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Conference Call

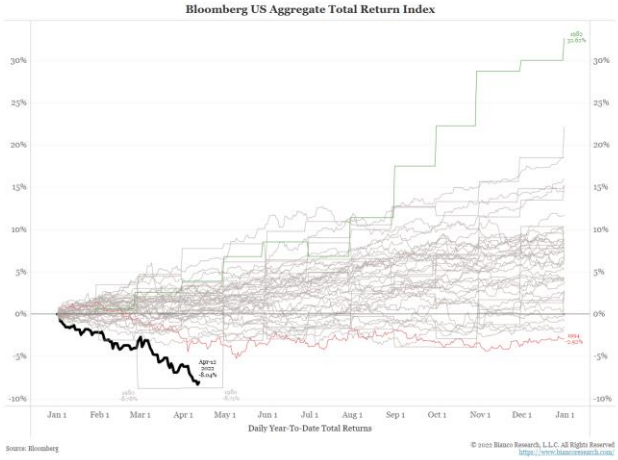
The Epic Bond Market Rout

April 14, 2022, Conference Call

(This transcript has been lightly edited)

Good morning, everybody. This is Jim Bianco. Welcome to the conference call. The usual preamble here. I'll drive along on the webcast. Virtually all of you are on the webcast. I'll do my best to yell out page numbers for those of you that are just listening. If you have any issues, you can send Alex Malitas, at A-M-A-L-I-T-A-S @biancoresearch or hit reply. And that would be for technical reasons. There is a question-and-answer window. I see some questions that are already coming in. A couple of them are pretty good. So, go ahead and shoot those in. I'll do my best to answer them along the way. If I don't see them, I'll pick them up at the end.

Okay. The epic bond market rout. That's what I want to talk about today. On a total return basis, the bond market is, and I'll show you some statistics in a second, suffering through one of its worst periods ever. Now, that is a function of convexity and duration. As yields go down, durations extend. For those of you that are not familiar, let's use the modified duration definition. What percent do prices change given an instantaneous 100 basis point move, that's not constant over time? That difference is convexity. So, with low interest rates, you have very long durations, very big sensitivity in price movements, little coupon cushion.



So, for instance, in 1981, when you had a 14% coupon on a 30-year bond, you had a six-and-a-half duration. So, every 100-basis point move from 14% produced a six-and-a-half percent price move. Today, with a coupon under 3%, you have about a 22 duration on the 30-year bond. So, you get a 22% price movement. The point is, as yields have started higher, what we've seen is some of the worst total return losses. This is in one respect, easy to account for. A 40-year high in inflation has produced among the worst bond performances in 40 years.

And I understand that most people that are not steeped in convexity and duration look and go, "Well, it's a two handle on interest rates. So, they're obviously not responding to eight-and-a-half on inflation." Well, they are, they're wiping out bond investors. That's how they're responding to it, at least on a total return basis as well.

Then I want to talk a little about inflation and what has been driving inflation and Fed policies response to that. And the takeaway here is I'm going to focus on the Bank of America's Global Fund Manager Survey. 43% still think inflation is transitory. 49% think it's permanent. And again, I've had some quibbles about the word permanent. I don't think that nothing in life is permanent. Maybe persistent would've been a better word. But nevertheless, the average number of rate hikes that they think the entire cycle will have been seven, up from four in March. Where the market's got 13 rate hikes priced in.

So, when people ask, "Well, isn't the rise in inflation and the aggressive Fed priced in?" The answer is no, because most people still think the Fed is going to just go through the motions of raising rates a couple of times, watch, you'll see, inflation peak this month. It will go away all by itself, and then they can stop raising rates. Or, a complementary argument would be, "They will never allow the rate hike or the aggressiveness of the Fed policy to impact financial assets. They're not going to allow a bear market." In other words, it's what they're saying. So, don't worry about it.

That was the case from 2008 to 2021. I'm not sure it's the case now. I happen to think that inflation is more persistent, and I think that the Fed is going to get more aggressive and yes, they will risk a recession. And I'll give you odds of even money that they will produce a recession before the end of next year. I might even go higher than that, but I'll just stick with even money for right now. In other words, a Fed mistake.

By the way, the Fed mistake was last year, when they kept denying that there was an inflation problem by using the word transitory. They're stuck with this policy, because they're way, way behind the curve and they have to catch up. So, the mistake was made last year, the consequence is the policy that we're seeing this year. The mistake is not the policy this year. That's already been set in stone.

And then finally, I want to come back to, I think the biggest macro story that's driving everything, is there been a change, a secular change in the economy? And I would argue the answer is yes. And why has there been a secular change? The pandemic has greatly accelerated the remote work movement. That is real, that is not going away. And that has profound consequences.

And the tease I'll give you here is, the entire economy is structured on the idea that 160 million people go to a place of employment, an office, a school, a factory, a shop, five days a week. A good part of us is not doing that anymore. And I think over time, less and less of us will be doing that. That changes where we live. That's why you're seeing these epic changes in the housing market. I no longer have to live in New Jersey because I have a job in Manhattan. I have a job in Manhattan, and I can live anywhere on the planet, and I'm choosing to move. Or, I have a job in Pennsylvania and now that I can live anywhere on the planet, I choose to live in Greenwich Village. So, you could see it going both ways in the churn, because we're no longer encumbered by our place of employment, as to where we work. Our purchases of cars, our purchases of goods versus services, has all changed because of remote work.

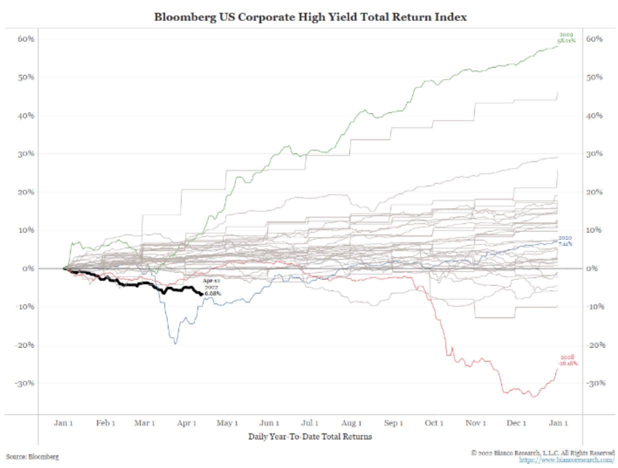
And I'll tease this. I'll mention it again. John Williams, the New York Fed President was on Bloomberg TV about an hour ago. And I tweeted this out. In the first 15 seconds he said all you needed to know. "Well, we've seen a big movement of people buying goods over services, and we expect that that's going to move back to a more normal pattern." Okay. Everything else you say after that, John, is of secondary importance, because what you're saying to me is, "Nothing's changed." You're saying to me, "Here's all the Fed's models on how the world worked in 2019. Just keep pounding away at those models and eventually the economy will go back to that." Instead of, what is the new post-pandemic economy? And are we using models and coming to the wrong monetary policy decisions, because we're using pre-pandemic models? And I think the answer to that is yes. So, that's my tease and I'll go through all of that as well, too.

So, let me get started here. I want to talk about total return and I'm going to show some total return charts just in the beginning, just to put everybody on the same page. So, here is the Bloomberg US Aggregate Index. Used to be Barclays. Used to be Lehman. This data goes back to 1976. The pattern on this chart and all the other charts is all these gray lines are each individual year from January 1st to December 31st, what was the total return by day throughout the year? The stair-step patterns here is when they used to calculate the indexes monthly. And the more detailed patterns are when they calculated the indexes daily.

The best year ever for the US Aggregate Index was 1982, it was up 32.62%. The worst year ever was 1994. It was down 2.92%. So, green is the best and red is the worst. And what you've got now is the big, thick black line is the current year-to-date numbers through the 12th. I didn't get a chance to put yesterday's numbers in, but we were down 8% year-to-date on the Lehman ... Lehman, I'm dating myself here. Then Barclays, now Bloomberg US Aggregate Index. The only period that was worse was when it was calculated monthly. The March, April 1980 period was the only worst total return.

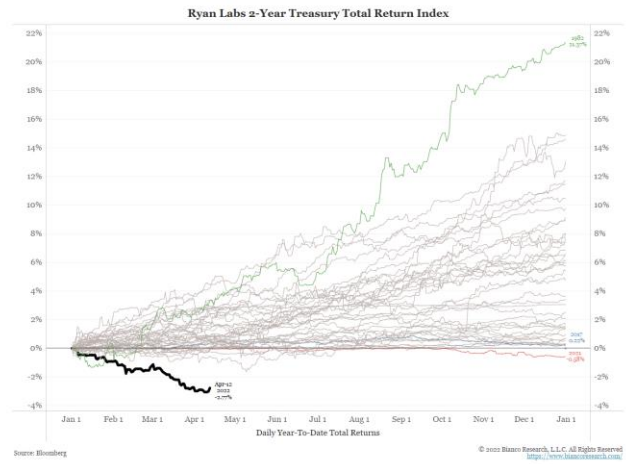
So, at a minimum, this is the worst total return by this broad benchmark that we've seen in 42 years. By the way, the Global Aggregate Index, which we use a lot, it is far and away the worst. I didn't put that chart in here because it's very similar, but that data only started in 1990. So, that's why I went with the US Aggregate Index.

Breaking it down. Let's look at credit. And I thought that what's interesting about what's going on with credit is let me focus on high yield for a second. So, the High-Yield Index starts in 1980. Interestingly, the best year that the High-Yield index had was 2009. Coming out of the financial crisis, it was up 58% for the year. What a year for high yield. The worst year of course, was 2008. It was down 26% during the financial crisis. Worst year ever, 2008. Best year ever, 2009. There's a lot of mean reversion in some of this data.



The blue line I did was 2020, the pandemic. And what you'll see now is the thick black line there is showing you that the market is down, or the High-Yield Index is down 6.68% through April 12th. That is the second worst period that we've ever seen. Other than what we saw during the initial lockdown periods of March of 2020. But what's interesting is by the time you got to this point, when we were down 6% through 2020 ... I'm going to go just mute that other computer. What you saw was that at this point in 2020, the Fed had cut rates to zero. They were buying up to $100 billion of bonds a day. They had put together a facility to buy high-yield ETFs and were outright buying investment-grade corporate bonds.

But now that we've got roughly a similar total return loss through April of this year, as we did in April of 2020, instead of having the Fed buying high-yield ETFs and IG and 100 billion of bonds a day and cutting rates to zero, they're going to raise 50 and 50 and start QT. So, they're going to do exactly the opposite. So, as you break down these indexes, they're all doing very poorly.

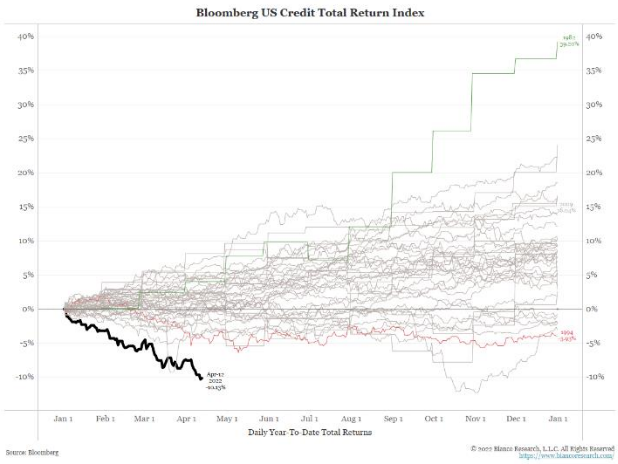


The 2-Year Treasury, just another quick one. This chart goes back to 1977. And you could see the best year ever to own a 2-Year Treasury is 1982. You returned 21% on a two-year treasury in 1982. Of course, the yield was 15% at that point too. So, you just got your coupon and then you got a decent price appreciation on top of that. The worst year ever to own a 2-Year Treasury was last year, down 58 basis points. And in blue, I also put 2017 at plus 22. The only year ever that the whole year produced a loss in the 2-Year note was last year.

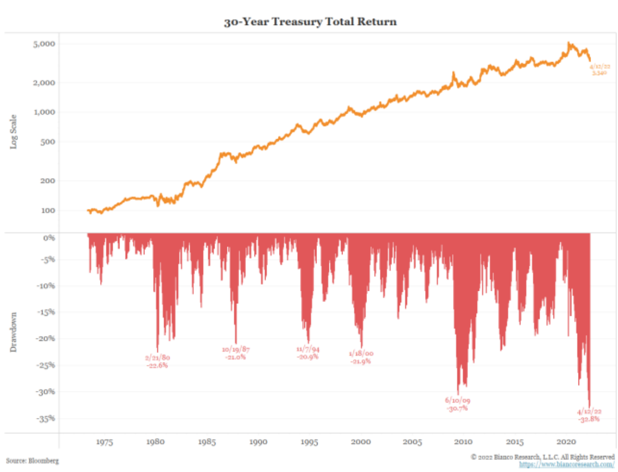
And this year we are far and away seeing total return losses that we've never conceived of. Now, the 2-Year instrument is more like a savings account. It is something that you use in order to park large sums of money. It's not supposed to lose you money. It's a cash equivalent. It lost you money last year. It's losing a lot of money this year. Consequently, a lot of the purchasers of a 2-Year note are those that purchase it using leverage, a hedge fund and a carry trade. Financial institutions, by their nature, banks, brokerage firms, are levered institutions as well. So, these losses can create big problems.

