# Jim Bianco: Rate Hike on Deck

**May 30th, 2024**

***Erik:*** Joining me now is Bianco Research founder Jim Bianco. Jim, it's great to get you back on the show. Last time I had you on you made, what at the time was a profoundly non-consensus call. You said you thought inflation had bottomed, almost nobody else thought that was possible at the time. And also, everyone was certain that rate cuts were coming and coming soon, you were again, non-consensus saying, wait a minute, if they're going to do it, they've got to do it by either May or June. If they don't do it by then, they're not going to do it until after the election. Nobody was talking about a rate hike. At that point, the only thing anybody was discussing were rate cuts. Boy, what a difference three months can make. So, give us the update. How has this evolved?

***Jim:*** Thank you for having me back. And I would argue, well, let me start with inflation. When I talk inflation for this discussion, I'm talking about a year over year change in CPI, the headline number, it bottomed at 3.0% in June of 2023, it got earlier this year to 3.1%. And currently, it's now at 3.4%. And the base effect is looking like, the base effect, meaning what are the measures from a year ago, you're going to be dropping from the inflation rate, there's a bunch of zeros, there's a zero and a couple of point ones from a year ago. So, it looks like it's going to at least stay at these levels and probably go to the upper 3's on the year over year change in CPI. So yeah, inflation looks like it bottomed about a year ago, about the time that Wall Street invented the term "the last mile" from 3% to 2%, when they invented that term last summer, was exactly when we were pretty much done with the decline in inflation. I still think that inflation is going to continue to be a 3-ish percent problem, maybe a 3% to 4% problem. Not much more than that. But that's enough to cause a big problem.

As far as the rate cuts g, there's the problem. The Fed is, there's a phrase that I've been using that the Fed is not partisan, but they are political. And what I mean by that is they don't sit around the FOMC room and to say, gee, who do we want to elect in what policy should we get to elect the guy we want? I don't believe they do that. But they do know it's an election year. They do know that they've been tasked with lowering inflation and their reputation is on the line. So, if inflation year over year, CPI bottomed a year ago, and is staying sticky in this 3% range, then they're going to have a very difficult time finding a place to cut rates. And I've argued, by the time you got to June, and the June meeting is two weeks away from the day we're recording, if they don't cut rates at that meeting, and the probabilities are about 1% is what the market is pricing in that they will cut rates to June meeting. Then the July 31 meeting, which is between the Republican and Democrat convention and the September 18 meeting, seven weeks before the election, are off the table. Maybe in the November, December meetings, they

could revisit rate cuts only if the economic data weakens, and or the inflation data weakens, but it's not right now. So I think that we're several months away, if at all, at seeing some kind of rate cut.

***Erik:*** So, unlikely to see the rate cut happen before the election. After the election, is it even possible then that we see no rate cut, and the next move is a hike?

***Jim:*** Sure, I think that the next move could very well be a hike. If you were to ask me to put the probabilities on the market right now of what the next move would be, I would give you between 0% and 50% that the next move is a hike. Now, less than 50, it's not priced in, but above zero. I think cuts are off the table now. Why? Because the economy is doing well, in terms of GDP growth. Now the big driver of that is fiscal spending. When you have a government that's running a 6% budget deficit or about $1.7 trillion, federal spending is 22% of the economy, and mind you other than the financial crisis and COVID, it never had 22%. Even when they were Keynesian pump priming during the 90s, during the 2000s when we were having those recessions in 2001, and throughout the 90s and the 80s, never got that high. I think when you have that level of government spending, it's almost impossible to have contracting GDP. And when you have that level of government spending, it's almost possible to get inflation down under 2%. That's the consequence from all that government spending. So, I think that that's really what's going to continue to drive this economy as we move forward from here. And yeah, if it does, and inflation stays sticky, I think that there will open the door for more rate hikes. Now, the way they're going to do it is, you've already started to see this. They're talking about this nuanced thing about what is the neutral funds rate. Well, the neutral funds rate is, where is the funds rate where neither stimulates nor restrains the economy. Now, we don't know what that is. That's a bunch of PhDs and quants getting together and kind of putting together a model and coming up with a number. The Fed calls that R*. And they've been saying that R* is around 2.5%. So the neutral funds rates around 2.5%, how they arrive at that a 2% inflation rate, which is what they still say is the long term inflation rate that they're trying to achieve, plus 50 basis points, or half a percent on top of that, well, if the long term inflation rate is more like3f to 4, and maybe that premium on top of it isn't 50 basis points, but closer to 100. Then you're talking about a neutral funds rate that neither stimulates nor restrains the economy, somewhere in the four handles, 4% to 5%, let's say it's closer to 4%. Now, why is that important? Because the funds rate currently is a 5.25 to 5.5. That means that they're all, you know, if you define it as a 25 basis point move, they're only like three hikes into restrictive range. If you believe the neutral rates, two and a half, they're 12 hikes in the restrictive range. So if they start accepting the idea that, no, the neutral funds rate is more like 4, 4.5, we're really not that restrictive, then that opens up the door that maybe we could get more restrictive, which is a fancy way of saying we could see more rate hikes again. I think it's less than 50% chance to raise rates, but it is above zero, is where I think we are right now.

