they track your phone. I know, big brother-ish. But they don't publish individual statistics, they publish aggregate statistics. How much movement are we seeing around the office?

What we're seeing, we're not getting back to pre-pandemic levels. And we've been stuck in this range, down between 10 and 20%, depending on where you are. And actually, the Northeast is the worst. Now, I think a lot of that is New York City in the Northeast. we're not seeing that type of movement. what you've got happening is, work was a big thing. We are working from home, we're working remotely.

Our consumption basket has changed. The things we buy, the services we need have changed. What that requires is a significant investment in, what is it that we want now that we work from home more? And are going to continue to move in that direction. We're not going back the other way. And what is it that we don't want?

But instead, we're saying, don't do anything, just wait for the return. I know my favorite whipping boy here is Dave Solomon, the chairman of Goldman Sachs. Who has repeatedly said he is convinced in five years; Midtown Manhattan will look exactly like it was in 2019? And that exactly the amount of office usage will be the same in 2024, 2025, as it was in 2019. I think he's dead wrong, but it's a prediction in the future and he’s right.

And I know he's leading the charge that everybody at Goldman Sachs has to be back at the office five days a week. In fact, I read another story that they've been demanding everybody come back five days a week, and up to half are not doing it right now. And remember, when I say half are not doing it at Goldman Sachs, I want to remind you who works in a large office. You're thinking of multimillion dollar a year banker. No. It's clerical help, it's administrative help, it's operational help. That is the majority of people that work in an office.

Office managers, and secretaries, and other administrative people, I'll just go take a job that's work from home. I don't have to work at Goldman Sachs. I could get another job. Because they're not the multimillion-dollar banker. And that's why a significant portion of them, according to the stories I've read, are not showing up in the office.

We are not getting this change. Tom asks, is there an index to reflect America's revised spending habits? No. Because first of all, a lot of people don't believe that our spending habits of have changed. You'll hear this when they say, oh, now that we've lifted all of the mask mandates and the COVID restrictions, we're going to unleash all of this spending. That's code word for, we're going to go on a vacation and we're going to go back to 2019. No, we're not.

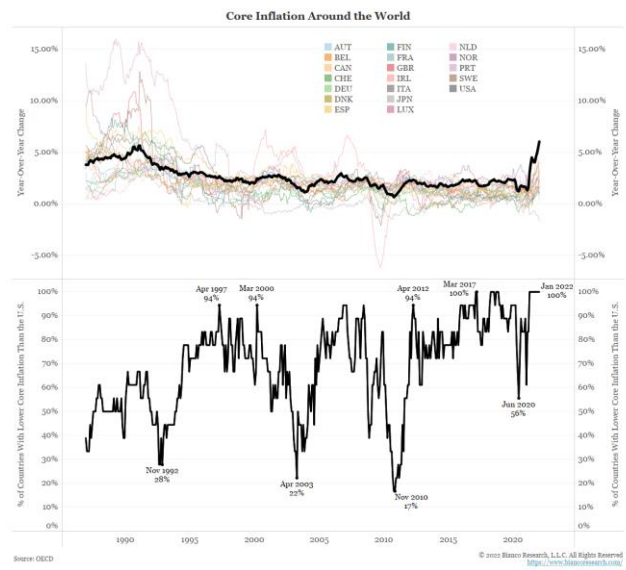
First of all, if you look at personal spending and I've quoted Stephen Squeri, who's the chairman of American Express. At his first quarter conference call back last month he said that 2021 personal spending on travel, on travel, it was by far a record. We're all going to go on vacation now that we've lifted the COVID restrictions.

Now that's a bunch of New Yorkers, and a bunch of urban peoples not realizing most of the country lifted them a year ago. You were running around a mask in New York, and you were running around with restrictions in New York. They weren't in Florida, Texas, they weren't throughout the south, and they weren't throughout most of the west other than in California as well. They've been back for a long time as well.

And so, he said, this unleashing of all of this, we're all going to go on vacation, and we're all going to ... We did this in 2021. Airbnb, one half of their rentals in Airbnb was one week, a quarter of them more for a month. We've been doing that for a long time already. That has been happening. And so no, we have not figured out this new spending habits because we're still thinking like Solomon. We're all going to go back to 2019 is where we're going to go. And that is the problem.

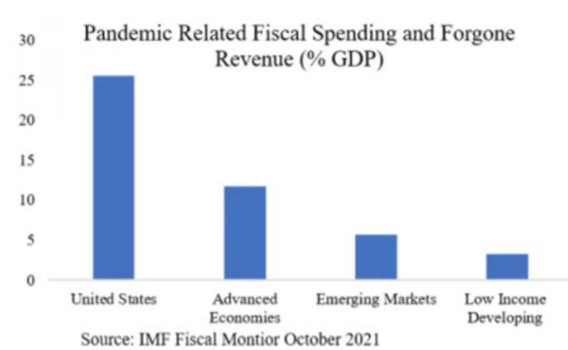
This is the change. The economy's off balance. We are making stuff and requiring stuff that is not in line with what we want to consume. And it all comes back to the basis of the economy was about what you do. You get up every day and you go to a place of employment. Well, we're getting up every day and we're not, eh, going to the place of employment. We are employed. I'm at home, so maybe that's my bias. We are employed, but we're not going to a place of employment.

And that trend is only going to grow, that we're not going to a place of employment. And that's why the economy's off balance. Interestingly it's showing, you could argue what I just said is that this has nothing to do with The Fed.

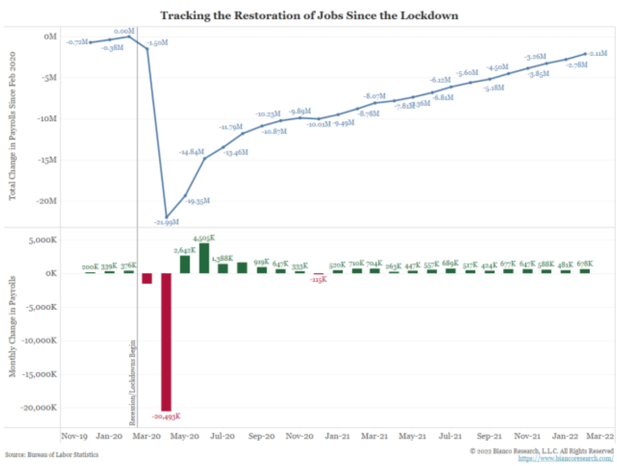


Well let me throw out an interesting thing about inflation. here, and I'll use core inflation because we'll just stick with this. Here's core inflation around the world.

This comes from the Organization of Economic Cooperation and Development. What they do is they harmonize all of the inflation statistics for all the countries around the world, developed countries, developed countries. The black line is the US and all the squiggly lines in here are all the other developed countries. And there's about twenty of them on the list or so, the twenty largest. This shows you where the US is in percentage in terms of all the other countries. We're at a hundred percent. US has the highest developed inflation rate in the world. That's a rarity. Most of the time, the US is somewhere in the middle. It's never really a hundred percent. It hit it for one month in 2017 and that's it in these statistics that go back to the mid-eighties. But now we are consistently, for the last several months, the place with the highest inflation rate. Why do we have the highest inflation rate?

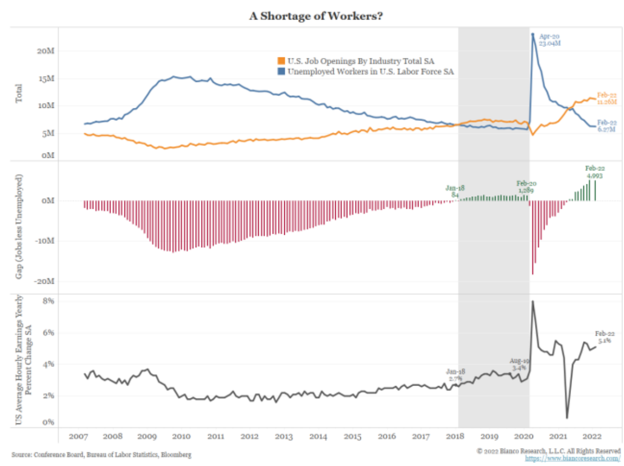


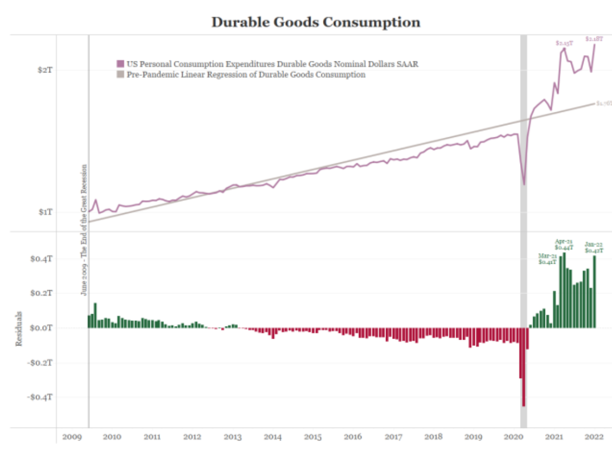
Everybody else locked down. Everybody else had the same issues. Some of the countries like Australia and New Zealand, in the developed world, they lock down worse. Of course, China's not in this list and some of the others, some of the other Asian emerging markets are not in this list. This comes from the IMF and what it shows you is pandemic related fiscal spending and foregone revenues. How much have we spent to goose to stimulate our economy because of the pandemic? The US 25% of GDP, quarter of GDP. Here's the other advanced economies. Here's the emerging markets. Here's low income, develop. We're number one. Why are we at the high end of the inflation number? Because we stimulated more than anybody else. this is what the Fed can deal with, all of this excess demand because of stimulation. And that's got our inflation rate up.



If you want to say supply chain is the issue, you're right. That's got the inflation rate up. But supply chain is definitely not going to continue as we move forward from here. The next chart, I should have had this chart before, tracking the restoration of jobs. There is still, what this shows you is the number of people that are still unemployed and aggregate from the pre-pandemic level. One point we were down at twenty-two million people lost their jobs, we're still light two million people on the number of jobs that we've seen pre-pandemic. And that's interesting that two million people have still not returned to the workforce. Because what this chart shows here is, the orange line here shows you that we have 11.26 million open jobs in the United States. This is the labor. This is the JOLTs report. This is the job opportunities, labor turnover job.