Obviously, the most famous example of that is Long-Term Capital in 1998, where their hedge fund was down almost 40% and created a crisis that caused the Fed to cut rates and have emergency meetings. At the end of the day, what happened there was the total loss of the assets that they owned in total, fell 1%. But when you stick 40 to one leverage on it, you're 40%

underwater. And, that's why the 2-Year note is curious to me, because it is an instrument that tends to be a lot of leverage.



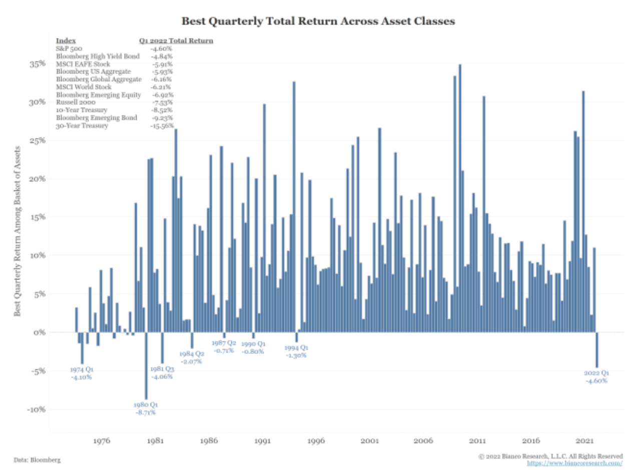
Investment Grade Corporates ... This chart's out of place, I wanted to use it two slides earlier. But Investment Grade Corporates are also seeing the worst beginning to a year ever. '94 was its worst year and 1982 was its best year. Now, a lot of that could be duration, because investment grade, maybe not much credits has changed, but it is duration. But as I showed with the high-yield chart, there is some weakening in credit as well, too.



And then finally, in these total return charts, I want to show a drawdown of the 30-Year Treasury. This chart goes back to 1974. This is the 30-Year Total Return Index for the 30-Year Treasury. And this shows you how far the drawdowns have been. We're down 32% off of the high, which was March 9th of 2020. That's that high right there. March 9th of 2020. We're down 32%. Far and away the largest drawdown that we've ever seen in the market.

Now, what are the comparable drawdowns? June of '09 was the month, actually, that the great recession ended. The tech bubble of 2000. The big bond carry trade unwinds of '94. That's the day of the stock market crash of '87, when we were down 20%. And that was the previous worst month ever in bonds, in February of 1980. So, every time we've seen a giant drawdown in the 30-Year Treasury, it has been an important milestone in the bond market.

So, you sum up all these charts and what you are seeing is arguably the worst period to be a bond investor, maybe ever, but certainly in the last 40 years. So, unless you're in your mid-70s or older, this is probably the worst period that you've run through in your career as a fixed income investor. And again, that's because of low coupons, longer durations, positive convexity. So, when the prices sell off a lot, you don't have as much of a coupon cushion. That's why 1980 doesn't show up on the list, because yields were 14%. You were getting 14% for doing nothing, with a six-and-a-half duration. Basically, you needed a 250-basis point move just to produce a zero total return. Today, you need about 50 basis points or about 40 basis points to produce a zero total return. And now I'm talking about over an entire year period.



But what's interesting about this, is it's not just the bond market that is producing poor total returns. This is an asset class, now let me be clear, asset class look at the market as well, too. So, if you look here, I took all of these indices. What you'll see here is domestic US stocks, international US stocks, the S&P 500's in there, the EAFE is in there. The MSCI World Index is in there. EAFE stands for Europe, Asia, Far East. So, domestic and US stocks. I've got high-yield bonds in there, the US Aggregate in there, emerging equities is in there. Emerging bonds are in there as well, too, the 30-Year Treasury and the 10-Year Treasury.

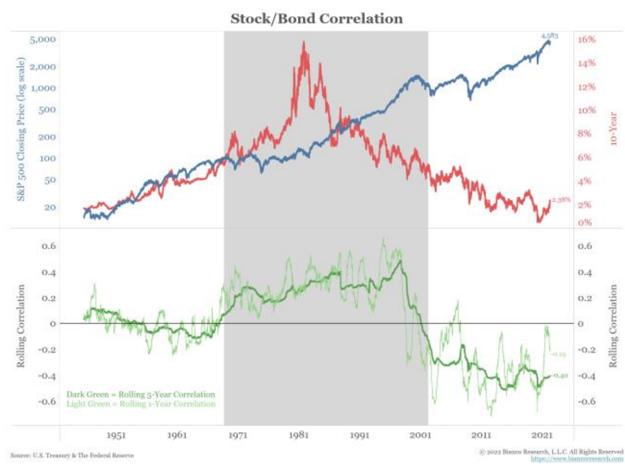
So, I looked at a broad category of stocks and bonds, including emerging, and what it shows, this is the best quarterly return. So, the best quarterly return and I've sorted those, was the S&P 500 in the first quarter. The S&P 500 produced a quarterly return of minus 4.6%. There it is right there. You got to go back to the first quarter of 1994 to find a period where all of these indices lost money in the same quarter, 28 years. So, it's been 28 years since we've seen all of these indices lose money. And for the first quarter, the best idea, best asset class was minus 460, you got to go back to the first quarter of 1980 to find a worse option. And that would've been 42 years ago.

So, when people ask me as a top-down macro guy, "What do I do with my money?" I interpret that question as to mean, one of these asset classes is going to be going up. Last year was the S&P, it was up 29%. Other indices were up a lot as well, too. What asset class is going to produce a decent positive total return this year? And for the last 28 years, there's always been at least one. In the first quarter, there was none. It was just a loss management exercise.

Now, to be specific here, I left cash, the 3-Month Bill, off the list. The 3-Month Bill will always produce a zero to positive return. It has never produced and should never produce, because of the discount nature of a bill, a negative total return. I guess, it's technically possible if we ever got into negative rates like Switzerland, but we haven't. So, if I was to recast this chart with cash in there, we would've had a zero dot on there, and that would've been the lowest dot in 28 years as well, too. But I left cash off, because we're looking at something other than cash at the asset class level.

And I know when I show these charts to people they go, "Well, what about Bitcoin?" Or "What about tech stocks?" Or "What about this or that?" Those are idiosyncratic ideas. And at any point, a particular idea of a stock or a sector of bonds, or a cryptocurrency, or some kind of real estate play, or master limited partnership, those can always work, but those are not asset classes. I'm talking about the major financial asset classes. And financial is the keyword too. I left commodities off the list, because they're not a financial asset. I think of them more in the alternative group. And in the alternative group it has other non-financials. And when you start putting in alternatives, I don't know where you end that list. You can go on and on forever and ever.

But for the major asset classes, domestic and international stocks and bonds, the first quarter was the worst quarter in 28 years. And April is not any better. We're only halfway through April right now and it's not getting any better. So, what is driving a lot of what's going on here with these poor returns? And the answer I believe, is inflation.



So, this is a chart I've used many times and let me explain it here. So, this shows you in red, on the red scale, the 10- Year Treasury Yield, and this goes back to 1947, is where this chart starts. And on the blue scale right here, it shows the S&P 500. And that's a log scale for the S&P 500. So, stocks and bonds. The bottom part is what I want to focus on. It is a rolling correlation. It is the thick green line is a rolling five-year correlation. And the lighter green line is a rolling one-year correlation. The difference between the two.

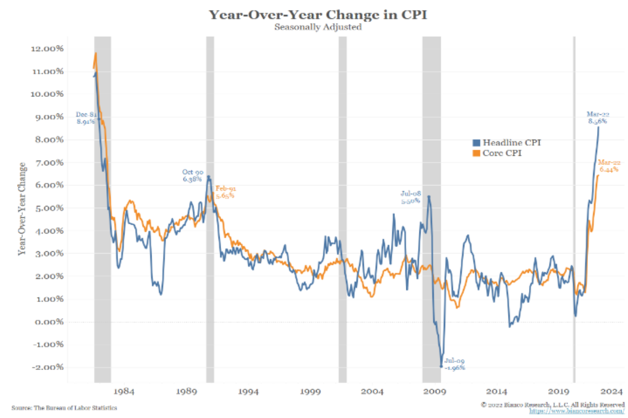
I've got this period shaded here; this goes from 1966 to 2001. During this period right here, the correlation was largely positive. Before that period and after that period, the correlation has been largely negative. Now, what does that mean? And these are price correlations. Let me be sure that we understand what I'm talking about. So, I'm looking at the price of bonds and price of stocks. So, during this period, '66 to 2001, prices of stocks and bonds moved up and down together. During the period since 2001, they move opposite each other.

And what I think is the driver is the mindset about inflation. I like to use that, about attitude about inflation, not actual inflation. But from 1966 to 2001, what was the biggest concern that we had? Inflation. Now, during that period in the '70s, we were very worried about inflation, and it was going up and stocks actually performed poorly. During the '80s, we were relieved that there was no inflation and stocks did very, very well during that period. But about 2001, we gave up on inflation, that was no longer the biggest concern. Deflation became the biggest concern, and the correlation went negative. They moved opposite each other.

And what is that? When you're worried about deflation, bond yields rally, because interest rates will go to zero. And then we found with Europe and Japan, they can go negative. And risks to markets like stocks struggle. So, that was what we would refer to as a risk-off rally. That's where the word came from. When we were relieved that there was no deflation, then the risk-off asset of bond prices would fall. And the risk-on asset of stock prices or corporate bonds would rally. So, that's why you had a negative relationship between the two. And borne out of that period since 2001 is the risk parity trade, is the 60/40 portfolio, because they move in opposite each other. One is a natural hedge for the other.

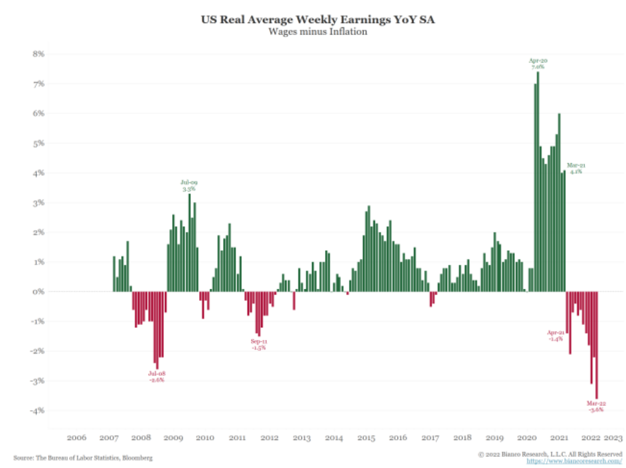
It's not always that way. And what this shows with the one-year correlation is, it hasn't turned positive. This period here, it took three or four years for the correlation, you could see if you look closely at the green line, it kind of did this on its way down. When we got to the highest level in 15 years on the correlation, we're backing off a little bit, and I suspect it's going to continue to random walk its way higher over the next couple of years.

And what I'm assuming here in saying that is, I think that if we are returning to an inflationary period, that the correlation will then go positive. A lot of things will change in the financial market. The 60/40 portfolio will no longer work. The risk parity trades will no longer work. The attitudes about stocks versus bonds will change as well, too. Returns will change. Returns will change as well. So, what you need in order to get higher stock prices is also higher bond prices or lower yields. That's going to be a different attitude than we've seen before.



And this is all driven by inflation, as I hinted at, because I do think that we aren't going to have a persistent period of inflation and that's why these total returns are poor. And I'll talk about what could cause a rally in a second. But let me address that. So, here's headlining core CPI, just a chart of it, 6.4% and 8.5%. And you can see the highest level since the early '80s. We all know this. Then the financial price talks about this, I think correctly, all the time.

But what's the most important statistic here about this is the next chart. And this next chart is real weekly earnings, and it's minus 3.6%. So, what that means is you've got an 8.5% inflation rate, but wages have gone up 4.9% for a minus 3.6%. And that's what's really, I think, driving the whole narrative around inflation.



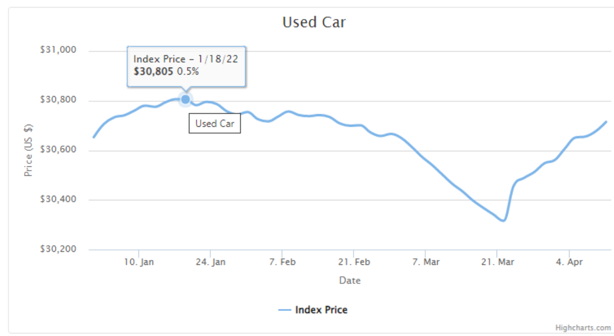
I've said this before, and this chart will sum it up really good when you think about that number. 40% of the American public ... Let me back up. I get this statistic from the Fed's Survey of Consumer Finances. They do it every three years. Last one was '19. They're going to do another one this summer. 40% of the American public had less than $1,000 of savings. That was a big headline in 2019, when that came out. And they rent. Well, they have less than $1,000 of savings, they don't really own a house or a condo.