***Erik:*** Jim, for that scenario to eventuate, where the next move is a hike, the economy would have to stay strong enough for long enough to bring that about. Is the economy that strong?
***Jim:*** It depends on how you define the economy. So the answer is, if you're looking at the economy from this top line statistics, which is the way the Fed does it, GDP, retail sales, the

like, yes, it is. Now one of the big drivers of that is $6.5 trillion dollars of government spending, as I mentioned earlier, 22% of GDP. Now, if you want to nuance it, and you want to look at, say, the income levels of the country, and this is becoming more and more of an issue, especially in the election year. 70% of all retail sales is done by the top 50% of income. And 85% is done by the top 70% of income. So if you have the wealthy, defined as they say the top 10% of income, that are getting capital gains, that are getting higher interest income, they're going to continue to spend. And then you throw on the government spending, then the GDP statistics are going to stay at potential or maybe even slightly above it. The bottom half of the country? Well, they're not going to feel it. And that is showing up in the unhappiness that you see in the President's approval rating and with all of the angst about the election that's coming up. And I'm talking about the economic angst about the election that's coming up, because they're not participating. They're falling behind because of inflation. And by that measure, no, the economy is not keeping up. But the way the Fed decides on policy is they look at what is GDP, what is retail sales, what are payrolls doing, what is durable goods doing? And so much of that is driven by the top 50% of income. And everything seems to be working for them because they're getting interest income, they're getting capital gains, the economy seems to be moving well for them as well. We looked this past weekend, before we recorded was a Memorial weekend. We actually set a new all-time high in throughput at the airports according to TSA checks, breaking the old record set pre COVID. So we finally did it just this past weekend. So you know, Americans are having no problems travelling and travelling to the tune of almost 3 million a day, going through the airports again. Who are those 3 million a day going through the airports? Most, if not all of them are probably in the upper half of income as well, too. So yeah, it's a bifurcated economy. But let's remember that the Fed doesn't draw that distinction and look at GDP retail sales and the like. And they say the economy's strong.

***Erik:*** The last time we had you on about three months ago, Jim, you thought we had not yet reached the peak in bond yields? Is that still your outlook? And where do you see yields headed from here?

***Jim:*** It is, but it's a low conviction call. Let me explain. I had been advocating for a 5% to 5.5% target on the 10Y yield since last December, when the10Y yield was under 4%. Well, when we got to 4.75%, I moved my duration, and that's in my ETF, WTBN, which is a fixed income ETF. I moved it to neutral. Now I moved it to neutral, largely because I said most of the move is behind us when we were 4.75%. I still thought we would get a move to5% to 5.25%. But from a tactical standpoint, you don't want to be greedy and press it all the way to the you know, to use a baseball metaphor ,all the way through the ninth inning. Why do I still think we need to get to 5%to 5.5%? Because we never saw that capitulation that we saw in October of last year, or September of 2022. What do we mean by that? That we got to the point where everybody said, you know, bonds are uninvestable asset, anybody that's got money in bonds, you're nuts, the bond market is just utter, a terrible place to keep your money, etc., etc., etc., and then usually everybody sells out. And then that's the end of the decline in prices or the peak in yields, and you turn around. We never really got there. And I still think that one more push higher in yields to 5% to 5.5%. Now, where did I come up with that number, that the October peak was 5.03%, I thought we'd make a slightly higher high, should do it. I think that I'm starting to see evidence