And what this shows you right there, so we have 11.2 million open jobs. We have 6.2 million unemployed. We have 1.7 jobs for every unemployed person. Now, some of those jobs are geographically challenged. What I mean by that is that I live in Chicago and there's a job opened in Dallas, and I don't live in Dallas or something like that. Other jobs have specific skillsets that not everybody has. But yet two million people have not come back to the workforce. And look at this. We've never really seen anything quite like this where we have more jobs than unemployed people. Chart goes back to 2007. That was never the case. We saw a little bit of that in the pandemic, but we thought that was a distortion because of the pandemic. But we're seeing that right now. The labor market is nothing like we've seen before.



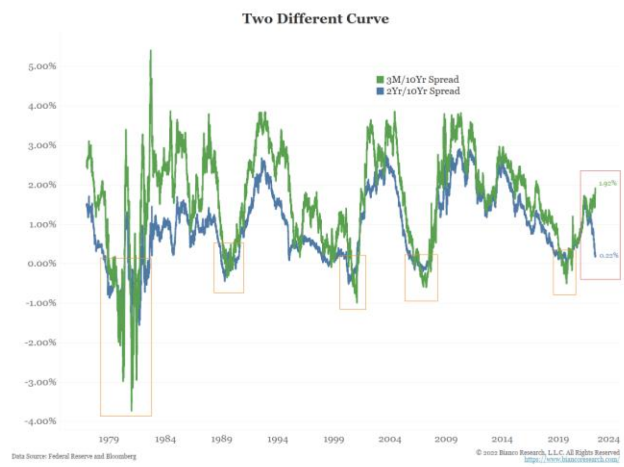


And all of this comes back to work from home. This is why. This is the genesis, if you will, of persistent inflation. And because of work from home, I believe our consumption basket has changed and we will want more stuff. this is durable goods consumption. This is how much stuff, stuff, not services we buy. $2 trillion worth of stuff a year we buy. 2.18, a new record high. The gray line on this chart is the trend line that goes from the end of the great recession to the start of the pandemic. That is the trend line that we had on stuff we've bought. We are way above that trend. That is shown up on the bottom panel right here. And so, what you're seeing is we are demanding more stuff and I would argue, this is part of the work from home phenomenon.

And because it's part of the work from home phenomenon, we're not figuring it out. part of the supply chain problem, if you read shipping news or freight waves or any of the other shipping sites, is no one's really sure what everybody wants so they order everything, and we've got this gigantic supply chain problem. The supply chain problem is still there. Is it the worst it's ever been? For months I've said today is the worst it's ever been. Not the worst it's ever been, but it's still bad. It is still bad in late March. And it's because what's happened is the number of ships off the coast of California waiting to get into the Long Beach and LA ports, it's gone from a hundred to forty. Now, hey, it's gone from 100 to 40. Yes, but what was it always pre-pandemic?

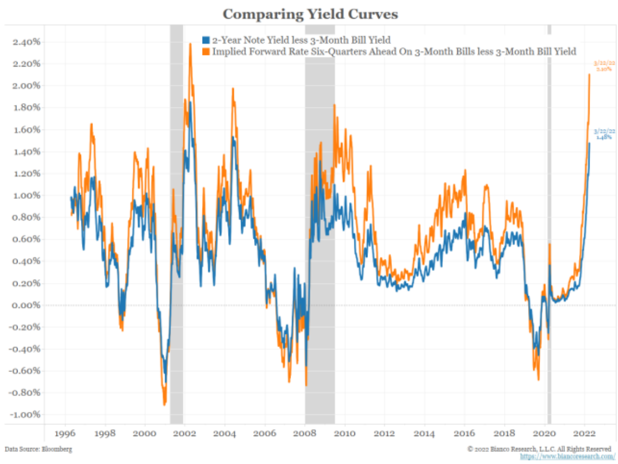
It was one or zero is what it was pre-pandemic. But we're now still at 40. And, if you look at the east coast off of Charleston and Savannah and Boston and New York, New Jersey, there are a backlog of ships now starting to show up there. Part of the reason it's gone from a hundred to forty off of LA is they've rerouted those ships to the east coast and now they're starting to get backlogs. the supply chain problem is not the worst it's ever been. It's still bad. It is still bad. And it's going to stay bad for a number of months. And part of that I think is we're not sure what we should be shipping. We're not sure what everybody wants. we're ordering everything. It's called the bullwhip effect, order everything so that we get something so that we could go forward from there.

The Fed, Larry Summers sent out this tweet, why would anybody's best guess be there for the first time we're going to have unemployment at 3.5% and an inflation rate that falls sharply. This is the triumph of hope over experience and analysis. What he meant was the Fed's official forecast from last week's DOW chart is the inflation rate will peak in 2022, fall in 2023, fall in 2024. That while all of that is happening, the economy will continue to grow. There will be no recession. And the unemployment rate by the end of this year will be full employment at 3.5%. In 2023, it will be 3.5%. And in 2024, it'll be 3.5%. the Fed is arguing that inflation is transitory. They're arguing that we are going to have full employment. We are going to have a great booming economy and the inflation rates magically going to peak and go back to 2% all by itself.



It's not without serious intervention from the Federal Reserve. Let me turn to the yield curve. There's the other topic I forgot to mention in the beginning that I wanted to discuss. A lot of talk about what the meaning of the yield curve is. let me talk about the two different yield curves that everybody's focused on. in blue is the two-year, 10 years spread on the yield curve. In green is the three-month, 10 years spread on the yield curve. You'll notice in the red box here that there's a big divergence, that the three-month, 10-year spread is actually widening to a multiyear high while the two-year, 10-year spread is narrowing. It's not inverted yet, but it's twenty basis points. It's getting awfully close.

All these orange boxes show that every time the twos, tens curve inverts, eventually the threes, tens curve inverts, in the same week, maybe several months later, but before the cycle is over, they both invert at the same time. And that's interesting because they've got them moving in opposite directions right now. why are they moving in opposite directions? Two days ago, Chairman Powell spoke at the National Association of Business Economist meeting, and he was asked about the inverted yield curve. And he said that he focuses on the short-term yield curve. Now that's code word for, in 2018, two Fed economists put out a report, their name was Engstrom and Sharpe. They put out a report that the most predictive yield curve is this orange yield curve here, which is the implied forward rate six quarters ahead on three-month bills, less three-month bills.



Now that's a mouthful. What does that mean in English? It means if you take the swap curve and look out six quarters ahead, or 18 months, year and a half, whatever you want to call it, what does the swap curve say the three-month bill will be in 18 months versus where it is right now? That's the orange line. Okay. They said this curve is a better curve at predicting recessions than all of the other curves. Well, interestingly, if I also overlay it on the blue line, which is the two years note less the three-month bill, you essentially get the same thing. yeah, their curve might be more accurate, but the two-year, three-month bill curve is essentially the same thing. And they've both been steepening quite a bit. What are these curves telling us? They're telling us something simple.

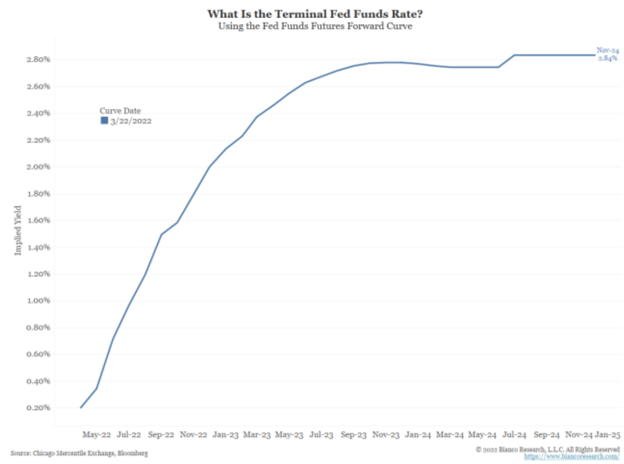
When Does the Market Expect the Fed to Hike?
Probability of a Hike as of March 23, 2022
Green Cells Mark Hike Probabilities over 50%, Bold 40% to 49%

FOMC Meeting	One Hike to 0.25% - 0.50%	Two Hikes to 0.50% - 0.75%	Three Hikes to 0.75% - 1.00%	Four Hikes to 1.00% - 1.25%	Five Hikes to 1.25% - 1.50%	Six Hikes to 1.50% - 1.75%	Seven Hikes to 1.75% - 2.00%	Eight Hikes to 2.00% - 2.25%	Nine Hikes to 2.25 - 2.50%	Ten Hikes to 2.50% - 2.75%	Eleven Hikes to 2.75% - 3.00%
16-Mar-22	Hike										
4-May-22		100%	64%	0%	0%	0%	0%	0%	0%	0%	0%
15-Jun-22		100%	100%	100%	63%	0%	0%	0%	0%	0%	0%
27-Jul-22		100%	100%	100%	100%	77%	23%	0%	0%	0%	0%
21-Sep-22		100%	100%	100%	100%	100%	78%	27%	2%	0%	0%
2-Nov-22		100%	100%	100%	100%	100%	96%	68%	22%	2%	0%
14-Dec-22		100%	100%	100%	100%	100%	99%	93%	64%	20%	1%
1-Feb-23		100%	100%	100%	100%	100%	100%	97%	81%	**46%**	12%
15-Mar-23		100%	100%	100%	100%	100%	100%	99%	93%	73%	38%
3-May-23		100%	100%	100%	100%	100%	100%	99%	95%	80%	50%
14-Jun-23		100%	100%	100%	100%	100%	100%	100%	97%	86%	63%
26-Jul-23		100%	100%	100%	100%	100%	100%	100%	97%	88%	66%

Source: The Chicago Mercantile Exchange
https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html

www.biancoresearch.com

They're telling us, and here's the latest Fed rate hike story. They're telling us the Fed is going to raise rates a lot over the next year and a half. That's what all of this massive steepening is telling us right now. what you'll see, this is as of last night's close, there's a 64% chance, a hundred percent chance the Fed will raise rates at the main meeting and a 64% chance they'll raise rates a second time or fifty basis point hike at the main meeting. Then there is a 63% chance we'll get to five hikes by the June meeting. A hike is twenty-five basis points. We got one done. what that's telling you is there's a 63% chance that we'll get two fifty basis points hikes at the next two meetings, the main meeting and the June meeting as we go forward. The last time the Fed raised by at least fifty in consecutive meeting was late 1994 when they took the funds rate from three to 6%.