And those people might get a 4.9% raise in general. I mean, some will get more than others, but at an 8.5% inflation, well, they're losing ground. And they're very upset about losing ground. And I've talked about this at many of these calls as well, too. And because they're losing ground, they're taking it out on the president's approval rating, Congress' approval rating. And the president and Congress are turning to Jay Powell and saying to the Fed, "You better fix this. You better to fix this inflation problem, like yesterday."

And that's why I think that the Fed is going to have this aggressiveness about inflation, as I've said, their hiking campaign does not stop when the economy weakens, it stops when inflation becomes under control or whatever they define as under control. And again, in the interview with John Williams today, he said that "The Fed is determined to get the inflation rate back to 2%." Okay, they're going to hike and hike and hike and hike. And the stock market might be on one knee begging for mercy and the economy might be wobbling and they're going to say at the meeting, "Are we at 2% yet?" Nope. Okay. Keep going.

And that's what I think they're going to do. And I know that this is a contentious issue, because a number of people say, "No, they won't. No, they won't. You watch, give the stock market a couple of wobbly weeks and they will cave like they always have from 2008 to 2020, and they will stop with the rate hikes. And if they have to, they'll cut rates to zero and turn the printing presses back on to push the market up."

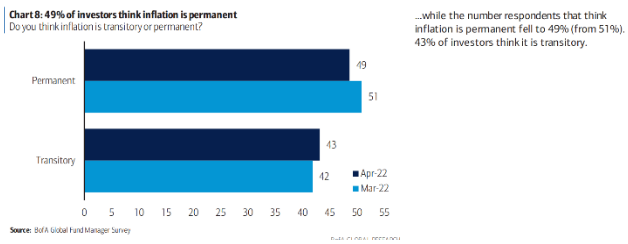
Valid argument, because that's exactly what they did from 2008 to 2021. But now we have inflation and I think that's a game changer. Others disagree, you might be right. But I do think that that's ultimately a game changer, and this is why, those 40% are getting killed and they need to address that 40% problem. On the inflation front, I just thought I'd throw this in, because I found this to be very interesting. So, the inflation report of two days ago showed that core inflation was expected to go up 0.5%, ended up, went up 0.3%. So, we had a solid miss on core inflation, which is what sparked Tuesday's rally in stocks and bonds. "Oh, maybe the inflation rate has peaked." And that seems to be a narrative that you'll hear on Wall Street. What drove that miss in core inflation was a 3.8% decline in used car prices, which was the largest since 1969. So, you had the largest monthly decline in used cars prices in 52 years. That's it. The used car boom is over and we're going to see these prices deflate and we've got a peak of inflation. This is from CarGurus. They have an index of cars. They update this index daily. It peaked in January, and it sold off till March 21st. And it has already gotten back 70% of its decline since March 21st. And this is updated through Monday's close on the CarGurus index.



	Make	Avg Price	Last 30 Days	Last 90 Days	YoY
	CarGurus Index	$30,732	+0.94%	-0.15%	+29.97%

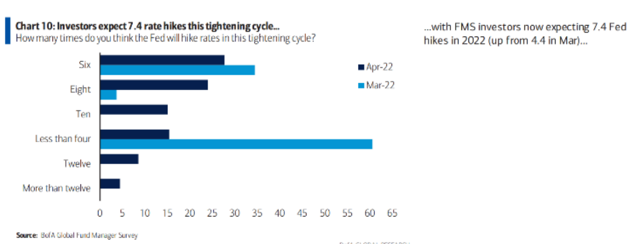
And we had this news clips the other day. You could just Google CarGurus index if you're interested in tracking it. This is right off of their website, this image that I got. So, if this is accurate, and I believe it is because I look at the Manheim index like everybody else does, which is wholesale cars. Those are cars, used cars sold at auction. Manheim is a wholesale auctioneer of used cars. This index is what CarGurus is saying that retail used cars are being sold for. And this is through dealers, through CarMax. This is not private transactions because nobody has to report those.

So, the average used car is $30,000 right now, $30,805. But it's rebounding. In other words, if used car prices are rebounding, get ready, we're going to have a rebounding core CPI in April and May. Is it possible that we're at the peak of inflation? Yeah, I think it is. But I don't think that's the relevant question. I think the relevant question is how fast is the descent going to be? Because if we are at, I'll get to this chart in a second, 8.5% and we're on our way to 6% or 6.5% by the end of the year, the Fed might as well, the Fed will act no differently than if we are at 10% inflation. 6%, 6.5% at the end of the year, down from 8.5% in April is unacceptable. It is flat out unacceptable. If we're on our way to 3.5% by the end of the year, that will produce a different attitude.



So, what I'm arguing here is it almost doesn't matter when the peak is. The real question is how fast it descends. Now to that end, here is the Bank of America Global Fund Manager survey. This came out Tuesday morning, a couple hours before the CPI report. This is new. This is this week. Do you think inflation is permanent or transitory? As of April 49%, think inflation is permanent, 43% think inflation is transitory. So, you've got a pretty big split.

And by the way, this was 299 investors, fund managers managing 929 billion of AUM. That's who they surveyed this month. That's about what they surveyed every month. 49-43 narrowed from 51-42. Okay. From a statistical standpoint, they're really the same number. But nevertheless, it is not 70-30. It is not 80-20. It is pretty much just a shade off of 50-50 is what we're looking at right now. And because it's a shade off of 50-50, there's a number of these managers that do think that the answer to inflation is do nothing, raise rates a couple of times to show you care, and then it will go away, and then we can stop raising rates and we can then get back to having booming risk markets.



Okay. That is possible. It's always possible. As Will Roger said, "Predictions are very dangerous, especially if they're about the future." But here's why these matters. They asked the same 299 managers how many rate hikes do you expect? And the answer is 7.4, up from 4.4 in March. So, they're expecting, and that is this tightening cycle, the entire cycle, all the way through '23 or '24, when we are done raising rates, they expect 7.4 in total is all they expect. Why? Because 43% of them think we don't have to do anything about inflation.

Look at what happened in March here. The 60% of them in March a month ago, 60% of them thought that the Fed would go less than four hikes the entire cycle. And that collapsed from 60% down to 15% as well. So, 7.4 is what they're expecting up from 4.4. And there was a massive shift right here. Again. Why? Because there's no inflation problem. We're just not allowed to say the word transitory anymore, but we still believe it. Here's to what the markets got priced in.

When Does the Market Expect the Fed to Hike?
Probability of Hikes as of April 12 2022 (**One completed at March 16 meeting**)
Green Cells Mark Hike Probabilities over 50%, Bold 40% to 49%

FOMC Meeting	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%	Twelve Rate Hikes to 3.00% to 3.25%	Thirteen Rate Hikes to 3.25% to 3.50%
16-Mar-22												
4-May-22	100%	**87%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
15-Jun-22	100%	100%	100%	**90%**	20%	0%	0%	0%	0%	0%	0%	0%
27-Jul-22	100%	100%	100%	100%	95%	**53%**	10%	0%	0%	0%	0%	0%
21-Sep-22	100%	100%	100%	100%	100%	96%	62%	18%	2%	0%	0%	0%
2-Nov-22	100%	100%	100%	100%	100%	100%	93%	58%	17%	2%	0%	0%
14-Dec-22	100%	100%	100%	100%	100%	100%	99%	91%	56%	16%	2%	0%
1-Feb-23	100%	100%	100%	100%	100%	100%	100%	96%	78%	**41%**	11%	1%
15-Mar-23	100%	100%	100%	100%	100%	100%	100%	99%	92%	69%	34%	8%
3-May-23	100%	100%	100%	100%	100%	100%	100%	99%	95%	78%	**47%**	18%
14-Jun-23	100%	100%	100%	100%	100%	100%	100%	100%	97%	85%	60%	30%
26-Jul-23	100%	100%	100%	100%	100%	100%	100%	100%	97%	88%	66%	37%

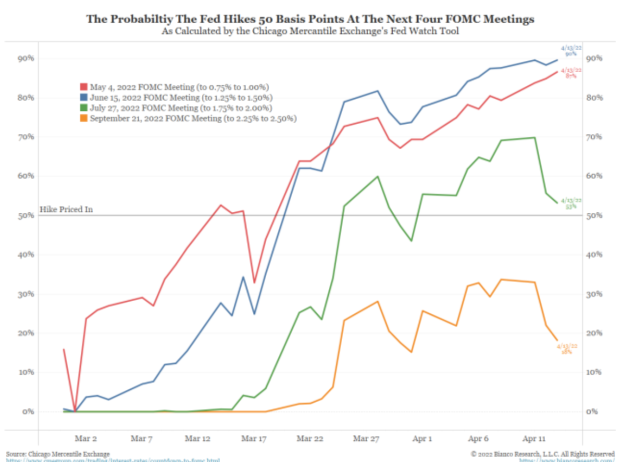
Source: The Chicago Mercantile Exchange
https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html

This was after the Fed meeting updated this after the Fed meeting. There are 12 rate hikes priced in far. I said 13. There used to be, I think, yeah, this morning it did bump back to 13, but still, 12 rate hikes versus 7.4. And we have a 50-basis point rate hike priced in at 87% for the main meeting. That's two rate hikes. Remember, rate hike is 25 basis points. So that's two. We have a 90% chance of another 50-basis point rate hike at the June meeting. And we have a 53% chance of a third consecutive 50 basis point hike at the July meeting. There's your seven right there. By the July meeting, we will have already had seven rate hikes. According to the way the market's priced in, according to the fund managers, we're going to have seven in total, all the way through the middle of 2023.

The reason I bring this up, this is the disconnect. Why do we play this parlor game on Wall Street of how many radar hikes do we have? Because no one, no one is more than 12 right now. Find me a Wall Street analyst who thinks they're going to go more than 12. No one does. So, they're constantly being dragged, screaming and kicking into pricing in more and more. This is what the short-term debt markets is priced at. A lot of these short-term debt traders are virtually, none of them are in the fund manager survey. That's long-term debt traders, corporate debt traders, equity traders. They don't agree. They don't believe inflation is a problem. They don't believe the Fed will actually get aggressive in dealing with inflation. Maybe they're being myopic.

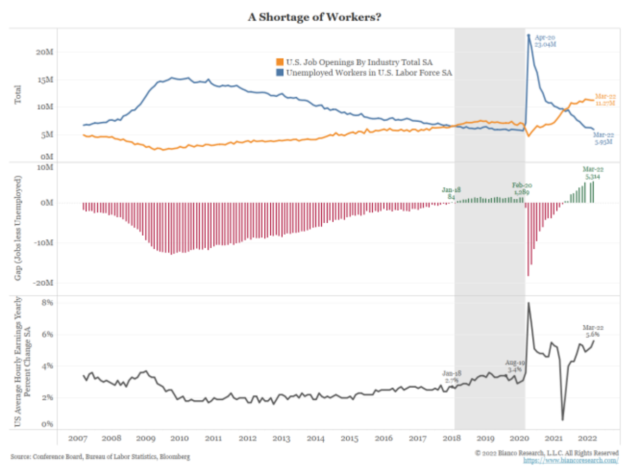
I mean, maybe they're being myopic. Maybe they're saying, "Look, I see prices going up, but my house went up 18% last year," according to Case-Shiller. That's the average home price increase. Stocks were up 29%. I'm better off because of inflation. But you are not less than a thousand of savings with no rent, that rent ... that don't own your home. Those people just lose and lose and lose. And that's where I think that this disconnect comes in.

Maybe they're right. Maybe they're right, that this is going to be ultimately a transitory thing. And of course, that transitory nature will probably gain speed in the next few months, because I'd like everybody else to think, yeah, maybe about 8.5% is about it. Maybe if this isn't the peak of inflation, it will come in the next two months. But again, that's not the real issue. The real issue is how fast is the decline? The answer I think is not very fast. This is what's got the marketplace ... This is what's got the marketplace, the real question in the marketplace.



The next chart goes, as far as 50 basis points go, I did want to point this out. So, here's a chart of what I just showed you. 90% chance that they're going to raise rates in June of 50 basis points. This is a 50 basis points. 90% in June, 87% in May, 53% in July. That's down some from after the CPI report. And then the September meeting, which is the next one for a fourth consecutive 50 basis point is 18% down from 32%. But look, that's four meetings out. It's got plenty of chances to change. And the reason I point that out is where were we about a month ago? In the beginning of March, which is now five weeks ago, maybe six, all of the probabilities that we were going to have 50, 50, 50 was zero, was zero. And now it's 90, 87, and 53, all in six weeks. So, this can change quite a bit by the time we get to September. And that's how things have changed.

And I've argued. And I will argue to you here, if the Fed goes 50 in May and the Fed goes 50 in June, and if the Fed were to do another 50 in July, that's a hike. They're not going back to 25. I know Wall Street has this idea there's going to be two 50s and then they're going to go back to 25. They're not. It's going to be 50s all the way through to the cycle is done at that point, because they're far behind the curve, they have to catch up. Why did they get far behind the curve?