around the edges, that if we were to see another move up in yields, you'll finally start getting people saying the bond market is the most uninvestable asset class and all of that other stuff. And then that would be the final move that would set up probably a decent rally for the balance of the year in the bond market.

***Erik:*** Jim, let's talk about real yields and where inflation is headed from here. Are we eventually headed toward a scenario where the Fed is going to be unable to fight inflation because they're unable to increase rates enough without, you know, they, on the one hand, they risk bankrupting the federal government if they raise, if they raise too much in order to try to fight inflation. But it seems like the inflation problem is persistent.

***Jim:*** Yeah. And that's going to be a real problem, you know, to define what exactly is the persistent inflation problem? I think, like I said, we're in a 3% to 4% inflation world. Could we get to 2%? Yeah, if we have a recession, we could get 2%, we could see the inflation rate dip down, but it would only stay down as long as we had a recession. And it would bounce back up. Could we see inflation go briefly above 4%? Sure, if we have some kind of, another supply chain problem. And with the issues in the Red Sea, and with the rise, continued rise of shipping rates, that is still very much on the table that we could see something along those lines. Could we see a housing shortage because of the influx of migrants into the country? Sure, we're starting to see that in some areas right now, that could push OER, keep it sticky. But again, that would be an outlier as well, too. So real yields, that would be interest rate above the inflation rate, we're going to have to take a look at that, because longer term, longer term over several years, I do think we had a bottom, the 40 year bull market in bonds ended in 1981. And we're several year move higher in yields, several year move. Now that doesn't preclude that maybe there's a year or two in there, that you have a decent rally in bonds, but we're going to continue to move higher. But one of the things I think that'll drive those yields higher, is expanding real yields. If you look back prior 2009, say, from the 1980s to 2009. What was the average real yield? It was around 2%, meaning that whatever the inflation rate average during that period, interest rates averaged 2% above that. As I talked about with R* a second ago, I thought we would get 1% above the long run inflation rate of 3%. But ultimately, I think real yields might not even stop at 1%, They'll go to 1% now, but ultimately, they might go to something approaching what we saw pre financial crisis at around 2%. So we're going to continue to get this push up in yields.

Now, keep in mind, a lot of people are really struggling with what this means if we're going to have big real yields. And if we're going to have higher nominal rates, like in the 4% or 5% or 6% range for long term interest rates, they're still have a mindset of 2010 to 2020. That if into rates go above 2%. That that's bad? Well, it depends on why interest rates are going up. But if we're in a higher nominal growth world, we're in a 2% inflation, you know, 2% to 3% real growth world because the government is just spending so much money and plus inflation. That's actually normal interest rates. That's actually nothing to get worked up about. You would like to have back down at 1% or 2% interest rates for long term interest rates, like we had from 2010 to 2020. That's a different era right now. So I do think we should expect to see higher real rates. Now, in the short term, short term being the next year or two or so, that could pose an issue for investors. Because the investors can look around at the richness of the all-time high in the stock