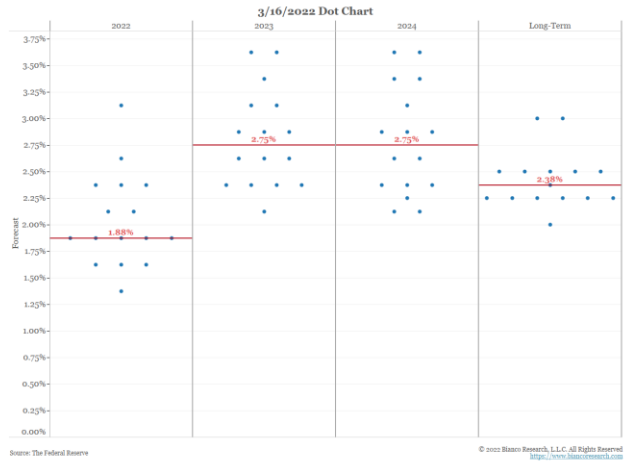
It's not unprecedented, but it's been a long time since we've seen the Fed raise rates to that degree as well, too., again, what are these curves telling us? That the Fed is going to be overly aggressive in raising rates a lot. What is the terminal funds rate telling us? And then I'll tie it together with those other curves. Well, the terminal funds rate is where do we think the Fed's going to end? What is going to be the neutral rate where they're done? It's two ways you can measure it. You could look at the Fed fund forward curve or the Euro dollar forward curve, or the swap forward curve. You're going to get the same answer, 284. let's call it 2.75 to 3% to put it in the Fed terms.

That's what the market thinks the terminal rate is going to be. And the next chart is from the Feds dot chart from last week. Long term, this is their dot chart. Remember each one of these dots is an individual member of the federal reserve. And I added the red line, which is the median. the long-term median is two and three eights. call that 225 to 250. really where is the terminal rate? You could call it 250 plus or minus 25 basis points, plus for the markets assessment, minus for the Fed's assessment, but 250 plus or minus. Now, what does it mean that the Fed is at 250 for the terminal funds rate? Some people say, "See, that means that the Fed's not going to get aggressive in raising rates to four or 5% like you would suggest if there were a big inflation problem." Because we're at eight, we could be going to nine.

That's a valid argument. There's another argument. The market can't handle rates at 2.5%. The market, it cannot, that we start raising rates and we start seeing a high ones or low twos on the funds rate, stuff will start to break. Break means a recession, a plunge in financial markets. Break can also mean a plumbing problem in the markets like the repo problem 2019 or long-term capitals plumbing problem that they created in 1998 or a combination of all of that. if we go back and we look at the yield curve one more time, what do the yield curve is telling us? Well, here is in green, that's that three-month, 10-year curve is steepening. But here are all of the other curves. They're all flattening. And some of them, including the five-to-10-year curve are inverted.

Let me give you the bottom line with the curve. If you're talking about a short interest rate curve, that is a curve with a long wing out to two years or the six quarter, three-month rate forward minus the three-month rate. Same thing. That the long rate on that curve is two years and then the short wing on that curve is less. Those curves are steepening because they're saying the Fed is going to hike and hike and hike and hike. They're going to go. Get used to it. The curves that have as the short wing, a two year note and longer, twos, tens, threes, tens, fives, tens, tens, thirties, that the short end of that wing is at least two to longer. All of those curves are flattening to inversion. what is the curve I think telling us? The Fed's going to hike a ton and the long wings are telling us they're going to break something.

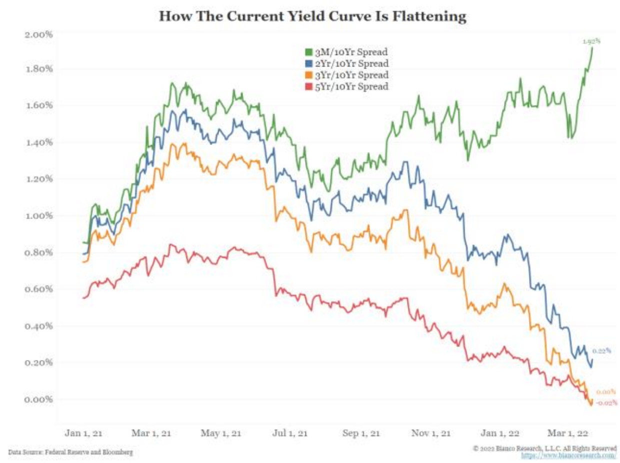
And I think that that's what it is. We haven't broken it yet, but they're going to go too far in their hiking. And they've also suggested that. Again, here's their long-term dots at two and three eights. And what did they tell us for 2023 and 2024? They're going to go above neutral. That is a signal from the Fed that if necessary, they're just not going to take the funds rate, which is at 25 to 50 basis points up to neutral, but they'll go to tightening, to classic tightening phase and then have to bring it down. On these dots, Jim Bullard has come out and said that he's that dot right there. Well, where are the other dots? And the question is where is Powell? And the interesting thing about Powell is last week at the Fed presser, he was describing the consensus of the Fed FOMC.



He was describing this. Two days ago, at the National Association of Business Economists, he was giving you his own personal opinion. Powell is one of, I got to clean that up, Powell is one of these dots. He is above the median right now. He is far more aggressive. And it really comes back to the political aspect of inflation. The Fed waited too long. There's another argument that can be made about the mistake that the Fed did by waiting too long.

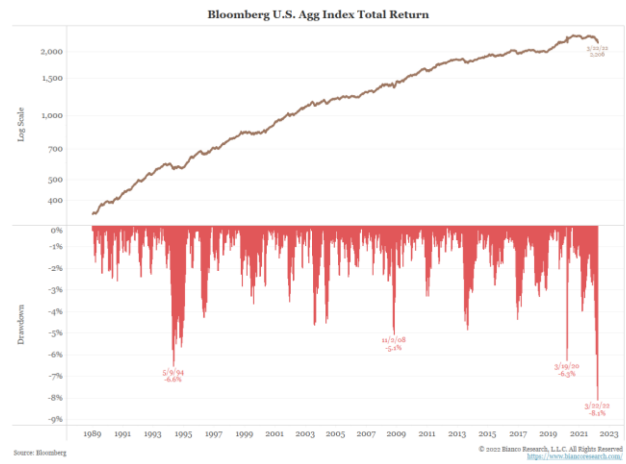
In 2013, we had the taper tantrum. The Fed was pushed into announcing the taper faster than they would've otherwise by what was known as the Three Amigos, there was three Fed board members that said, we got to start getting out. We've got to start tapering. And they nudged or pushed Bernanke into starting the taper and then we had the taper tantrum. I forgot who the other two were, but one of the three Amigos was Powell. He was a Fed governor in 2012 and 2013. Powell blames himself for the taper tantrum. He pushed too hard. He's made the mistake in the other direction. He waited way, way, way, way too long to start tightening and starting to remove accommodation. He only started removing it two weeks ago this time. I think that Powell is really on this idea.

Powell is really on this idea that he needs to address inflation and he is going to be much more sympathetic towards inflation. The other thing that goes on, is this happens every time the yield curve inverts. Jeff Schneider pointed this out and he's right about this. I'd like to say a hundred percent of the time when the yield curve inverts, a hundred percent of the time all the PhDs come out and tell you why it doesn't matter. And that's no different this time as well, too. Janet Yellen, when the yield curve inverted in 2019, she was a private citizen at that point. I'm not sure I'd be relying on the yield curve as the best signal for risk given the yield curve has obviously not got the same sort of structure it has had historically is what she said in 2019.

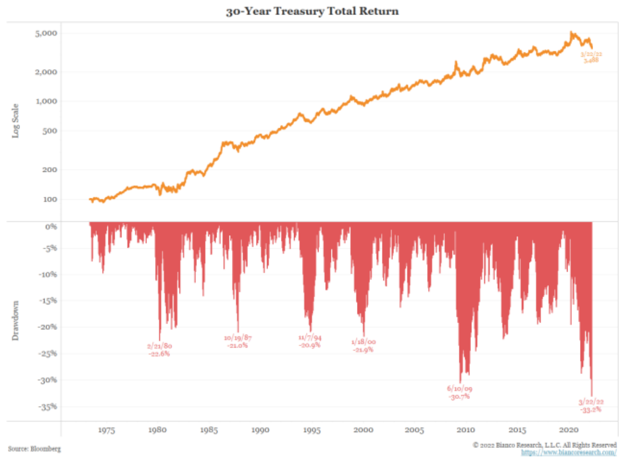


Well, of course we did have a recession less than a year later. Now, yes, of course we don't know what the counterfactual would've been, but the economy, because it was a pandemic driven recession, but the economy was slowing and there was an argument to be made we were headed in that direction anyway. Now the argument against the yield curve this time around would be if this is what she was talking about, same sort of structure, he's not got the same sort of structure. If what she means is the Fed's $9 trillion balance sheet has stomped all over the yield curve and has stomped all over the market because remember, why does the yield curve work? It's two freely traded instruments, a short rate and a long rate set by the market. And that there is a signal in there. Well, if it's not going to work now because the Fed's balance sheet, and they own over a third of all treasury securities, has stomped all over it, that's not good.