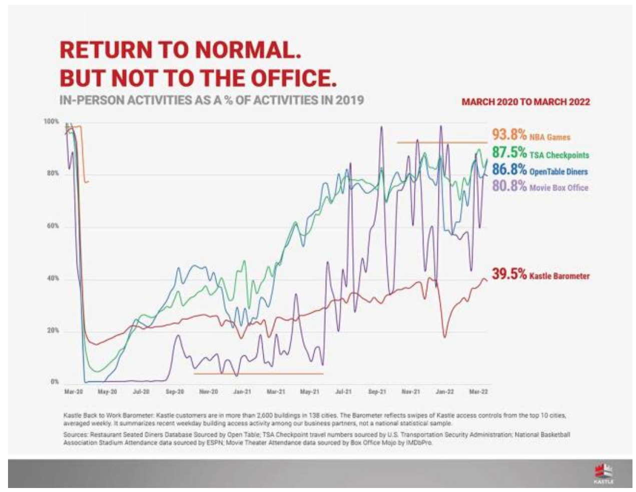
Oh, before I talk about why they got far behind the curve, let me just point out one other thing. A lot of people ask the question, "Well, how does aggressively raising rates help those less than a thousand dollars with 40%?" What they need is a job. Well, the unemployment rate is 3.6%. So, it is what used to be determined as a full rate of unemployment. This comes from the JOLTS report. That's Job Openings Labor Turnover report, JOLTS report. It shows that as of March, 11.2 million job openings were available in the United States. This used to be calculated by the old newspaper index, news Help Wanted index where now it's all online and stuff. So, there's 11.27 million advertised jobs available in the United States. The total amount of people unemployed is 5.59 million people. So, we have a surplus of jobs over unemployed of 5.3 million.

You could see most of this period, you have negative bars, and that's what you should largely expect the shaded areas when you had positive bars. So, this is unusual to see this many more jobs. It works out to 1.7 job advertisements for every unemployed person. Now, a couple things. An unemployed person is somebody who's looked for a job in the last 30 days and wants to work. If somebody has not looked for a job, but is of working in age, they are not considered part of the workforce. So, there's a larger part of the workforce. 11.7 million jobs, not all of these 5.95 million people are qualified for all of those 11.2 million jobs. There might be specific qualifications, and one of the qualifications might be geographic. It might not be a work from home job.

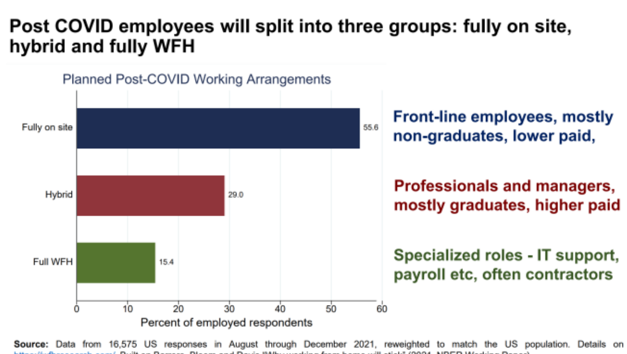
According to Work from Home research done by Nick Bloom at Stanford University, roughly 45% of all jobs in the United States can be done remote and 55% cannot. These 11.7, a lot of these might be in the 55%, a waitress, a cashier, can't do that by Zoom, a surgeon, a policeman. You can't do that by Zoom. But the Fed has noted these 5 million surpluses, 1.7, and Paul said that gives him the ability, I'll put it in my terms, that gives them the ability to go 50, 50, 50, 50, because, well, what are you going to? You're going to kill the employment job market. Hey, there's 5 million more jobs than people unemployed. We could beat on the employment market pretty good with rate hikes before we have to start worrying about creating massive unemployment. So, we got to get about ... Because those people that have those jobs with no savings are screaming in pain because of the 8.5% rise of inflation. We got to deal with that.

And this tells me, that I'm speaking as J Powell, the first person is J Powell, this tells me I can raise rates with abandon for a while to get out from behind the curve to help squash inflation. And Bill Dudley last week said the quiet part out loud. If the stock market doesn't go down, the Fed might have to force it. I love Jim Grant's comment on that. "Aha" is what Jim Grant said. See, the Fed has always been in the stock market manipulation business. As much as they try to pretend they're not, they are in the stock market manipulation business.

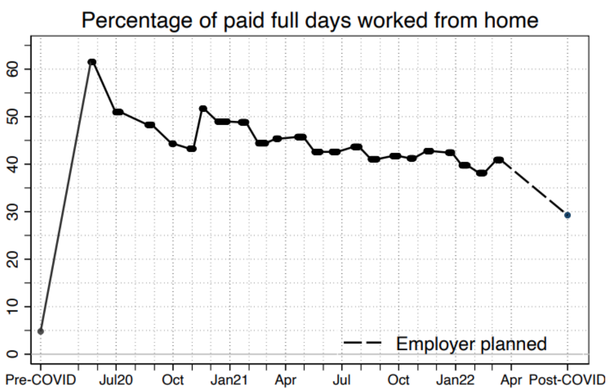
Now Bill Dudley, former New York Fed president is perceived to be an unofficial mouthpiece of the Fed. He's not a spokesman for the Fed, but as a retired former Fed official, he can speak, he could say things that official spokesmen or official policy makers cannot say. And what he was trying to say is we need spending to be backed off. And the best way to make spending back off is all you rich people, and the definition of rich is you own a home, you own some stocks, we got to make you think twice about spending money. And then that could bring down demand and that could bring down inflation for the other 40%. We don't have to worry about the other 40% with hiking rates, because we've got 5 million more jobs than we have people outstanding.



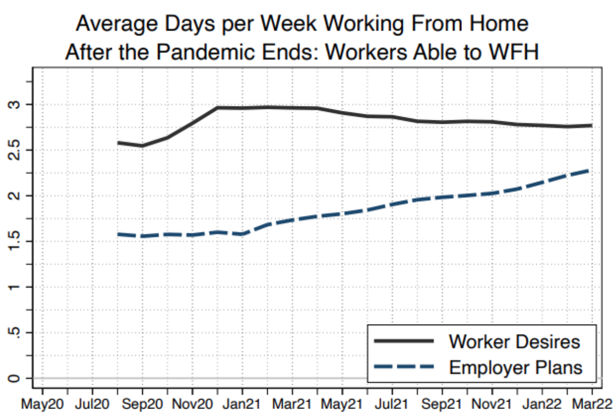
And this gets me to the next issue, and then I want to talk about the yield curve, wrap this up here really quick. Return to office because I do believe, I know I talk about this a lot, because this is the issue. Great chart here put together by Castle that as of two weeks ago, only 40% of offices were in use in United States. But 80% of movie box office were still back in use. 86% of restaurants were back in use. 87% of airlines. This is the percentage return back to pre-pandemic. And NBA games was 93%, 94% attended. The office sticks out as a sore thumb relative to everything else. We don't want to go back here, but we're more than happy to go back to all of these other events.



Here's what I mentioned before that this is from Work from Home research done by Nick Bloom over at Stanford. 55.6% of jobs need to be done on site. 29% of jobs can be done in a hybrid match of three-two, three days in office, two days at home or two-three. And only 15% of jobs can be done fully remote is what they have for their numbers. What they found in their research, and they do monthly surveys of this, and this is what they come up with it. Pre-pandemic we had about 5% of the workforce that was getting, you were getting paid 5% of your paycheck was for tests you performed from home. By the end of the first quarter that had jumped to 60%. First quarter of 2020 that had jumped to 60%.



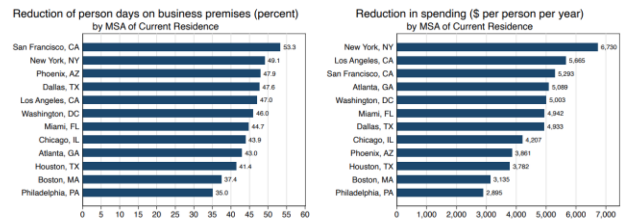
*Pre-COVID estimate taken from the 2017-2018 American Time Use Survey
**Post-COVID estimate based on the latest survey wave



Sample: Workers able to work from home

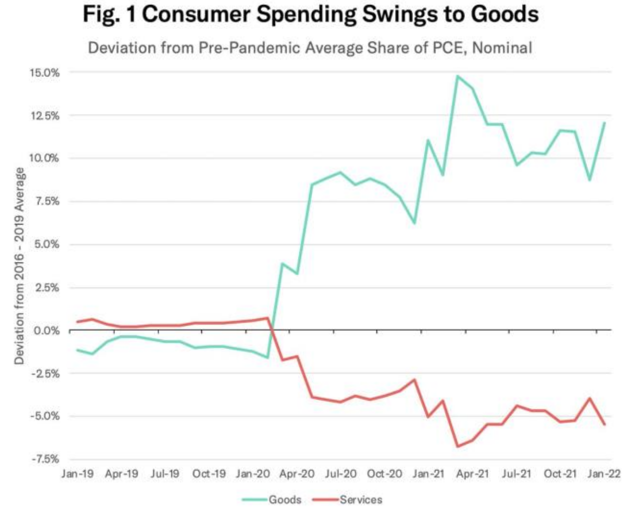
Now what they found was we were at 5%. And I like the way they've put it. We were rising at half a percent a year. So essentially what we did was we had a 50-year leap. We were supposed to be at 60% of your pay was for tasks. This is of your pay that you performed tasks at home. It was supposed to be 60% by the year 2070, not by the second quarter of 2020. That number has been trailing. And the latest number is, let me clean this up a little bit. The latest number is 40%.

So, of those 45% that can work from home, not the 55%, but of those 45% that can work from home, 40% of their pay is for tasks that they do at home, which works up to two days at home, three days in the office as well. And you could see here is worker desires and employer plans. Employers want to keep everybody at two days, which is where they are now at home, three days in the office. And employees want to go more towards two and a half, 50/50 home and in the office as well. And you see that they started these surveys in late 2020.



These matters big for the economy as this show you the reduction of person days in business premises and the reduction of spending. Let me use the first two, San Francisco, the tech center, 53%. So that you have a 53% reduction in the number of people in San Francisco offices relative to where we were pre-pandemic. And in New York City it's 49%. That translates to reduction in spending per year in New York City, they are losing $6,700 a year of spending by those people that used to go to work every day but now are not going to work every day. $6,700. Los Angeles is $5,600. And San Francisco's $5,200. This matters a lot, because this is the driving issue for inflation and for everything else.

Fig. 1 Consumer Spending Swings to Goods

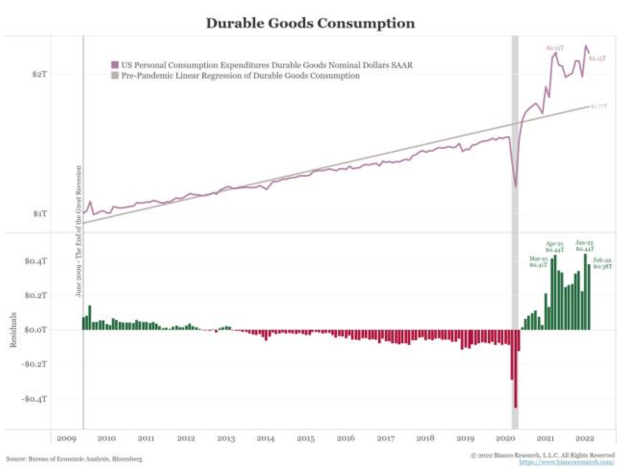


Source: Flexport calculations based on U.S. Bureau of Economic Analysis data

This chart comes from Flexport, which is a freight forwarding company out of San Francisco. They have an economist there who's looked at the deviation of goods versus services. Because we're at home, our spending patterns have changed. We want more stuff. We want less services. This is why we have persistent inflation, is because this happened. And then this happened. This is why we have a supply chain crisis. I need more stuff that's made in China.

The supply chain crisis is also being exacerbated. And you could see the supply chain crisis here. This is durable goods. This is the pre-pandemic trend extended out. And that's how much we are above trend. We want more stuff than we're making. And shipping companies and retailers and manufacturers don't know what we want they order everything. So, we are in a chronic shipping problem.

When John Williams in the first 15 seconds of his interview on Bloomberg TV today says, "We're seeing signs that everything is returning to normal and that we're going to see goods consumption slow and services consumption pick up," what Williams is saying is we expect this to go here, this to go here, and we expect just like every office real estate mogul that everybody's going back to the office, everything is going to return to 2019 as was, and at the end of the day, the pandemic meant nothing except for a temporary blip.



Now, by the way I said that. I don't think that's right. I think there is a change. Work from home has been sped up decades and it's going to stay. Our consumption patterns have changed. The economy is offsides on our consumption patterns because we're consuming stuff differently than we make because it's no longer 2019. And that inflation will stay persistent because of the frictions that that involves with until we admit the economy has changed and we have to get about restructuring it. That's trillions of dollars of spending on supply chains and on what we make and what we don't make. We need to figure out what it is that people want now in the post-pandemic economy.

Instead, what John Williams and Eric Adams, the Mayor of New York said last week, "You can't stay in your pajamas forever. New York City is losing $6,700 a year on you because you're in your pajamas at home. Get your ass back into the office." That's not the way to do it, Mayor Adams to get people back into the office. And if they don't go back in the office, we are going to stay chronically offsides and we are going to have persistent inflation. And if the Fed wants to continue to use their 2019 models and believe nothing is changed, they will constantly error. And the big error I will give you is what they called their new framework.