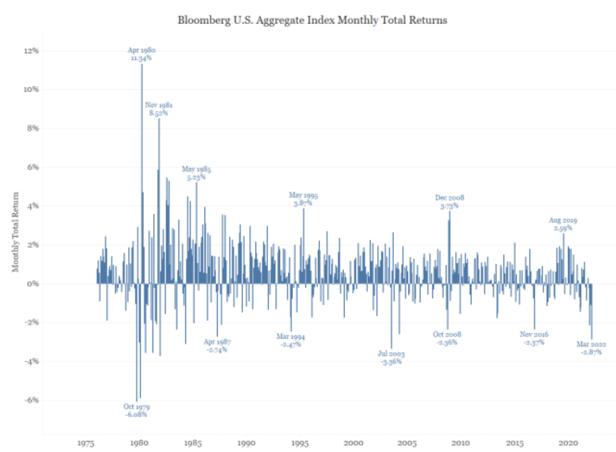
We've taken another valuable indicator to give us an idea of the state of markets and the economy and we've ruined it. And if we keep ruining all these indicators, our clarity on where the economy is going to get worse and worse and worse as we move forward from here. this is not surprising. You're going to hear more of the PhDs coming out and talking about why the yield curve may not work and look, they could be right that $9 trillion balance sheet could ruined it, but it's not, aha, see I told you it didn't work. It's, everything's worse now because we've taken a valuable indicator and we've ruined it. Let me pivot a little bit more into another subject and that is the bond market itself. A lot of people have asked the question about the bond market. If we've had the worst inflation in 40 years, why don't we have the worst bond market in 40 years?



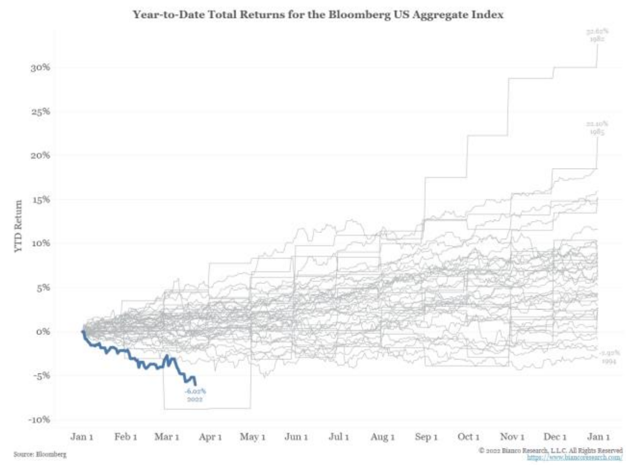
And the answer is we actually do. If you look at it on a total return basis, and this gets into outside allocation. Here's the Bloomberg US aggregate index, the old Barclays, the old Lehman aggregate index. It is on a total drawdown. It is 8.1% off of its all-time peak. This all-time peak was March 9th, 2020. we're just starting year three of the bear market in bonds. It's a little bit more than two years old, and it's already been the worst drawdown, the worst decline from top to bottom. Now this data only goes back to 1989 because that's how long they've been doing this, this syndicator on a daily basis. But Ryan Labs does do the 30 years back to 1973. here's the 30-year treasury. It is down 33%. if you bought the 30-year treasury and rolled it every single auction from the current one to the new one, you've lost a third of your money right now.



And this chart goes back 49 years and we've never seen that big a drawdown. yes, wouldn't a 40 year high in, see, I mean, people make a mistake. Wouldn't a 40 year high in inflation produce a 40 year high in interest rates? Well, how about the forty, the worst bond market in 40 years, that's what it is producing. Here's the US Bloomberg aggregate index again. This is as of two days ago. The month is not over. But as of two days ago, it was, let me get that, it was down 2.87%. Only one month, this is on a monthly basis. The Bloomberg ag index does go back monthly to seventy-four, daily since 1989. only July of 2003 and then you've got to go back to the early eighties, are we going to see a worst month then we are seeing so far in March.



Now, March isn't over. In the next couple of days there's a gigantic rally in the bond market. It sells off some more, and it actually takes out that July 2003. But we are tracking one of the worst months that we've ever seen. Another way to look at it is year to date through two days ago, the bond market was down 6%. This is a tremendous loss for one quarter in the bond market. This data goes back to 1975. The only quarter, the only worst start in the history of the bond market back to seventy-five is this flat line. That was 1980. Now the reason that line is flat is because it was monthly data. we only had the month end number, but we're starting to get on daily, it's everything else, other than 1980, but that was monthly data and we're comparing it to daily data. This is about as bad a start as you are going to see in the bond market as well, too. Not only is inflation persistent, because it all revolves around work from home.



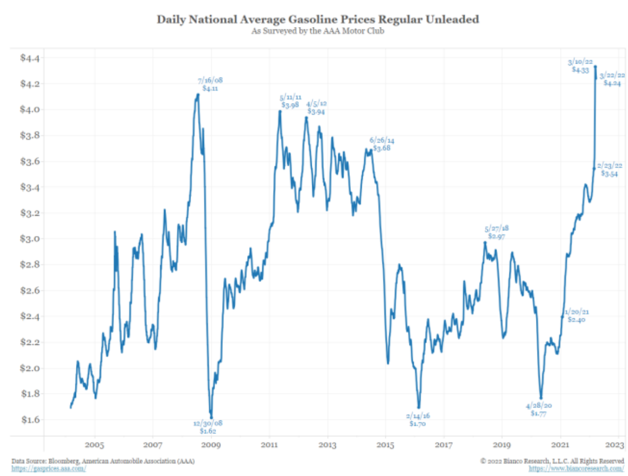
Not only does it revolve around work from home, but you also have to keep in mind that the bond market is responding to this terrible inflation by being such an awful investment vehicle. The other thing to remember about the bond market is, this gets into asset allocation. Why is the stock market eight-ish percent off of its all-time high and not down a lot more? This gets into the, there is an alternative on the other side. The stock market has been a poor investment. You believe inflation is bad. You believe that it is going to impair the economy. You believe the Fed is going to raise rates aggressively to deal with inflation and if they risk a recession, so be it. I don't want to own stocks in that environment. Okay, fine. What do you want to put your money into? Do you want to put your money into cash?

Do you want to earn zero to 1% in an eight or 9% inflation environment? Boy, that's a bad deal. I should put my money in the bond market. It's the worst bond market in 40 years. Why would you buy a collapsing market if you want to allocate into the bond market? How about commodities or how about inflation pivoting towards something that benefits from inflation? I'm going to talk about that next in a second, but it is as volatile as the crypto market is right now. How about cryptos? That's a good idea for one, two, 3% of your money, but it's not ready for 50% of my money, unless I'm a Gen Z or a millennial that's basically in that space that's drank the Kool-Aid, and I don't mean that in a negative way, but for most normal people, we're not ready to put half of our money in the cryptos.

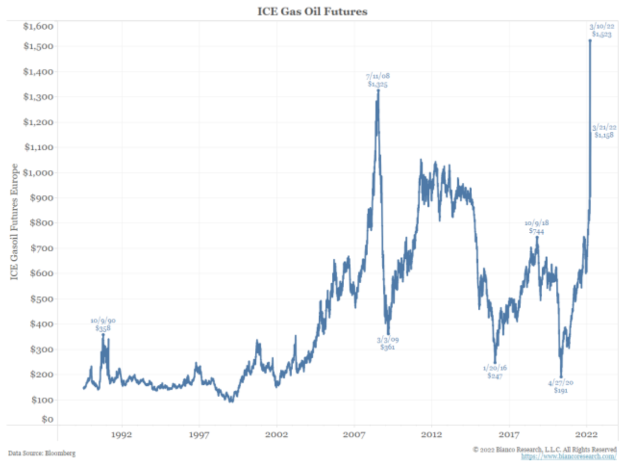
Yes, a couple percent, that's different. what am I going to do with my money if I'm in equities? I'm not going to lock in a guaranteed massive negative, real loss by putting it in 1% cash or less than 1% cash in an eight or 9% inflation world. I'm not going to buy a collapsing bond market. I'm not going to jump into commodities when they're as volatile as... There's more volatility right now in crude oil futures than there is in Bitcoin over the last month or so. I'm not going to jump into that right now. Or if I do, I'm going to jump into it, if I were going to put half my money into a bet on commodities, I'd probably put 15% of my money in because of all the volatility, what am I going to do with the other 85 is really what the question then comes down to.

We're stuck with, I think the stock market's terrible, but everything else is worse. This is unusual because we are used to the idea that there's always an asset class that goes up in price. Michael Batnick, who does the, I'm going to quote Michael Batnick. We looked at it and found something similar. He does the Animal Spirits Podcast and he pointed out that right now, the S&P is up 2% for the month. And we've got a couple of days left and there is every day, yesterday including, we're having 1% moves. it's not out of the question that for the month, the S&P could finish down on the month. He pointed out that since 1976, the beginning of this Bloomberg aggregate index, you've never had three consecutive total return months where both stocks and bonds fell in the same month, three consecutive months. That has only happened in July, August, and September of 81. That's the only time it's happened. The S&P if it finishes the month negative, this would be the second time it's happened. And the point is, we're not used to that. What do I do with my money is code word for some gigantic asset class is going up 20%? Which one is it? And where do I put my money? The question isn't all of the asset classes are going down and I'm in the business of managing a loss. That is unheard of because it's never been the case. And we're awfully close to having that be the case right now. All the asset classes are performing. yeah, there's special circumstances. You can invest in a limited partnership, or you can invest in some specific company that's unique and is not correlated to the overall indexes or some other kind of investment deal that might work out.

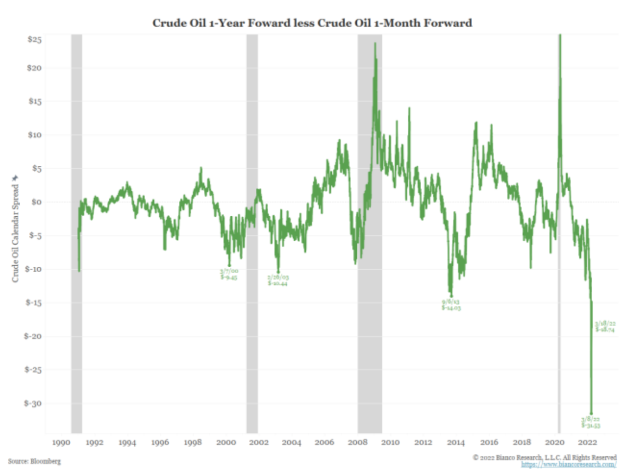
And it doesn't matter if we have a recession, or it doesn't matter if the stock market goes up or down. But if your answer is, what do I do with my money is what asset that's... To me I hear is which asset assets is going up a lot in 2022? And the answer is it might not be any of them. And that might be unusual because there's always an asset class... Stocks last year were up 30%. There's always an asset class that goes up a lot every year and we might not have one. Well, let talk about commodities and then I'll jump in there. Some really good questions. Javier Blas is a columnist for Bloomberg News. He's excellent on tracking what's been going on in the commodity markets. On the 17th one week ago, he wrote this article, Too Big to Risk Fail Looms Over Commodities.