In August of 2020, they adopted their new framework. That was, they were going to use, I'm going to use a bunch of Fed terms here, high pressure economy. That was, they were going to focus on unemployment. They wanted to get the unemployment rate down. And if inflation percolated, that's fine. It's more important to get unemployment down. They had a series of meetings and lectures called Fed Listens in 2019. And then they put together their framework and unveiled it in August of 2020.

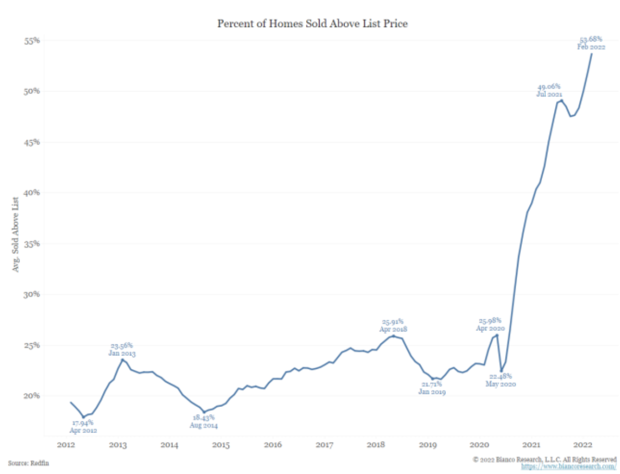
Let me put it to you differently. Pre-pandemic they identified a problem. We need to get the structurally unemployed a job. And in an environment pre-pandemic of permanently low inflation, we the Fed can be ultra-easy in pushing, pushing, pushing in a high-pressure economy. If the inflation rate bumps up a little bit, it's worth it because those structurally unemployed people will get a job because the economy will be growing faster.

Okay. They were right. They were right. But then the pandemic happened, and it was a new economy. They took the old pandemic action for an old pandemic problem, and they applied it in the post-pandemic era. And what did that result in? Inflation. And what did they do because they were operating under the new framework? They invented the word transitory. Pay no attention to it. There is no inflation. It's transitory. It's transitory. It's transitory. It completely got away from them, because they applied an old pre-pandemic model in the post-pandemic world, and it made things far worse.

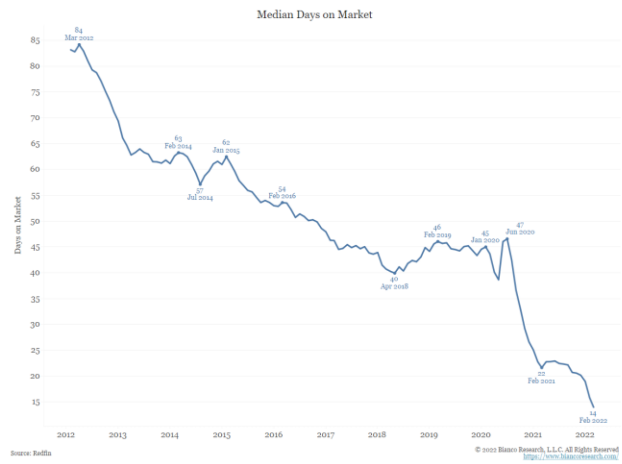
As John Williams says, things are going to return to normal. Take those old models and just keep pounding away at them in the new economy. And you're just going to have one mistake after another. Instead of saying, "Forget those models, let's understand what the economy looks like from March 2020 forward and build new ones and understand where we are."

And I think if they did that, they would understand the shift towards goods, the need to restructure the economy, the need that we're going to have persistent inflation, and we levered the hell out of the economy up through 2019, even into early 2020. A lot of that debt's in trouble because it was built on the idea of an economy that no longer exists, a new remote work economy. 160 million people go to a place of work as I said at the beginning. If we're not ...

I like to say everything's built on an unstated assumption. That is the unstated assumption, that we all go to a place of work. If we're not doing that anymore, everything changes. Everything changes from what we buy to the supply chain problem to the chronic inflation that we've seen to what it means for residential real estate, to what it means for housing. If I'm unencumbered by where I need to live, I can live anywhere now. And we've seen ... And like I said, that works both ways. Some people want to move into the major cities, but they couldn't because they didn't work there. And other people lived in the major cities or in the bedroom communities because that's where they worked.



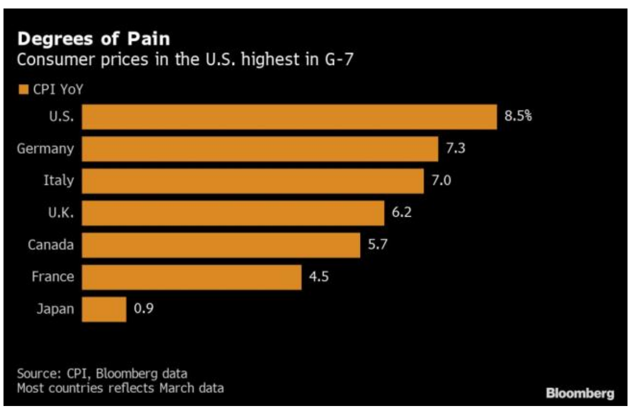
And you're seeing a tremendous churn in the housing market. 54%, 53.68% of homes now trade over list. What does that tell me? Why do you hire a real estate broker and give him 5%? Because you want ... The first question you ask every real estate brokers, what's my house worth, and what do I list it at? They can't get it right because look at what it was pre-pandemic. Pre-pandemic it was somewhere around 20% of homes went over list. Post-pandemic it's 55%. They don't understand the real estate.



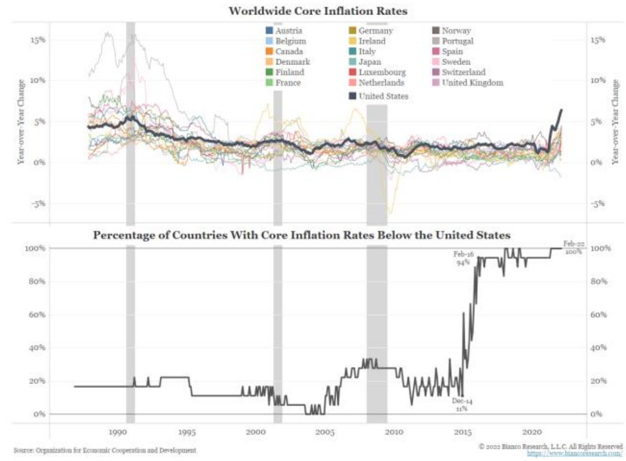
Professional real estate brokers, your basic reason I bring you in is I get the right price. 55% of them are going above list. You don't know how to price these homes right. Because when you used to price the home right, only about 20% of them went off a list, because it's a different housing market right now. It is no longer the 2019 housing market. Pre-pandemic, it used to take you three months, 84 days on average to sell a house. We're down to 14 days right now.

It means a lot of things because I think this is a big thing for builders. I think the home builders have to have a very big question. What does this mean if you're a home builder? Every house you're building now needs to have at least I would argue two home offices, one for you, one for your partner. A home office is not an extra bedroom that's up on the top of the house that has access to a full bathroom. It needs to be somewhere in the house that if I need to have somebody come visit me in my house, work related, everybody can stay asleep upstairs, and I can let them into the house and let them out of the house without them tripping through the whole house and seeing my kids run around in their pajamas.

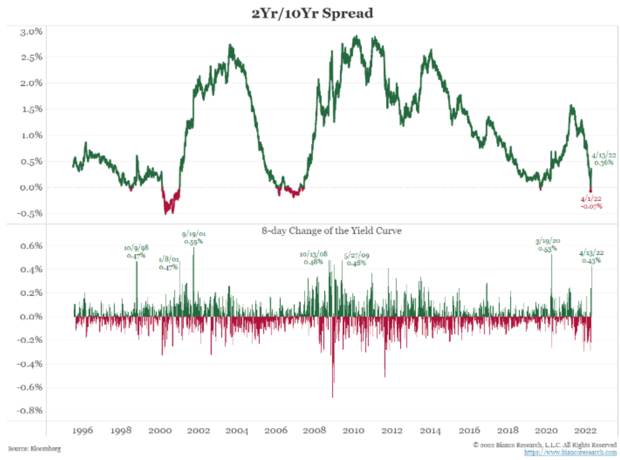
Are they building houses like that? And there's just starting to think about it right now. Also, now that people are no longer encumbered by jobs, what was the first thing that you would do? You would go to a place if you're a home builder and you'd say, "We're going to build homes here." "Why?" "Because we did a survey and the job opportunities within 15 or 20 miles of this house is X. And it's high enough that it warrants us to build houses." That doesn't apply anymore. If that doesn't apply anymore, you build houses anywhere in the country. And that’s why you're seeing this tremendous churn in the home market. Public gets it. The world's changed. I don't have to live in New Jersey anymore. I can move to Tennessee or Texas or Florida, Wyoming or whatever suits my fancy, or Greenwich Village, whatever suits my fancy. I'm no longer encumbered by where I work. And if that is indeed the case, everything else flows from it. Inflation flows from it. The economy flows from it. How the Fed structures policy is going to flow from it.



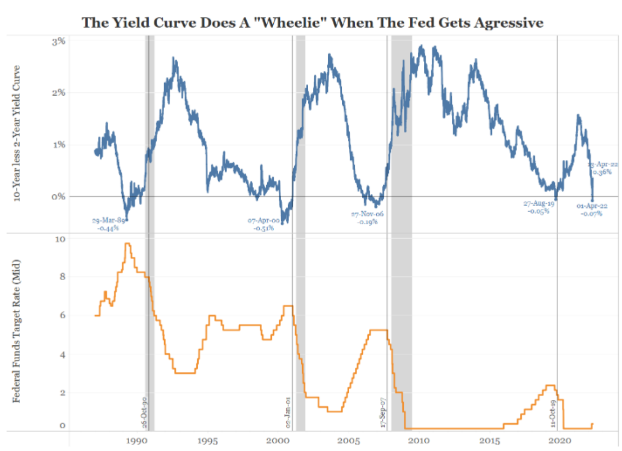
So, I do think that's going to be something that's going to be somewhat important. And that gets me to my last topic, the yield curve. So, along those lines, it's noted that the US at 8.5% has the highest inflation rate in the G7. The OECD, the Organization of Economic Cooperation and Development puts together inflation rates. And I use core because let's leave food and energy out for a second. And I looked at core inflation rates, in black is the US. The US has the highest inflation rate of all of these developed countries.



This chart here shows you the percentage of countries with core inflation rates below the US. It's 100%. US has the highest inflation rate. That is fairly new. The US almost never had the highest inflation rate. And why it's part of the reason the US has the highest inflation rate? We've stimulated harder than anybody else. So, if you go back here, they've all got very high inflation rates, but what's the difference between us and them? The same situations affecting them affect us, but we pumped more money either fiscally or monetarily, I'm not going to stick this all in the Fed, than any of these other countries. Too much money chasing too few goods seems to be an issue. As a result, the yield curve has been massive flattening. So, here's the two-year 10-year curve, and it is flattened... April 1st it was minus seven. Yesterday it was 36. Over a period of eight days, it had steepened out 43 basis points. The middle of 2019, the height of the panic. And then you got to go back to the financial crisis. So, what we've seen in the last two weeks in the yield curve is something that's rarefied air. There's only been a handful of times in the last 26 years that we've seen the yield curve steepen out this much.

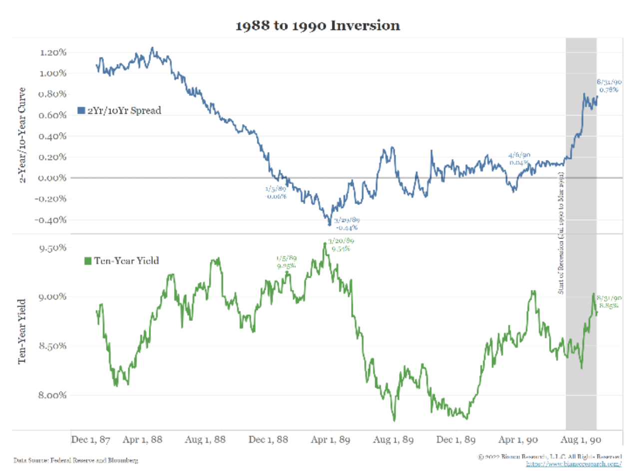


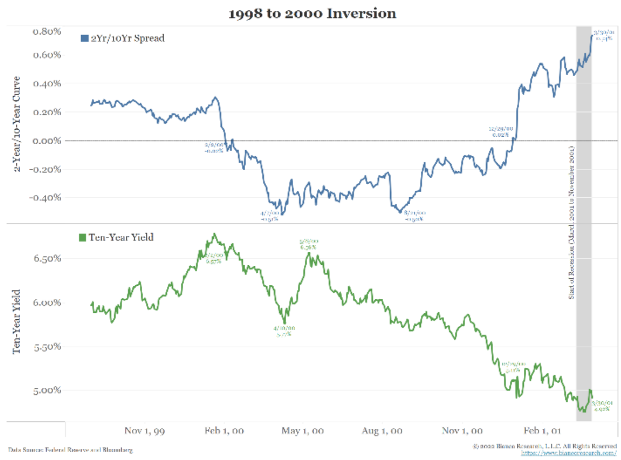
What does it mean? Well, there's a couple ways we could look at it. It's not unusual for the yield curve to initially invert as it did in '98, un-invert and then persistently invert. Initially invert, un-invert, and then persistently invert. So, it didn't do it here, but it did do it in the previous two examples. So initially invert, un-invert is at least on one respect not that unusual. I've argued that what really matters with the yield curve is that it is persistently inverted, and that would be the signal that the marketplace views short term more risky than long term. Short term has a higher interest rate premium than long term. We're not quite there yet, but we're getting very, very close. By the way, if I'm wrong, and I've heard people say this I'm wrong, and this is the start of the curve, massively steepening, what's the history on that? I like to call that a wheelie.



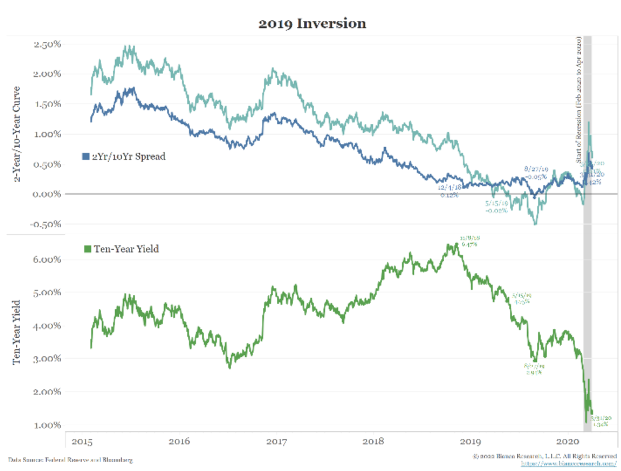
When the curve does a wheelie is the Fed gets aggress. And what I mean by that is here is these vertical lines on this chart are all the time when the Fed first cuts rates, what is a curve doing? When the Fed cuts rates, it is going vertical, straight up. What also is that happening is that's in the beginning of a shaded area or right before a shaded area as well. What does that mean? When the fed, when the curve does a massive wheelie is when the Fed has, and I'll use a technical term for you, it's oh, shit, moment. Oh, shit, we went too far. We are going to have a recession. Chop rates now! Cut, cut, cut, cut, cut. And they're panicking that they've went too far and they're trying to stop an inevitable recession and they usually can't as well. Is that what's happening now if the yield curve is massively going to do a massive wheelie? No, the Fed's going 50, 50, 50. They're going to do QT. Williams also said in the interview, they'll announce QT at the May 4th meeting to start in June.

They're going the opposite as well. So, what I think is happening with the curve here is it's more of a you hit zero, your un-invert, you can play around for a while for period of months or weeks. You hit zero, you have a knee jerk steepening, and then you go back to persistent inversion. If it is going to be a massive wheelie, then that means then the Fed should stop the rate hikes. They fixed the inflation problem, because we're going to have a recession with high unemployment plunging financial markets, and that will kill demand more inflation. So, start chopping rates. So, that means I've used the analogy before. It's like if inflation is an infection in my leg, they pulled out the bone saw, and they cut my leg off at the hip and they said, "See? Good. We fixed the inflation problem." Of course, that's not the way I want you to do it, but that is a way to do it. And that's what it would mean if the curve were massively steepening as well, too.





The other thing I want to point out is when does the rise and rates stop when the curve inverts, because here on all these series of charts, 98, 88 to 90 inversions, here's the two-year 10 year spread. When the curve persistently inverts, the 10 yield is pretty much done rising, and it kind of meanders sideways. When the curve persistently inverts, the 10-year yield is done rising, and it starts back down. When the curve inverts, the 10-year yield starts back down. I was of the opinion that we weren't going to see the yield curve, the 10-year note, go much beyond, and I've said this before, much beyond about 225. Now we're at 275. And I said, "Where I am very bearish on race is on the front end of the curve." I thought we were going to invert the curve. And I thought when we inverted the curve, that was going to be it for the rise in the 10-year note. And then we un-inverted the curve. We only inverted the curve for two days. So, it wasn't a persistent inversion.



I'll define persistent as 10 straight days. And because we did not persistently invert the curve and we've un-inverted it, we've opened up the front end, or the backend continue to rise until we get to that persistent inversion, a persistent inversion would tell me, "That's it, the rise and long rates is over", but unfortunately we're plus 36 on the two year, 10 year curve. Two weeks ago, we were minus seven and plus 36 means that the marketplace can continue to move higher.

So let me sum all this up and take some questions. And I see a bunch of questions coming in here on this, and some other topics as well, too. Bond markets route is one of the worst it's ever been. The reason is inflation. And the reason I think it is inflation is that there's a growing realization that it is persistent, and I think what's driving the persistence is work from home, because that's changing everything, creating frictions in the economy that aren't going to go away anytime soon.

And too many people like John Williams are basically holding their breath, praying that it all magically goes away by itself, and everything goes back to 2019. A lot of fund managers are praying that as well, too, at 43% still thinking it's transitory. There's just not allowed to say the word, but they still believe it as well. And they're hoping that, that goes away. Inflation goes away. It's not. So, we have not fully priced it in. And the markets going to continue to struggle. The yield curve by un-inverting opens us up to higher rates, more losses, more pressure on financial markets. Bill Dudley let the cat out of the bag. The Fed's policy is to make fund managers have a bad year. The Fed's policy is to make investors lose money because that should maybe make them think twice about buying things and bring down inflation. Won't that hurt the poor, the less than 1,000 dollars that rents?

No, because there's 5 million extra jobs then unemployed. So, I think the Fed's going to go 50, 50, 50. And that's it. 50 is the new move. No more 25's. And they're going to go and go. And when we're at one knee going, "Please, Jay stop. You're killing me." He's going to turn and say, "That was the plan was to kill you. And I'm not stopping till prices go down." And since prices might be sticky high because we've got housing inflation shelter because we've got a completely different housing market now that we've unencumbered people from living where they want to, or they can live where they want to instead of where they need to for their employment. We've got a completely different housing market. We've got housing inflation; we've got sticky high inflation. The Fed is going to say, "I know you want me to stop, but we still have prices too high, because we at the Fed are committed to a pre pandemic goal of 2%, and raise rates again, John, because we're not done."

And that's where I think we're going to go. They're going to go too far. And that's why I give you at least even money that by the of next year, we're going to have a recession.

Q&A

Let me stop there. And let me start in on questions. I know who you are. That is all that matters. First name only basis.

So, Charles asked question, "Do you still expect the two-year 10-year curve to invert persistently?" Yes, it will. Again, I just said this goes negative, bounces off of zero, that's not unusual, and then it could be several more months, or it could be a couple of more weeks with the volatility we have. But yes, I do expect it to persistently invert, and I do define persistent as 10 consecutive days. We only did two, before we un-inverted the curve. Today's March retail sales, excluding gasoline fell by 0.3%.

The March CPI report included a notable 0.5% decline in durable goods prices. If there is a shift from goods to services, what does that mean for inflation? Well, if there is a meaningful shift from goods to services, there is more service ability in this country than there is goods capacity, and that should bring down prices. We could spend a lot more on services before they have to start jacking prices then on goods before they have to start jacking prices. But again, the durable numbers are very noisy. I'm not sure that we've had a change in that respect. And again, I would argue that what you're seeing is it all drives from work from home. One of the things that is 40% of offices are in use, and I'll quote Nick Bloom at the Work from Home Research Institute out at Stanford, I like their work. It influences me greatly on it. As a matter of fact, I do a series on real vision of interviews, and I'm working with Nick Bloom who interview him about this.

And when I do get it done, hopefully in the next couple of weeks, I will post it in news clips that you can see the interview. Even if you're... If you're a subscriber to real vision, it'll be behind their paywall, but I can also post it without an unlocked version on our website. Hopefully in the next couple of weeks, I'll have this done. But what he argues is eventually that 40% of office use will go to about 66 before the end of the year. And then it will go on a slow trickle downward for the next several years. So, he thinks it's going to peak at 60, two thirds, roughly, maybe 70%, and that's it. And then we're going to go down. It's not going to be two thirds and then we're going to catch our breath and make it go back to 100%. And then we're going to go back down, because the desire and the pressure is going to be towards more from work from home.

Just... And if that is the case, the question I'm addressing, then the shift from goods to services is not going to happen to the degree that people think it's going to degree... Is going to happen. And one more thing on that question too, Goldman Sachs is pushing five zero policy five days in the office, zero out, they've got managing directors with laptops running around, taking attendance. It's third grade at Goldman Sachs. They are taking attendance to see who's in the office, they're looking at key card swipes, everybody's got to swipe in, and swipe out they can see when you've swiped in, and you've swiped out. They want everybody back in the office five days a week. And according to media reports, there's a mutiny going on there. Now Goldman's not alone. Apple wants a three, two policy three days in two days out, and they're starting to take attendance, and they're getting a mutiny, too. Who's going to win this?

Well, I think the way I'll answer the question is in the short term, Goldman and Apple are going to win this. You, you work here, you signed up for five days a week here, get your ass back into the office. But in the long term, when Apple and Goldman hold their college mixers this fall at Harvard or at Yale or at Stanford to try, and convince the best, and the brightest to come work for them, and it's understood by the best and the brightest it's five days a week. It's you're on the N, or the R at five o'clock or 5:30 in the morning, every single day. And oh yeah, as I've talked about in the last conference call, you get 110 a year, right out of school working at Goldman, but you're on the N, or the R 5:30 every day. Or you could take 80 at Twitter, and it's work from home, and you, and two of your other friends can rent an Airbnb for the month of

February in Jackson Hole and ski every afternoon. It's your call. What do you want to do?

So, well, we won't know if it's successful until we see how those mixers go in the fall and how much demand, and interest kids have to go work at Goldman Sachs at five zero versus picking Deutsche Bank, which is very flexible right now in terms of work from home. It's not Goldman Sachs, no offense to Deutsche Bank, but they've got that big perk, and you know what? Other companies are going to do that, JP Morgan wants to push a five zero. Okay, well maybe Citibank won't, or maybe Wells won't, or B of A won't. And we'll see if the recruiting patterns change over time. And that's what Bloom is saying. We'll go to 66% and then we're going to start back down. And if that happens, the demand for goods is going to not stop until we start to recognize, we need to make more of them. And we need to change supply chains, to be able to accept more goods in the world.

Instead, we keep yelling at people to take their pajamas off, put their clothes back on, go back to the office, do nothing. All of this will go away by itself. It's not. That's where I would make the big difference on it.

Jim asks, "What's your latest thinking on why the Chinese have locked down Shanghai? Revenge, population control, massive mistake?" My opinion is this is a massive mistake. It's on the crime. They keep reporting about 26,000 cases a day, but less than 1,000 of them are actual infections. The other 25,000 of them are asymptomatic. This is what happens when you test 20 million people. You're going to get some asymptomatic cases, and this is part of the problem with a communist regime. They have absolute control over society. They have a zero COVID policy. They believe they can control COVID, and they are cracking down. The people of Shanghai are protesting. It's all the more reason...

See, in a Western democracy, when the government comes up with a policy and people protest in large enough numbers, the government caves, because it sees the writing on the wall, and in authoritarian government, when they protest the government cracks down because they can't perceive to be weak. So, it is a massive mistake. They are going to continue to crack down. It is going to create supply chain problems as we move forward from here. The Shanghai port is open, but, and it's one of the largest ports in the world, way larger than Long Beach in Los Angeles. But truck drivers in China can't deliver to the port. So, the port's open, but there's very little activity going through the port. Over time, this is going to manifest itself into even more supply chain problems as we move forward from here.

Darcy asks, "While the consensus thinks there is only going to be seven rate hikes, the market is priced in 13. So, isn't that discounted in the markets?" Now I understand the question and it's a very good question.

The markets discounting of 12 or 13 rate hikes is done by Fed fund future traders, repo traders, EUR dollar traders, T-Bill traders, short-term debt traders. Traders, and fund managers that they're live is directly affected by Fed policy. They think 13 hikes is what the Fed's going to price in for right now. And I'm leading off the idea about a recession. You get away from them and that's who B of A surveys. Long term corporate high yield, long term treasury debt traders, equity traders, alternative managers, not directly tied to the fed. They think seven. They don't think seven. I'm guessing from reading the survey, though, they've never asked a question directly, because they ask questions about the economy and stuff. They don't think the Fed's going to go seven, that will break the economy cause of recession, and that will get them to stop. They don't think that. They think seven, because that's all that will be needed to stop inflation, because 43% of them think it's transitory. So, it's very possible at the end of the day, they might be right. It might be seven rate hikes.

The Fed will take the funds rate to nearly 2%. That's 175 to two, seven rate hikes below things up stock markets down 30% we have recession. Inflation goes away. See, I told you we're going to have seven. Yeah, but you didn't think it was going to result in the recession. You thought they were going to do seven and you were going to get 5,000 S&P out of it and stronger growth. Instead, you're going to get under 4,000 S&P I was going to say 3,800 under, and a recession. So that's why I think there's the difference between the 13, 12, 13 rate hikes is one group that is very closely aligned with the Fed versus the other group. Neither group is assembling that the Fed is raise rates to break something. It's why the short-term debt traders think they're going to have to go 13 to do something about inflation.