In public, commodity traders, small and large say everything is fine. Talk to executives in private, however, and their anxiety is plain. The industry is one accident away from trouble. And then he points out that the oil market, the bid has spread from WT Brent has widened as much as six cents. This was last week. Amazing to see such a widespread in such a liquid oil benchmark. We should not be seeing more than two to three cents. Bid ask spread in oil usually is a half a cent. And it's twelve times larger, it's 6 cents. It was last week. It's still very wide right now. Bottom line, what Javier's trying to say is the commodity markets are fundamentally broken right now. Why are they broken? As a commodity trader, and I'm talking about Louie Drefus, Glen Core. These are all the big commodity houses. How's your business? They trade six, seven million barrels of energy product a day, cash to energy product a day.



They're trading on a lot of leverage. They need to post margin in order to trade. What happens when you get this wild volatility in the market? You wind up seeing margins triple. If you're trading seven million barrels of energy products, not oil, but all energy products a day, you now need 300% more capital to do that now, right now. You don't have that. you are forced to liquidate your positions as you move forward from here. And we've seen that in the open interest numbers. I got this next chart I want to use out of sequence. We've seen that in crude oil futures. Open interest in crude oil futures is at a six-year low. There has been liquidation. Volume has fallen to not the lowest level in the last five years, but the lowest level in the last five years.

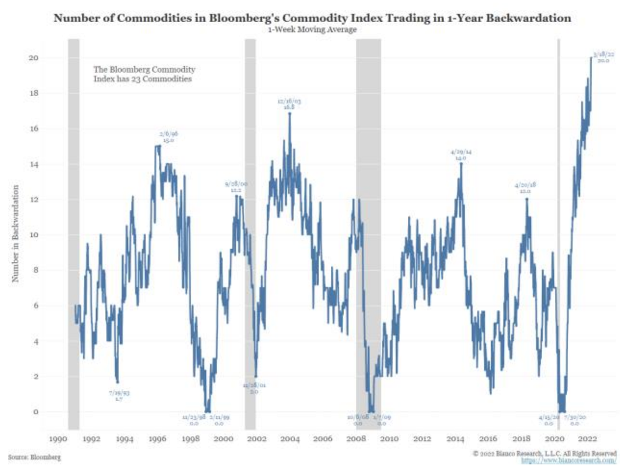


And why is that happening in the marketplace right now? Because these margins are expanding, and these traders are being forced to liquidate and prices are collapsing and they're losing money. Trafigura, the big Geneva based energy firm is actually talking to Blackstone and other private equity firms to raise money. The CIO, the chief investment officers come out and said he expects some of the smaller commodity trading houses to fail in the next couple of weeks because Trafigura called Blackstone and Blackstone will have a team in their office in 24 hours to look over their books, to see if they want to invest with them. But there's a lot of smaller firms that will not get that return phone call. And they're going to fail.

Macron, France has already said EDF, the big energy company in France might have to be nationalized. what's been happening is in this rise in oil, commodity trading firms have been getting wrecked. And because of that, this is why we're seeing the wild volatility in all of the commodity more markets, including the shutdown on the London Metals Exchange. Commodity traders are in a big hurt. And so, the question then becomes, is this a systemic problem? Yes, you bet. It's a big systemic problem. Last week, I was pointing out that the floating rate OIS spread, which is a measure of bank health widened out last week. A lot of that might had to do with the lending that a lot of these banks have been doing to the commodity trading companies and that the risk that they pose and that it is showing up as an increased systemic risk on the banking system.

Now, to be clear, it is not a crisis level on the banking system. It's saying that banks today have more risk than they did two weeks ago because of the problems in the broken commodity markets. Now, why aren't you hearing more about this? Because we're all a bunch of Degen’s, degenerate gamblers. That's a crypto term. Hey, commodity markets are a mess. Everything's a disaster. Yes. But the price is going down. I'm good with that. Hey, the housing market might be broken. Everything's upside down. Nothing worked properly. Yes. But home prices are going up. I'm fine with that. Except if you're seller, except if you're a buyer. yeah, we want energy prices down. if I told you that the market's a mess and firms are failing, good. I want the price down. If I told you markets a mess and firms are failing and the price is going up, congressional investigation. that's kind of just the emotional response to it.

But let's look past that problem with the commodity firms. Again, volatility goes up, your margins go up, you need a lot more capital to do the same thing. You don't have it. You liquidate. Spreads get wide. Markets gets dysfunctional. And as you're liquidating, you're liquidating into a falling market. You're losing money is what happens. And that's why those markets are not functional right now. And this morning, I pointed out that over the last week, Brent Crude Oil has rallied from under a hundred dollars to 124 earlier this morning. And it came out that they're going to hike margins another 20% because of the increased volatility again. And Brent Crude Oil is now sold off $5 since that, because when the margins go up, I can't hold the same position size that I could. it forces a liquidation on the market. And that's why you're starting to see that fall.

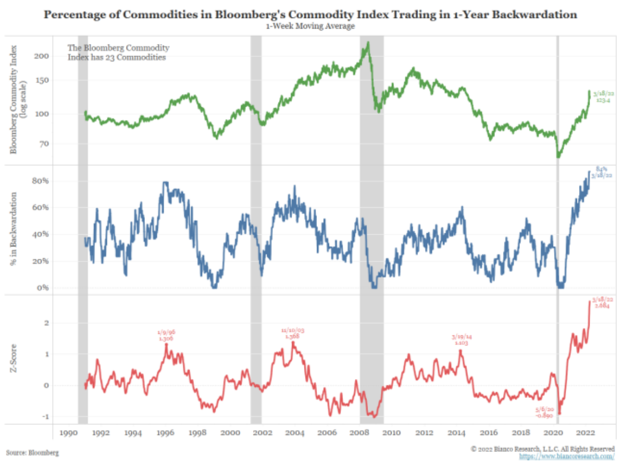


But the question then becomes, if you get past all of this commodity trading mess, what's the true extent? Where are we with the marketplace right now? Number of commodities in backwardation. normal backwardation means that the nearest futures contract is trading at a higher price than the next month than the next month than the next month. And I'm using one year backwardation. I'm looking at the price of the April 2022 contract, because March has expired for whatever commodity you're talking about. Copper or corn or crude oil or coffee, all the ones would see versus the April 2023 contract. If it is backward, that means that the April 2022 contract is trading higher than the April 2023. If the April 23 contract is trading higher, that's called backwardation as well. They're twenty-three commodities in the Bloomberg Commodity Index. Twenty of them are trading in backwardation. You could see this chart goes back to 1990. This is far in a way the most commodities we've seen in backwardation.

Now, what is the significance of them all being in backwardation? And again, here's an example of backwardation. Here's wheat. Wheat is trading... The one year out contract and wheat is trading $1.57 lower than the contract than the current wheat contract. That's from the $4 it was last week, but still $1.57 is one of the biggest backwardations we've ever seen in wheat. And then here is crude oil. Crude oil is trading $18 in backwardation. Yes, it's not the $31 that we saw last week, but still over the last years, we've never seen it that deep and backwardation again.

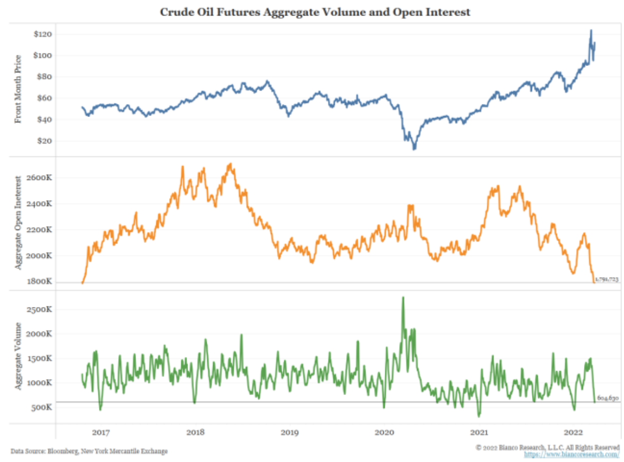
What does it mean? The question is what is the current supply demand situation in commodities? How much do people demand and how much supply do we have to meet that demand? That is really difficult to try and figure out, both sides of that equation. the way we do it is we let the market tell us if commodities are in backwardation and traders are paying a premium to get the commodity now versus getting it in a year, higher price now than a year, they're telling you that supplies are tight.

And they're telling you that twenty of the twenty-three commodities have tight supplies. The market is in very, very much in backwardation. here is the Bloomberg Commodity Index. It's been moving higher. Here is the percentage of those contracts that are in backwardation, 84% or 2023 of deviation of the chart I showed you before. Here's the Z score. What does the Z score mean? If I look at of last five years of a contract in backwardation and I ask, where is it on a standard deviation level? The backwardation is 2.6 standard deviations above. not only are all these contracts backward. They're backward by a lot, which is what I was trying to show here. It's not just that there's a backwardation, it's a big backwardation and it's big backwardation in all of these contracts. what is it telling us about commodities?



You strip out all of the brokenness of the commodity markets and these prices should be heading higher, and they will be heading higher because we've got tight supplies. And the Russia Ukraine war is exacerbating that problem and will continue to exacerbate that problem. maybe there will be a cease fire. We'll get things back to some semblance of normal, that Russian crude oil could start flowing. The planting could occur in the fields in Eastern Ukraine. I don't know if you're aware of this, but Ukraine flag, which is golden on the bottom and blue on the top is supposed to signify a golden wheat field over a clear blue sky. That is their national flag. That is how important grains and commodity trading is to Ukraine. It's March. They should be in the fields now. Farmers should be in the fields with the tractors planting.