That, in their mind, 13 is that's the low three percent. Three to three and a quarter. That then brings them well above neutral, into real tightening to help bring down inflation. And where it is, the long-term debt guys and the equity guys don't think that they're going to do that because they all think it's transitory. So, hopefully that explains the difference between the two and yes, usually, usually whatever the EUR dollar and Fed funds traders' price in is what the Bank of America survey says. It's the same number almost all the time. They're in agreement, but they're not in agreement now. And that's why we have this parlor game, that some other big bank comes out and raises the number of rate hikes to eight to nine to 10 to 11. And they do it every other week. Why? Because the marketplace keeps pricing it more, and more, and more. The 13 rate hikes, like I said, how many banks are at 13 on the rate hikes?

Are there any? There might be one, or two I'm not aware of, but virtually all of them are not, they're at somewhere less than that. But over time, they're all going to come there. They're all going to come to that as well, that's why we have this parlor game, because we don't have a bunch of guys at 17, and 16, and 15, and then some other guys at nine, 10, and 11 averaging 13. Then if the market wanted to expand the number of rate hikes, there's very little movement because some of them were over it. We have everybody under 13 right now. So hopefully this explains the difference. It's two different groups thinking two different ways. And yes, that is unusual. Usually if you look at the B of A survey, they've been doing the survey for many years, you look at the B of A, how many rate hikes are priced?

Then you go look at the WIRP on your Bloomberg. It's the same number, but now it's not the same number, because there's this inflation. Inflation is new and there's broad differences of opinion. And again, a lot of fund managers will say the Fed will never raise 13 times that will create a bear market. And every time they've ever tried to come close to creating a bear market in the last 13 years, they would cave, and they would then start to undo it. 100% true. But now we have eight and a half percent inflation. They would say, that's not going to change the Fed's thinking. Maybe. You might be right, but I think it does. And that's why I think they're going to be a lot more aggressive, and we'll see how it plays out. If they hike to get 2% inflation, unemployment will move high single digits, won't stay at three and a half percent as the Fed has in their projections.

What will move them to the sidelines? Well, what will move them to the sidelines is an outright recession. What the Fed is hoping for is what John Williams said in the first 15 seconds, we're going to hike and we're going to work for 2% inflation. And eventually with all these extra jobs, everybody's going to go back to the office. The code where there is returned to normal. Normal is pre pandemic. Or maybe that was abnormal now. Normal is whatever we're in right now. Or let me restate it. What we're living right now is normal. This is normal. Quit acting, or quit waiting for some other normal, some pre pandemic normal to arrive. And we need to understand what this normal is. So, the Fed is hoping that they're going to raise rates aggressively, that everybody's going to go back to work. They're going to stop buying stuff, they're going to start buying services. You need services because you're in the office all day. You need people to do things for you because you're in the office. When you're at home, you do it for yourself. So, you buy things.

I mean, it is the simple answer as to why we have more goods being bought than services historically. And if that's indeed the case, if we do move back to a pre pandemic and look we could, I don't think we will, but we could, then inflation will moderate. Otherwise, the Fed will do, it'll be just like the new framework. Let's institute, this policy of ignoring inflation because we got to get the chronically unemployed, a job, and let's just ease, and ease, and ease, and throw money at them, and throw money at them to get the chronically unemployed a job, don't worry about inflation. And then when it started off the scream, its transitory, and then the next thing you know where it eight and half percent. So, the new framework I'll be generous, although I don't think it, but I'll be generous. It would've worked pre '19, but they didn't institute it pre pandemic. It would've worked. But they instituted it post pandemic.

They took a pre pandemic idea, put it in a post pandemic world. And they got absolutely the wrong results because the economy has changed it. I know, and they'll matter of factly tell you, well of course that was during the lockdown. "Hey, you instituted the policy in July of 2020. You didn't recognize it at that point. I don't know if you're recognizing it now, either." Mark, as I take your point, the end of 2022 inflation will have a six handle, but as long as the trend is down, the bond market will forecast a trend back to 2% and the Fed won. I'm not sure about that. The bond market will probably forecast that the Fed won't have to get, maybe we go from 13 rate hikes to 10, if that, under your argument that we go to six handles, but they're not going to stop up what they're planning on doing in 2022. I don't think that the market's at once going to say peak that means we're going back to 2% unless they're factoring in a recession.

That's the assumption I'm always leaving out of this. We're talking about going to 2% without breaking something. Yes, if we break things, we'll go right back to 2%. But without a recession, I'm not sure the bond market will. 6% will be untenable. Why will 6% be untenable? Because we're going to destroy the Democrat party in November because it's 6% inflation, and I'm not picking on the Democrats. I'm saying, because they're the majority. We're going to destroy them because the 40% are very, very angry. As I've pointed out in earlier surveys, the number one issue in the country as high as 50% on the recent Wall Street Journal poll is inflation distance second, which was like 23% or something like that was Ukraine, Russia. Then you get into social justice, crime integration, and all that other stuff. They talk on cable news about all day long. It's all about inflation. And what's going to happen in November, and if I could be crude to get my point across is the Democrats are going to get skunked in November because of inflation, and the Republicans are going to be all smiles.

And then in January, the public's going to say, now you're a piece of shit until you do something about inflation or we're going to skunk you in 2024. So, I'm not sure that the bond market is going to look at this, "Ah, it peaked. It's done. It's all over." Those 40% is what you have to satisfy. They are very, very angry. We've got food, and they termed it on Bloomberg inflation rights in Peru, inflation rights in Sri Lanka. It is starting already because of high prices. So, I know they're outside of our country, and I'm talking about the 40% in our country. But to the first part of your question, I get what you're saying that if we peak, we'll just assume to start the price in 2%. I'll push back on that idea, but we'll see. The key will be to get inflation to 2%. Oops. Where did it go here? When do I think we're going to get inflation back to 2%?

I don't know if, if the answer is when are we going to get it back to 2% without an inflation, without a recession, many years, because we have to restructure the economy for work from home. A recession will break demand, get it back down sooner and maybe get us to start thinking about restructuring an economy. Usually, you need something like a recession to force a restructuring on the economy. Yeah, you know what? People want more stuff. Yeah, we should be reorienting stuff, and I should be changing my capital spending plans. We should be fixing the supply chain, but stock market is at new all-time highs, and we're kind of moving along with 3.6% unemployment. Let me think about it a little bit more. Break things. And it's like, "Well I got to change. I got to change right now." So, a recession would actually cleanse the system, and force that change faster than if we didn't have a recession. There are good reasons to have them, and that would be one of them as well, too, let me see.

Bill asks on the curve, when the curve steepens, your history is only during deflationary periods. Does the curve behave differently in an inflationary environment? Yeah. Good question. I only did go back to 81 on the curve because that was the secular bull market. If you look at the curve in the 70's, here's the problem with the curve in the 70's. If you look at the 60's, and the 50's, we had regulation queue when the Fed targeted interest rates. And because they targeted short term interest rates, you would get constant inversions and un-inversions. That's why like people say, the last time the yield curve incorrectly forecasted a recession was in the mid-1960s when it inverted, and we didn't have one. Yeah, because it wasn't freely traded. It was set by the front-end rates, were set by the Fed, and I don't mean just Fed funds. I mean the three-month bill, and I mean basically savings account rates, which drove the three-month bill back then as well. So, it's hard to say because there was only other than that in the 70's there was only a couple of inversions and they all led. The '72 inversion led the '73 recession and '78 led the '80 recession. Then we are un-inverted and re-inverted for the '82 recession as well, but you only have a handful of examples. Now that I've said that I'll remind you the yield curve has a very good track record on the assumption it's freely traded. This is a freely traded market pricing what it thinks is going to happen. Yield curve inverts, pay attention. If $9 trillion of fed balance sheet after 13 years of QE and eventually QT has now taken part of that yield curve or the whole yield curve and now made it a manipulated central bank set rate, then the yield curve might not work.

As I said on the last call, it's more than just ha-ha-ha, see, now the yield curve doesn't work anymore. It's we took an indicator that was very valuable because it was freely traded, and we broke it. Now we have less clarity than we've ever had, because why do we have markets? Why do we have people like me that look at markets, let me be more specific? Because they give us signals. They tell us where things are going to go. Doesn't mean they have to go there. We could react on those signals' kind of a Heisenberg principle that the seeing the signal will create a change of behavior but if you're going to start breaking those signals like the yield curve because of $9 trillion of fed balance sheet, because of years and years of QE, we're all worse off. We're all worse off because we've got less signals.

Especially if we're in an environment now where work from home means restructuring in a different economy, it's even harder to figure out what that different economy is. Notice I've said we're in a different economy. I've said that this whole call, and I haven't said what that is, because I don't know what it is. I don't know if anybody does yet, but I'm willing to have the conversation as to what it is instead of saying, "You can't stay in your pajamas all day, get back to the office." I'm not willing to say, "Hold your breath. We're going back to 2019." I think those are wrong. I just don't know what it's going to be. I do think that the problem is we're having the wrong question. Get back to the office, hold your breath, it's going to return to normal. Those I think are the wrong answers. The answer you want is what is the new economy? I don't know yet. I just know it's not the old one, stop pining for it.

Let's see. Next question. According to the average inflation target, inflation undershot the target for a few years. Will the fed try to get the target to 1% inflation rate to get the average down or was fiat asymmetric? Average inflation targeting is what we're talking about. The fed who has been using this argument that for many years through 2020, the inflation rate was always under 2%. I held many conference calls talking about that. It was under 2%. They'll tolerate a period of over 2. What they meant was 2.5, they did not mean 8.5 as far as it being over. The concern the Fed has is some people have said, well, you know what the Fed could do is just change the target to 3 or change the target to 3.5.

Then they run a credibility problem. Oh, we're just doing an exercise of making up numbers. We'll make up some numbers and then when we don't like the results, we'll just make up some new numbers. The Fed is really wedded to 2%. John Williams today, the New York Fed president, said the goal is to get to 2%, today, an hour and a half ago he said that. There is no movement to move the target. They're too high. We have too much inflation. They're going to respond aggressively. Driving that is the 40% unhappiness and Congress' unhappiness about it and they need to get it down and they need in their terms tighter financial conditions to get it down. Or as Dudley says, if the stock market doesn't go down, the fed might have to force it in order to back off on the spending and reduce demand and bring down inflation. The policy is to lower risk markets as well.

Interested in your feeling of the reason why freight rates are softening, is that a shortage of imports caused by zero COVID policy from China that is causing the softness or are the backlogs that were caused by COVID starting to become resolved? This is from Jay. Good question. The answer is very clearly it is a very difficult question to answer. There's a guy Sal Mercogliano, I actually did interview him on Real Vision and had that an interview up about a week ago or two weeks ago. Earlier this week, I think Monday in what we're reading section and news clips, he answered this exact question in a YouTube video that he puts out. If you're all at all interested in shipping and maritime stuff, he's great with that. I've learned a lot from him. His answer, which I'll give you, is it's really hard to tell.

You could make the case that there's been demand destruction, and that's why we're starting to see supply chains start to normalize, or you could make the case that what we're seeing is shifting supply chains. People will point out in November, December, there was 100 off the coast of LA Long Beach waiting to unload. That number's down the 40. Oh, look, the problem's getting better. Remember, pre-COVID it was either zero or one. We're still somewhere where we never thought we were going to be. Look at Charleston, Norfolk, look at Baltimore, the ports, look at Newark, New Jersey. There are ships now starting to pile up in those ports, because what's happened is a lot of the shippers have said, "I'm going to bypass LA Long Beach, go through the Panama Canal and go to another less congested port." And now they're all getting congested.

For the first time in March, the size of the congestion on the East Coast ports is larger than the West Coast ports. It's shifted. If you look at it in total, it's not come down that much. Zero COVID, the number of ships that have backed up waiting to be loaded to go to the United States in China is approaching 500 because of the lockdowns. Nomura put this statistic out. 377 million people in China are in lock down, which is 40% of their economy. That is really slowing down shipping quite a bit. Remember, it naturally slowed because of the Lunar New Year. Maybe what we're seeing is a supply constricted lull. The reason people aren't paying for shipping is there's such a gigantic backlog to get a ship filled in China before you send it through the Panama Canal and get it to Charleston and then have to wait in Charleston.

At this point, if you don't get your Christmas orders shipped by the end of May, it isn’t going to make it in time for the Christmas season, because you got to fill that ship and its number 490 on the list to get filled. It's got to sail all the way to Charleston. It's got to sit there and wait a week or two or three before it gets unloaded. Then it needs to run through the distribution chain in the United States through truck and rail to get to its final destination. If you don't have your Christmas toys on the boats by May, you might miss Christmas. That's how bad it's getting right now. You could argue it that way, or you could argue that there's signs that it slowed down.