Instead, we've got tanks with soldiers in those fields. If they don't get those fields planted, it's not terminal now, but if they don't get those fields planted, there is credible talk of a... There is credible talk of famine this fall. On the oil side, I'll quote Peter Zion, the geopolitical strategist, who does some interesting work. Russia exports five million barrels of oil a day, exports. The other six they use for themselves. They produce about eleven. Most of that exporting oil goes to the west, goes to Europe. All pipelines from the oil fields in Siberian, their gas fields in Siberia, their pipelines go to Europe. They don't go to China. if we're going to stop buying their crude oil, stop buying their gas. Oh, they'll sell to the Chinese. Yes, but they don't have an infrastructure to send it to China. Oh, some of the L&G and some of the tankers can go from Russian ports to China, but that's not going to be a lot.



To build a pipeline from Siberia to China to get the oil to China is the equivalent if you look at a map of building a pipeline from Anchorage to Miami. It's that long. Yes. They could build it. It'll take 10 years and $50 billion, but eventually they.... But it's not going to happen this week or next month. Russian crude oil is structured to be sold to the west. There's only so much they could divert to India and China, the two other big producers or consumers that will still buy Russian crude oil. what's happening in Russia is their facilities are filling up. They're getting awfully close to having their pipelines fill up from the wellhead to the port. And they are getting awfully close to having to shut down production. I can't keep producing this. There are no more storage facilities, the pipelines full. Where am I supposed to put this oil?

We got to shut everything down. The problem with shutting it down is to restart a pipeline, I'm quoting Peter Zion here, and I've read similar things as well. To restart a pipeline, you have to go through that pipeline every inch and check every weld and every bolt before you restart that pipeline. These pipelines are designed to be run at maximum prep pressure all the time. You shut it down and then you risk cracks and leaks. You shut down an oil field, you risk losing pressure in the oil field. It's not a switch. You just turn it off and you turn it back on. They are designed to constantly run, but if you don't have five million barrels a day leaving Russian ports, maybe you only have 1 million or one and a half a day leaving Russian ports. And that's why Russia's euros contract, the Euro Russian oil is trading at a $30 discount to Brent. They got to get rid of it. Otherwise, they have to shut down all of their oil infrastructure.

And one other thing about shutting down their oil infrastructure, interestingly, Halliburton and Schlumberber announced last week that they're pulling out of Russia. Now they're the two big oil service fields companies. Let me be blunt about this and not be nice to Russia. They are so incompetent they can't drive their tanks one hundred miles into Ukraine without running out of gas. When it comes to large scale logistics, they're very bad at it. They've shown this with their military. I don't expect that they're any different with their oil fields. Their oil fields are running properly because Halliburton Schlumberger and Western oil field service companies are overseeing their oil fields for a pretty penny. If they're not there over time, those oil fields are going to degrade. If they have to shut down because they've got no more storage facility, no more pipeline facility to keep stuffing this oil, because they got to get three and a half million barrels a day out the door to keep everything flowing, and they have to shut it down. We could be losing Russian oil for a big, long time.

Peter Zion points out, the last time Russia's oil fields had to shut down was 1989. The fall of the Soviet Union put everything in chaos and their oil fields fell in disrepair in 1989 and they had to shut them down. They got back to 1989 production last year. It took them 32 years to eventually come back to the same production levels they were where they were the Soviet Union after they shut down. I'm not saying, first of all, they, they haven't shut down. They're getting dangerously close to shutting down. And the technology's a lot different right now than it was in the 1990s. But nevertheless, that is a huge problem for Russia. when these commodity markets are in backwardation, the trend on these markets should be up, that this function among commodity traders is masking it.

And we're all such emotional creatures. Down is what we want. Up is what we don't want. inflation is persistent. It is not going to go away anytime soon. It is because of the remix of remote work, work from home is where it's going to go from there. I think as we move forward from here, the bond market is having a big problem because it's had the worst market in 40 years. The Fed's priority is going to be hike until inflation goes down. If they risk recession, they risk recession. If they risk a bear market, they risk a bear market. The yield curve, the steep curves, short curves with a long wing out to two years steepening going up, meaning they think the Fed's going to hike a lot. The long curves with a short wing of at least two years, inverting means that they're going to hike till they break something. And they haven't broken it yet, but they're on their way.

Commodity markets are dysfunctional. Commodity trading is dysfunctional. The markets are dysfunctional too. But beyond that, the supply demand situation in commodities is poor and it should lead to higher prices as we move forward from here, unless you make me a case that there's going to be a ceasefire soon, weeks, days, and that all of a sudden all the tankers are going to line up in Russian, start taking their crude oil and the farmers are going to get back in the fields in the next couple of weeks in the Eastern Ukraine and start planting. Otherwise, this problem is going to exacerbate itself. All right. Thank you.

<u>Q&A</u>

Let me start in on some of the questions. First name only basis. I know who you are. Let's see what we got here.

Charles asked, "What do you expect the minutes of the last meeting to say about the balance sheet reduction and how likely will it affect the long end of the curve?" The Fed stopped buying treasury securities or stopped QE March 9th. 15 days ago. The Fed still purchases on average about one hundred billion worth of securities a month. Now why is that? Because they have a $9 trillion balance sheet, and they want to keep the balance sheet at $9 trillion. every month about $100 billion worth of securities mature. they don't want to go 8, 9, 8, 8, 8, 7 because of maturities. $100 billion roughly. And it's lumpy. It's not an even a hundred every month. Sometimes it might be $60 billion, one month, 140 the next month, but it averages a hundred. they are purchasing $100 billion a month. I suspect that the balance sheet reduction that they're going to do is that they're going to stop with those repurchases and let the balance sheet fall by a $100 billion a month. That's Wall Street's consensus.

That's where that number comes from is that if they just go to zero on the purchases and just let the balance sheet run off, it's about $100 billion a month. Will the Fed go the next step and say, well, we're actively going to sell some securities, like long term securities to push up long term rates to keep the yield curve from inverting. You've heard this argument. Again, I come back to it's a freely traded market. It's a freely traded instrument that gives us signals about the future. Why do you want to ruin it? You're just making clarity all the worst, that you're just going to wreck all of the symbols, all the indicators you don't like. Look, this is what China does. If a number tells them what they want, they put it out.

If a number tells them what they don't want, they lie about. They break it or they lie about it, or they break it. are we're going to do the same thing now too? Is all the economic statistics that say what we want, we put out all the economic statistics that say what we don't want we break. I hope we are not going to go to that point. And that to me is if the purpose of selling long term securities is to outright manipulate the yield curve, that is a very, very bad thing. I think Paul's against that idea. That's my personal take in just reading what he says. I think that they're going to just do balance sheet runoff as the initial start. If they ever wanted to go to sales, that's at least a year away. I suspected in the May meeting; they're going to give you a roadmap to the balance sheet runoff.

It'll start this summer and they'll just stop and let it run off. And it'll be lumpy. It won't be the same number every month as well. And they may taper it. It might be twenty-five billion or fifty billion, one month, 75 billion the next month, then a hundred after that. And every month so far after that. Even if the Fed hikes eight times this year, their policy would still be incredibly easy with this inflation backdrop. Will this continue to underpin the stock market? Yes. Eight hikes quick word about hikes. Eight hikes are 2%. They're going to raise the rates by 2%. For some reason we don't call it, well, they're going to raise rates by 2% or raise rates to 2%. That doesn't sound as daunting as eight rate hikes. And so, there is a bit of that with it.

Yes. That's why if I were to go back to my chart here, I was to go back to my chart on the table. I'll point out a couple of things about the table. Right now, the market is pricing in nine rate hikes, nine. 10th rate hike is coming in one year, March of next year, we'll have the 10th rate hike. Now what's interesting about this is I just want quick comment about this and then I'll answer your question directly. Bank of America's global fund manager survey. I used that a lot. It came out last Tuesday, nine days ago. They surveyed 299 fund managers. The average number of rates hikes those fund managers expected was 4.4. That was nine days ago. The market is pricing in nine rate hikes. They're at 4.4. The market is telling you we're going to be at five rate hikes by June.

And they were at 4.4 for the whole year. Why is it that all these fund managers are at 4.4? I would argue they don't understand the priority is now inflation. They're instant thought is 8, 9 rate hikes. Are you kidding me? That'll put the economy in recession. They can't conceive of the idea that's not the objective. The objective is to get prices down. to your question, will eight rate hikes be enough to bring down prices? Will they still be easy? Well, they're starting to talk about going fifty. I think if the fed goes 50 in May and 50 in June, that's going to be the new rate hike. It's going to be fifty or nothing. They're not going back to twenty-five. That would be my argument if they wind up going fifty. Also, the argument is I hear the...

Bill Dudley's the former New York Fed president saying that they might have to take the funds rate to 5% or deal with this inflation problem. We'll never get there. That we'll break things. The economy stock market will be down. The economy will be upside down. You'll hear this from a lot of these fund managers too. Oh, we can't raise rates that much. We're too levered. We're too tied in with debt payments and everything else. You're right. And that's why when we go to two we'll break things and we'll be at the risk of recession. How does the Fed rein in inflation? Well, they could take rates to 5% or they could take rates to two and things break, and demand comes off. Or as I like to say, what's it going to take to get you and me to think twice about the buy it now button on Amazon? Geez.

I shouldn't buy this thing, given how dicey things are. That's where I think we're going to go. And I don't think it's going to take four or 5% interest rates to do that. If it does, that's where we'll go. I think it will break things a lot more before that. Am I arguing the Fed's going to make a mistake? Yes. They're going to make a mistake by creating recession. But I would turn the argument around and say the policy error was made last year. The policy error was to insist inflation was transitory and not deal with it a year ago when it was a two and a half percent on its way to three. Now all they've got are tradeoffs, 40% with less than a thousand dollars of savings. Can't take a hot shower every day. Ten percent of the public owns 90% of the equities.

They're worried that they might see a gigantic reverse wealth effect. And they're the bulk of spending in the country. Pick one, which one you going to help? You can't help both. You've waited so long; you've only got tradeoffs. And I think they're picking the 40% with less than a thousand dollars savings. We got to get prices to stop going up because it's killing the Democrat party and they're hearing it. The Fed is hearing it from them as well. And I don't mean to pick on the Democrats. They're killing the majority of Congress, which happens to be Democrats. Republicans would do the same thing if they were in that position, and they might be next year and they might be demanding the same thing from the Fed next year.

Yes, eight rate hikes in theory might only get you back to neutral, but I would argue that might be enough to break things and that might be enough to slow the economy. And then the Fed could say, mission accomplished. We need to get inflation down. We created a recession or near recession possibilities, a 25% decline in the stock market. There you go. No one's buying stuff or we're buying a lot less stuff. Inflation's coming off the boil. There, I fixed the inflation problem. Thanks Jay. That's kind of not the way I wanted you to fix it, but that might be the way that you might wind up fixing it as well, too.

Thoughts on Mary Daley's comment, that inflation is a regressive tax. Mary Daley is correct. What she means by an aggressive tax is you and me and everybody on this call, we own stocks. We own our homes. Stocks were up 2,900% last year... Not my home, but the Schiller Home Index was up 18%, right? I'm fine with five, six, 7% inflation if that means my home goes up 18% and my stock prices go up 29%. But 40% of the public doesn't own their home. They don't have a stock portfolio. They just get slaughtered. That's what she meant by a regressive tax. And I think she's right about that. I'll throw out another amazing statistic for you. We had this in what we're reading last week. Zillow came out and pointed out that the median home, the median home in the United States increased in value by $52,000 last year, the median home. The median income, the median salary in the United States is $50,000. The average American made more money last year on their home going up more than they made at their job. That has never been close to being the case, even in '06, when we were blowing off the top in the housing bubble. We've never seen anything like that before. It's an incredible statistic as well, that, why do you think maybe 2 million people haven't come back to the workforce? Their house is worth more money now than they would if they had a job. like I said, again, I'll remind what I said before, is housing a bubble? But it's just it's so different and it's so broken. Broken meaning it's such a different market than it was pre-pandemic. I don't know if we could call it a bubble or what we could call it right now, but we've never seen a housing market like this at all. And it's just not behaving to the standard things that we've been seeing.

Larry asks, high gas prices would add to work-from-home movement. It is. There are anecdotal stories that people are saying, "Can I work four days a week, so I could save driving to work one extra day a week? And again, remember, this is about 75% of the people that work in a large office are making a $75,000 on down. This is not the managing directors at Goldman Sachs saying, "Can I save a couple of bucks on petrol so that I don't have to drive down to 200 West every day, by working at home one day a week." These are the secretaries and the clerical staff and the operation staff that work there. Those are the people that are saying that. yes, you're already starting see that.

Dale asks a long question here, "your conclusion is in error. People will return to the office slowly, still afraid of COVID. Zero percent of the people will do the work all the time, but 90% need instruction, help kick in the pants. Can't do that if working at home full time. People want boss to see how they would work and can't do well from home. Boss wants to see who works hard, hard to

see if employees at home. I am not suggesting that change will not happen as a result of working from home, but your conclusion that offices are done to the extent you infer incorrect. Too much happens in the office that can't happen at home. Interaction, friendships, learning experiences that cannot happen from home. Four days a week or three or two are off. Most wise say I married you for better or worse, but not for lunch."

I like that last part. That's particularly good. Look, that is a valid argument that you're making about work from home. And that's why I said I think we are well ahead of where we were going to be. The answer that the boss can't see you, you could screw around at work and the like, is true, but we're going to have to change the metrics of how we measure people. You're right, we're not going to zero work from home. We're going to go to four days a week in the office, three days a week in the office. But then what's going to be the trend over the next five to 10 years? I think it's going to be to lessen the amount that we go to the office, not increase the amount to go to the office. Or let me put it to you in the east terms. I'll give you my anecdote.

Goldman Sachs raised first year banker salaries 17%, to $110,000 a year. You graduate from college, and you get a job as a first-year associate at Goldman Sachs, you are walking in the door at 110 grand a year right now. And why did they raise that salary to 110? Because they have to compete with tech. Tech, everybody works from home, or not everybody. The vast majority work remotely in tech. They have to compete with crypto. Everybody works at home. There are no crypto offices and that's the desired place to be. Remember, we're talking about the best coming out of school. They've got these options that they could work at Google, they could work at Apple, they could work for a crypto startup, or they could work at Goldman Sachs. And Goldman Sachs is going to try and out salary everybody else.

What is one of the reasons Goldman Sachs has to do that? Because they need you to get on the four, five, or six every morning at six o'clock and get to the office. And you got to get on that train, and if you are not accosted by a homeless person, you're going to smell urine all the way to the office. Do you want to fix Midtown Manhattan real estate? You need 10 or 20 billion dollars to fix the New Jersey Transit, Metro-north, the Long Island Railroad, the subway, and the bus system. You have to make it at least not an undesirable thing to commute to work. They got to put a $20 per foot tax on all Midtown Manhattan real estate, and plow it in. That's part of the reason people doesn't want to go to the office. It sucks. It sucks to get there. It sucks to be there, the politics.

And again, it's not the hundred and $110,000 a year banker that doesn't want to go to the office, it's the secretary, it's the compliance, it's the majority of people. They're the ones. I'll take a job where I can... Those first-year people, why they have to pay 110,000 to them? Because they'll take a with Google at 70, and then them and two of their friends will take a one-month rental in Jackson Hole, and then every afternoon they'll ski or horseback ride. And the guy that's making 110, he might live in New Jersey, and he has to be on the New Jersey Transit and walk through the port authority every day at 6:00 AM. To hell with that, I'll take seventy grand and go to and go to Jackson Hole. That's what you're competing with. you've got to make it as desirable. And this is the big problem.

That's why I think yes, you're right. That we have to restructure the way we manage people, and the metrics that we decide are successful for work. And that's why this was hoisted on a such in a fast way. There will be an uptick over the next year in the number of people that will go back to the office. But I don't think we're getting back to 100%, unless we make a complete restructuring of what it means to be in the office and how we get there in terms of the commute. And I don't mean that once you're fixing New Jersey Transit, then you got to fix the New Jersey Turnpike. I don't want to spend an hour and 10 minutes in my car to get there. I want to spend 30 minutes in my car to get there. We need to fix all of that, and then make the aggregation of people in a single location called an office a more desirable experience. That's my personal opinion.

I believe the single biggest reason we don't want to go to the office is it's a pain in the ass to get there. It's expensive to get there. I don't think it's necessarily that we're lazy. I think what we're finding is we're more productive because you get a lot more done at home as well. Because remember, everybody who's got an office job, your job is two things. Things I have to do and people I have to interact with. What we've learned is things I have to do "Leave me alone. I have to do these things." The most efficient place to do them might be in your computer at home. Interact with people. The most efficiently place I have to do that is in an office. But can we fix that interacting with people to do it remotely? That can be done over time.

That's why I think the number of people going in an office will go up and then it'll start to trail off. I'm talking about over the next 10 years. If not, how are you going to get people to want to get on the subway and smell urine on the way into the office, you got to pay them a ton of money, and your cost basis is going to go off. Goldman already reported in the first quarter, because they had to hike salary so much to get people into the office, that it impaired their earnings. Their stock price fell on their earnings number because their cost basis went up. Well, it isn’t done going up, if that's what they want five days a week. It's going to have to keep going up. these are part of the complaints.

Dale's not wrong in anything he said, but the question is, is the fix force everybody back to the office, or is the fix restructure how we manage people so we can manage them more effectively remotely? This is a 10-year project. This is not a two-month project. that's my take on that question. And we'll see. Maybe like I said, look, it's my projection in the future. Dave Solomon could be right. We could be back to 95% occupancy in Midtown Manhattan by 2024 or 2025. That could very well be the case. We'll see. Problem is we ask the CEO and all the senior executives what they want to do, "We want to go back to the office." But then if you ask all those people that make less than 70,000 and down that work in your office, "I don't want it to be anywhere near it."

And there is the problem. you got to go back to the office without them, or you're going to have to pay them a whole hell of a lot more money to wind up putting up with the commute and everything else. That's the push, pull that we have with the office. I understand why Dave Solomon wants to go to the office. It's great to be the chairman of Goldman Sachs in 200 West, which is where their office is. That's a fantastic place to be. But not everybody that works there is the chairman of Goldman Sachs. Not everybody that works there is a managing director. And so that's the problem that we have to face in trying to square this situation.

What trades do you think are best? What most actionable ways to use this information? There reason lies the problem. If the answer is, where do I go to make money? Like I said, on an asset class level. That's what I'm focused on. Bonds are going down. Stocks are negative real rates. Cash is negative real rates. Stock market is going to have an issue. Interest rates are going up. Commodity prices are very volatile. If there was one place I'd say, is I'd say go to anything that benefits from inflation. What would normally be your inflation positioning and do one third of it because of all the volatility. Don't be surprised if you bought into a commodity fund or if you bought into an inflation beneficiary stock fund or something like that, and you lost 10% in the next three days. That's the nature of that investment.

Be good with that and size accordingly. That would be my best bet. But right now, I can't emphasize enough, this is what happens when you have inflation. Everything goes down. The argument would be that the fed is right. Inflation is truly transitory. It will peak. These one-off events will go away, and it will go back under 3% by the end of '23 all by itself. Again, anything's possible. I don't think that's the case. I think that it's more persistent or structural. And the Fed's going to have to deal with that, including risking a recession. But we'll see where they go from there. Couple of other questions and then I'll call it up.

"Why haven't investment grade high yield spreads blown out more, considering the cost-plus inflation impeding effect on growth?" Same reason, same reason that stocks haven't gone up. Where am I going to go if I get out of investment grade? Am I going to go to treasuries? Am I going to mortgages? Look at the total returns that they are. Now, that doesn't mean that, that's a permanent problem fix. "Oh, well we can never sell out of stocks because everything else is going worse." That's where they're going now. I think as the realization comes in, Fed's going to keep going. Inflation's a bigger problem. The economy's slowing. Then I think that those things will eventually roll over.