What Sal did in his video was said, you can argue credibly both ways and this is what's made it very, very murky. It is not very clear at all, but if you're just going to say it was 100 off of LA Long Beach and it's now 40, the backlog of ships, problem solved. Boy, that's missing a lot. Go look at what's happening at Charleston and in Norfolk and Newark, New Jersey. They're piling up those ships right there and there's bigger backlog on the East Coast than there was on the West Coast right now. I hope that answers the question, although the answer is it's very, very complicated. It's not straightforward.

Why would the change of work from home continue to push demand for goods? I can understand that it would reduce the demand for city services, but don't see the rotation to services. Because a lot of the services you use are because you are not available to do things 40 hours a week you pay people to do them for you. Now that you are at home, you can do things more for yourself and you want more stuff. That's the simple answer between the shift between goods and services as to why you would do it.

A lot of the services you require are because you commute, your monthly rail pass or your subway expenditures or your Uber expenditures. The number of meals you eat out versus raiding the fridge at noon because you're at home. These are simple examples to give you that you can understand, but that's why the shift has been more towards goods and less towards services, I think is a direct result of work from home. Only to return that balance back to normal, normal meaning that we're buying the same amount of goods and services that we did in 2019 would mean we'd all have to go back to the office.

Now it can return to normal in that we restructure for the increased amount of goods and the decreased number of services. Again, I've said this before, we're screaming you can't stay in your pajamas all day long. We're not saying how do we change for the new post-pandemic economy? We're not ready to restructure just yet. Look, the biggest loser in this is there was a New York Times article. We had in Tuesday's news clips what we're reading section.

New York City's finances are going to go right back to Gerald Ford drop dead because they are losing much money right now because all of those empty Midtown offices and the MTA, the subway system is hemorrhaging money because they're only at 60% passenger ridership that they were pre-pandemic. So much of that's fixed cost. They're hemorrhaging money right now. That's why the mayor and Governor Hochul's at wit's end just yelling, "You can't stay in your pajamas all day long." As opposed to saying, maybe we ought to consider about restructuring all of New York City's finances and services. They're not ready to do that just yet. They're only going to do it when they're forced to do it, which is an economic crisis. Unfortunately, that's the way I see it.

When do you expect 10-year yields to get real over inflation? In a recession. The 10-year yield's 2.75. Let's say it goes to 3.25. Well, what's going to get the inflation rate down to three and a quarter anytime in the next couple of years? A recession. Yeah, I think that you might see it around a recession. You could argue in the early part of a recession the 10-year yield will plummet, yes. But then as the recession ends, it'll come out of it, and it'll go real. But it's not going to happen ... Otherwise you have to start arguing that we're going to see a 6% or 7% in 10-year rate but given the total returns charts that I showed in the beginning, oh my god the disaster that it would be for the bond market on the total return basis. We would've bankruptcies in financial institutions if we saw those kinds of losses. Remember mark the market is important, you just can and hold them to maturity.

Larry asked, will high gas prices have a meaningful impact on home from work dynamic? Yes, it will decrease it. About half of the miles driven pre pandemic in the United States where people driving related to work, going to work, going home from work, traveling to see customers. That is about 50% of driving in the United States. I always use New York city as my example. Yeah, sure, you get on the subway, but not everybody works in New York City and takes the subway. A lot of them get in a car and drive to work. If that's what you're doing and that is driving to work, then yes, chronically higher gas prices are going to be a deterrent against going back to the office than anything else. Because I don't want to spend that extra money in going back to the office.

Remember that I'm talking about a large office, the majority of people in a large office are in the lower half of the income. They're in operations, they're in administration, they're in security. They're not the managing directors, the executive vice presidents, and the president. Those guys, if they want to come in the office and say gas is 5.50 a gallon and you know how much it costs to drive my S class to the office? No one cares. When the $45,000 or $50,000 a year administrative aide says how much gas prices are and can't I work from home, that makes a difference. You got to remember who the majority of bodies in an office are. They're at the lower end, the bodies. You don't have 500 executive vice presidents, well, some companies do, but most don't. You don't have 35 presidents that yeah they want to be back in the office full time. The office suits them. It's structured for them. Things like gas prices will not move them, but everybody else it will move them.

Bill said Morgan Stanley argues that a number of technical distortions meaning the 2-year 10-year curve is artificially flatter than comparable past QE, pension demand, sporadic flight to quality. MS estimates two-year curve is 75 basis points below where it would be to signal a recession. Would you agree that the 2-year, 10 years may not have the same predictive power as the past? I do agree that QE and other things might have distorted the yield curve. I also have made clear that I think what you need is persistent inversion in the yield curve. We have not had that. We had two days and then we are un-inverted.

I've said a minimum of 10 consecutive days. I'll go with that. I'm not changing it, but I would really like to see two months. Then you could really then start to say, "Look, it's been inverted for two months. Now let's talk about recession." We're ways away from that right now. I agree that the yield curve, if the yield curve is being distorted by a lot of technical factors and it's not as freely traded that it won't be as predictive as it was in the past, but I'm not ready to go all the way and say, ignore the yield curve. I still think it matters. I'm constantly reassessing that view and saying has the combination of QE and other technical factors invalidated it? As I said before, we're worse off if it did, because it's an important signal that we will have lost.

Let's see, Henry asks, if we go into recession in 2023 and assuming the Republicans take the house during the midterms, what appetite will there be for fiscal and monetary stimulus to fight the recession? Zero. Zero because the official, not the official, but the Republicans will tell you that they think the reason we have inflation is we stimulated too much. I do think that there is some validity to that question that we have stimulated too much. Again, the Republicans, are they the fix? Look, if the Republicans roll in like I said in January, you're a piece of shit until you prove otherwise, you still did your term with high inflation and you ended with a recession, they'll get washed out in '24 as badly as the Democrats will have, as we expect the Democrats to get washed out in '22.

I don't think that one of the things that the Republicans will do is say "Here, Joe Biden, here's a bunch of massive spending plans to just throw money at everybody to pay for gas, to pay for food, to pay for all the high prices in the world. Please sign these bills we can give them that kind of relief." Now, the reason I say it that way is the problem when you pay people, when you subsidize high prices, they stay high. What you need to do is start figuring out how to subsidize supply to bring down those prices. I'm not going to give you a check to pay for these high prices. I'm going to figure out how to bring down these prices. I suspect what the Republicans will do is they will push domestic oil production.

The other day, forgive me for getting a little too political. The other day Biden was railing about Putin's price hike, and that the problem is we rely on unstable dictators to decide the price of gasoline, and we have to get away from that. Well, you're the one that the Saudis won't take your phone call and you're talking to Maduro in Venezuela to try and fix this supply chain problem. Let's go to two other unstable dictatorships to fix the problem. The Republican's answer would be more drilling in North Dakota and Texas. Now, whether or not the president will sign that because of the environmental considerations, and it'll get overridden still is to be seen. I do not expect you'll see massive fiscal spending coming out of that.

Let's see, Amy says trucking slowing, ports not jammed, things slowing down. Yes. But why are the ports not jammed? First of all, is it because we're needing less stuff? Or is it China slows down for the Lunar New Year through February, and then they've got the lockdowns and the boats are not being filled and being sent over here fast enough. If that's the reason, that implies one economic scenario, it's another bottleneck. It's just moved to China as opposed to here. Or is it because demand destruction is now put in less orders for stuff and that's why everything's slowing, that's a different economic outcome. As I said in the Sal Mercogliano video, which it's 11 minutes long, he's very entertaining to listen to. He argues both sides and says it's not clear at all. It is really not clear. Now, my thinking is along his lines, he influences me a lot. I think it's more of a slowdown induced by the COVID and China and shifting everything around and that the supply chain is still fundamentally being stressed. It's just check back at the end of the summer, and we'll see where it is.

Greg asks, what can be the impacts to worldwide supply chain? What could it do to inflation? Well, worldwide supply chain is being stressed, especially when you throw in the Ukraine war and especially when you get into tankers and bulk carriers. You're talking grain and you're talking about oil and energy products as well. That is a friction that leads to demand pushing prices higher. Until we get all of this worked out, which is going to be a period of years and whether or not we have a period of reshoring. Reshoring has been a word that we've used for many years, and it never ever seems to happen. Maybe this is the impetus that it finally does happen. We are going to be stressed for a number of years, and we're going to have friction for a number of years, and we're going to have higher inflation for a number of years. That's at least what I think.

Occasionally in the middle of that, we might have a big economic slowdown that will reduce demand, do away with the inflation, but then on the next rebound, unless we could say we've restructured for the new post pandemic economy and that's what we're seeing, the mayor of New York says New York City is being been restructured for the new post pandemic economy then inflation's done. As long as the mayor keeps coming out and saying, "You can't stay in your pajamas all day long, we need you to pretend it's 2019." Then we're going to continue to have problems as well. Rob S. Thank you. Appreciate the work. Keep up the good stuff. Thank you very much, Rob, for the comments.

Any estimate on how much of the treasury market is owned by carry traders? 38% of the market is owned by the Fed. I know that's not the question you asked. No, it's hard to say how much is owned by carry traders. Remember this is going to be front end stuff. Right? The funds rate is something like 35 basis points, 37.5 to midpoint thereabouts is about where funding rates should be roughly, leaving off specials and tightness and all that other stuff. You got to whopping 2.5% two years note carry. Yeah, but the Fed's raising rates and yields are going up. Yeah, but look at all that carry as well. There's no statistic that says how much is owned of the two years note by somebody who's borrowed money to buy it.

Now by the nature of a bank or brokerage firm, everything they own is levered. Whatever the banks and the brokers firm own, how much is owned by hedge funds actually saying buy a billion two-year notes and repo it. Look at that gigantic carry we're going to get and making a bet that interest rates are very close to the high and that they can just get that huge carry. There's no statistic that says that. But you could look at the bank and the brokerage numbers, it's fairly significant, but it's always been significant. I haven't looked at it any more than that, but that's the best answer I can give you. I will try and take a look at it. If I see anything, I'll include it in news clips and pass it along here.

Just a couple more questions. **Based on 7 or 13 rate hikes, predictions on where the equity market goes?** Lower. As I said, I'm going to take Dudley at his word that the policy is, in fancy financial terms, is the policy is financial tightening, tightening of financial conditions. That's lowering the stock market. They need to because that's how we ... Because remember, most stuff is bought by people of means. People that own stocks. If you can get people of means to rethink for a minute buying stuff, that should reduce the price and that should bring down inflation. the policy is to lower the stock market. 7 or 13, 7 is implying that the policy is largely not to lower the stock market. 12 or 13 rate hikes is the Dudley policy that they need to tighten financial conditions, which is lower the stock market. I think they're more towards 12 or 13, and that's the policy. That is the goal. That is the goal of the policy. Yes, lower I think, or struggle, is where the market is going to stay as we move forward too.

What about a major tax cut in '23 if recession? A major tax cut in '23? No, because Biden will veto it and no matter how optimistic you get about the Republicans sweeping the House and the Senate, and again, it's April something can happen and usually will between now and November that can change an outlook. It can make it worse for the Democrats. It can make it better for the Democrats. I don't think any of the scenarios involved that the Republicans would take over in such a huge number they can override any kind of tax cut. Now, talk about if recession in 2023, that's a whole different ballgame. If we were to get a recession in '23, I would also assume that will bring down the inflation rate because you've killed off demand. You will probably get something along the lines of a tax cut and a stimulus package, because then you're in recession. You don't have inflation; you have soaring unemployment. Those are the conditions I think you'll see them run out a stimulus package as well, too.

If recession, possibly. Without it, no way. Ask me in '25 if a Republican is president and they still have a Republican House and Senate, like I said, that might not be the case, because that might be the case that the Republicans get swept out of power because we had a recession in '23, we put you guys in charge and it wasn't any better. You know? We'll see what happens. What's your call for a peak in the 2 year and the 10-year UST? I used to think 2.25 and even two weeks ago we were still close to 2.25, probably 3.25 now because the yield curve is un-inverted. I still think probably 3-ish on the two-year note. I don't think it's going to go much more than, it hit 2.60, maybe 2.90 to 3 on the top, another 30 basis points or, because that will pretty much price in those 12 or 13 rate hikes.

Then I think what inverts the curve, the perception that we're going to maybe go into recession will zoom down. There will be a big risk off rally in the 10 years. That will invert the curve, keep the curve persistently inverted that will mark the end of the rise in yields. Then eventually over time, the Fed will stop raising rates. And then we'll start talking about a slow down or recession. Again, this is not a positive outcome. What is the retort to it? The 43% are right that we're going to peak in inflation, and it will naturally by itself, everything will go back to 2019 and look like I said, it could happen. I don't think it will and then the inflation rate is back under three, without any heavy lifting going on at all. Then, that could be a whole different scenario.

I still think it'll be 3.25 on the 10 years now, 2.93 on the 2 years, then the 10-year zooms down as recession fears take over inverts the curve, 10 years on its way down and then we start talking about recession thereafter. Okay, let me thank everybody for joining me. We'll put out the transcript on this on Tuesday. Tuesday? What am I thinking of? Today's Thursday. On Easter Sunday. Have a good long weekend. Markets are closed tomorrow for Good Friday. We'll talk to you again in this format I think in three weeks. My travel schedule is still such that we'll be doing this again in three weeks. Thank you. Bye-bye.

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