"Isn't the bond market already priced for maximum fed hawkishness?" The short end is definitely priced for maximum Fed hardness. Yes, that is definitely the case. And the only thing that will change that, would be the dramatic slowing of the economy to the point, a slowing of the economy that you have to say, "This will actually bring down inflation, it's slowed enough." The long end of the bond market, I don't think is quite there yet. I still think that the long end of the bond market. Look, when we start to realize the economies in serious trouble, I think the yield curve severely inverts.

Because you get a long end rally, and you severely invert the curve. That's your signal the Fed is going to start cutting rates, because they've realized that the oh shit moment is here. We've gone too far; we have a recession. And the recession is already taken care of the inflation problem. It's time to start cutting. And I still think you'll start getting that. That's one of the reasons why I've argued that I've been Uber bearish on the short end of the curve. I still think that those rates will go up a lot more. And I have been as bearish on the long end of the curve. In other words, I've been thinking the curve would flatten into inversion. And I still think that that will be the case.

"Do you have an estimate of how far the Fed will need to go above neutral rate given that they are late?"

The question is better asked, where do we start to break things? And I think that neutral will start to break things. I think that that's the one thing we're not appreciating, the amount of leverage, the amount of debt that we have in the system, whether it's financial leverage, or operating leverage. And the amount of negative drag that higher interest rates will have. that I'm assuming that if you get to two and a half percent on the funds rate, that you will have a bear market in stocks. Look, you already had it in the Russell. You already had in the NASDAQ 100. You went down 20% at the lows last week. Fourteen percent on the S&P. 20%. ISU still would argue that if we are going to do that, the stock market's lows are ahead of us, that they will go down 20%, that those rates will go up. The economy will continue to slow. Earnings will continue to be a drag and multiples will fall.

And that will be enough to do the damage that you need to do to rein in inflation. I am arguing, and in some way I am arguing the Fed's going to make... Like I said, the Fed made the mistake last year. They've got tradeoffs. And one of the tradeoffs is going to be one of the ways they could fix inflation is they could kill the economy. They're really good at that. If not, if I'm wrong and the economy is a lot more resilient, the stock market makes new highs, then we're going to four. Because the Fed is not going to say, "Look, we need to fight inflation and it's sticky high. And the stock market made a new high. Okay, good enough. We're going to stop." No, they're going to go harder and faster if the stock market keeps railing, and if the economy shows resilience.

The only way they stop is if prices go down. And if you believe truly that we could go to 5,000 in the S&P, we could go to 3.5% On unemployment, 3% GDP, and inflation will go to 4% with that backdrop. If that's what happens, then yes, the Fed will stop. But if we go to 5,000 in the S&P, 3% GDP, and 3.5% inflation, and 3.5% unemployment, and 3% GDP, and 5,000 on the S&P, and the inflation rates at seven. Don't talk about going 75 a meeting. They're not going to rein in, they're going to go harder is what I think they're going to do. That would be the way I would answer that question.

Okay. Couple of other questions. I did a Blockworks interview with Luke Roman last week; we did have it highlighted it in news clips couple of days ago**. Jay says, "I've listened to the joint interview with Luke Roman. Roman believes that the forces are on play which will result in the replacement of the U.S dollar with gold as the world's reserve currency. Do you share that view? If so, wouldn't that suggest the Fed doesn't need to be as concerned with inflation as Volker was?** Volker was me Maniacal about it because world demanded the U.S dollar to do whatever it took to stabilize the purchasing power of the dollar. that foreign currencies would have a reliable currency with which to purchase or sell energy products." Yes, that was part of the interview, or that was part of the discussion that I had with Luke on the Blockworks interview.

Luke believes that the dominance of the dollar as the reserve currency peaked, and that the events of the last two months being the sanctions on Russia with the Central Bank freezing their reserves. And I threw in the Canadian truckers showing that we'll freeze your bank accounts, is made people rethink the dominance of the dollar. Now, here's the problem. What are you going to use? Now, the Indians are trading oil with Russia for Rupees. it's a Rupee, Ruble trade. "I'll give you Rupees, and you give me oil." Okay, that's fine. Except Russia, what are you going to do with those Rupees? There's only so many things you can buy that you need from India. Chinese will trade Yuan for currency. You then expose yourself to a big currency risk by just holding those currencies.

You might not need everyone to buy stuff from China. You might need to buy stuff from other countries, and you'll need their currency too. That was the role of reserve currency. If the dollar is losing its dominance, and if we are going, and as Luke said in the interview... I asked him, "What's going to be the new reserve currency." And he said, "Well, gold will be the reserve asset, but there won't be a reserve currency." If in the future, Walmart has to trade in the Vietnamese currency with Vietnam and the Indonesian currency with Indonesia and the Malaysian currency with them and the Chinese currency and the south Korean currency and the Philippine currency and the Japanese currency as well. And they have to trade in all these different currencies to buy the products that they're buying from them all now, and subject themselves to currency risk and currency fluctuations left and right, because right now they pay for dollars with everything. Then the price of everything at Walmart's going up a lot because the risk and the frictions are going up a lot.

If the dollar's dominance is over, and look, it might be, it might be. Understand that that means that inflation is more structurally embedded than even I've argued. Because everything we buy, we're going to have to pay with Saudis, we're going to have to pay with all of these dozens of different currencies. And Walmart's going to hold some currency that they're buying from a manufacturer, and it just lost 30% of its value. And then the price of that product just went up by 30%. they're either going to take a loss on it, or they're going to have to hike the price in the store. And so, it is going to get a lot more inflation along the way.

Now, are country's ready to really do that? Oh man, I so hate the dollars dominance, the exorbitant privilege as it's been called. Because we don't have to subject ourselves to a currency risk. We pay for it in our own currency. And this efficient system, while you may hate the position it gives of dominance to the United States, it is efficient. Are you willing to accept an inefficient system to screw the U.S? There's some argument that some were ready to do it to some degree, but is everybody ready to do it for good? The Indians are paying with rupees for crude oil. Because remember, what they're getting back is they're getting back rubles. What are you going to do with those rubles, India? And when you get a mass ton of rubles, what are you going to do with all of them? Who are you going to trade them with? What are you going to buy with them as well?

This is the problem as we face. Yesterday Putin said he wants only to sell Russian gas, natural gas with rubles. Okay, Italy in Germany and France, you're going to get a shit ton of rubs. What are you going to do with all of them? Are you going to trade out of them in the dollars? And then they're going to decline by another 20%. And you just added 20% more to the price of gas. Are we ready to do that? the argument is, the world desperately wants off the dollar standard, because they hate it that the U.S has this exorbitant privilege. But it means a more inefficient world is what it means. where are you going to go? We're not going to use the yuan; we're not going to use the yuan. It's not a convertible currency. If it were a convertible currency that you could freely buy and sell it, we might consider using the yuan.

Bitcoin or crypto. There's a possibility that, that could be the case several years from now, if those markets are developed enough that they can handle it. But they're not, they're not ready for that right now. really it comes down to a question of, is the world ready to accept higher inflation, more inefficiencies, and a worst global trade system because they so desire to get rid of the dollar as the world standard? I don't think we're there yet. They want to, but I don't think they want to pay that price. But if they find a more efficient way of doing it, dollar's gone in two minutes. The benefit that dollar has to paraphrase Winston Churchill, "It's the worst global currency system we've ever created except for every other one." you're stuck with it, unless you want to pay a big price to not use it. that's the way I would answer that question. A couple of others here really quick.

"Do you think owning a home can help ordinary Americans fight rising inflation?"

Yes. And it has, and it will. But only 40% of the American public live in homes, households where they don't own, they rent. that helps 60% of the public, doesn't help 40% of the public. yes, but we're not going to get home ownership to 99%. And so yes, owning a home will be, especially with the way the market's going now. Like I said, if you're going to sell your home, list it for a dollar and just let the bidding war begin. Because half the homes in America, that's an unbelievable statistic, half the homes in America go for above listing price.

It's almost like the listing price is irrelevant now. That's what I mean by, I can't say the home price market is a bubble. It's just so different. And it's so unlike anything we've seen. That the first thing you used to do is you brought in a broker and then you'd agonize what price do we list it at? Doesn't matter. List it at a dollar because people will just bid for it. And you'll get multiple bids if it's a desirable home in any way, you'll get multiple bids for it. And then you'll find out what it's worth fast at that point. But not anybody can own a home.

"If you summarize the structure macro factors driving in the inflation cycle, I'm thinking money printing, deglobalization, supply chain disruptions to the pandemic." Yes. Those and the structural change of the economy. Don't forget that. Work from home. Because like I said, the whole economy is built on the idea we go to an office five days a week, eight hours a day. And if we're doing less of that, the whole structure of the economy needs to change. The entire structure of the economy needs to change. I do think that you are pointing out some of these byproducts. The inflation cycle, money printing is my chart that I showed that we had this massive amount of stimulus, which is why the U.S has the highest developed world inflation rate. We stimulated more. The as well to the supply chain is a problem because we desire our consumption basket has changed. We haven't changed the supply chain and our production yet to meet that consumption basket yet.

We've got that going. And as far as deglobalization, yes, we're going to start to see some deglobalization and that's going to increase cost. A good example of deglobalization decreasing is, Intel is building semiconductor fabrication plants in Arizona and in Ohio, outside of Columbus. Why haven't they done that before? The answer's quite simple. Because it's more expensive to do it there. Why are they doing it now? Because they see the risk of Taiwan semi and all of the semis coming out of Taiwan. The majority of semiconductors that the world uses is produced in Taiwan. If we wake up one morning and the Chinese military is in Taiwan, that's a huge problem. we need to deglobalize reshore onshore, and that's expensive. That's the reason there hasn't been a fab plant in Ohio or Arizona before now. But the attitudes have changed and that is worth it for right now.

Let me see if there's any other questions. Nope, that's it. All right. Well, let me end it there. Let me thank everybody. And I should be on Pat's to talk to you again in this format in the next three weeks. thank you and good-bye.

Inquiries: (800) 606-1872