market, the richness of some of the concentration of the rally in the stock market as well too, Nvidia is 40-ish percent of the gains in the S&P, one stock of 500 is 40% of the gains of the S&P, which is almost unheard of. I can't find another time that we've seen a 10% rally with 4% of the 10% coming from one stock, not even when you had monopolies like IBM and AT&T in the 1960s, that we see something like that. So, when people start looking at, if we're in a 4% or 5% inflation, I mean, interest rate world, maybe I ought to be thinking about putting my money in bonds, and just getting that yield. That's most of what I should expect out of the stock market. Now, put that in perspective. Dr. Jeremy Siegel wrote an update to his book, *Stocks for the Long Run,* and he said, the long term potential for the stock market is about 8%. That's what you should reasonably expect to get a year, 8%. 16% one year, zero the next year, or something like that. Now, I know, the crypto crowd wants 8% a day, and everybody would like 8% a day. But that's not realistic. So, for the stock market, it's about 8%. Well, if the bond market, even if it isn't a bear market, the bond market can give me five of the yield, and with much less volatility than the stock market, that should attract some money going forward. But over time, we should start to realize that that's pretty normal. And not something that's kind of eye popping, boy, I gotta jump into the bond market. But for the next year or two, I think that people are going to look at that 5-ish percent yield and think that that's something extraordinary, till they understand we're in a bear market, that real yields are going to continue to expand and that the inflation rate is not going back to 2%. And get used to 5% as being kind of a normal interest rate, get used to 7% is being a normal mortgage rate. And for all my mortgage broker friends that say that the housing market can't handle a 7% mortgage rate, that's going to have to adjust, because it's not going to go back to 2% or 3%. Again, unless there's a dramatic downturn in the economy.

***Erik:*** Let's talk about the longer term consequences of the 40 year bond bull market coming to an end. If we're seeing the end of the bond bull market, a lot of people predicted, okay, that would be the moment where you would see essentially, a situation where the US government debt would become unserviceable. We'd have a mushrooming problem, one thing would lead to another, and you'd have a fiscal crisis as a result of it. Is that something we need to be worried about? Do we have a risk that inflation is going to kick back up? And we're going to get a runaway situation?

***Jim:*** Yes, we should be worried about it. But I would argue not immediately. A 6% budget deficit is unsustainable. But how does a 6% budget deficit, or 22% or a fifth of the US economy being Washington spending tax dollars, or actually to be more specific, about 75% of what Washington spends thee tax dollars, they borrow the other 25% in order to get, you know, spend $6.5 trillion dollars a year. There's two ways you can fix that. Way one you could fix that is at the ballot box. But the problem with the ballot box is, I don't see a bunch of Hamilton's and Jefferson's on the ballot, getting ready to get elected, that is going to bring fiscal sanity to us. Let me be blunt about it. It's Joe Biden, vote for me, I'm going to spend $6 trillion over here. It's Donald Trump saying, vote for me, Joe Biden doesn't know what he's doing, I'm going to spend $6 trillion over there. But they're both going to spend $6 trillion is what they're going to wind up doing. So how does this end? There's a term that's been bantered about that it's the Liz Truss moment is how it ends. Liz Truss was the Prime Minister in the UK two years ago, in September

of 2022, she was newly installed as a Tory Prime Minister. She put out a budget called the mini budget, to cut taxes, increased spending, blocked their deficit. Parliament, their Congress said, we're cool with this, we'll vote for this. But the UK Gilt market, their bond market, rioted, it collapsed. It had its biggest one day rise in history. And mind you, the Bank of England has been keeping data on this for 300 years. And the biggest one-day rise was two years ago, biggest one-week rise was two years ago. Rates went up so fast, it caused all kinds of problems in the financial system, which was known as liability driven investing, which was what a lot of the pension funds do where they trying and matched their liabilities and their assets. And they couldn't because of this gigantic move in interest rates over a short period of time, threw them into a crisis. And the bond market forced their Parliament to rethink expanding the deficit and made them stop. I think that's how it ends here. Is that at one point the bond market puts its foot down and says we don't want you to spend any more money, here's 6% yields. And Congress says, well, this is really important stuff, and it's really critical for the.. alright, here's 7% yields. But wait, you don't understand the importance of this. This is 8% yields, would you like me to keep going? When do you need me to go to, so you stop spending money? That's how it ends. Now that I've said that, I don't know if that's later this year, or that's in 10 years, 15 years, or somewhere in between. It's like I said, the other option is, we find, you know, the reincarnation of Hamilton and Jefferson. And we elect those guys, and they bring fiscal sanity, we're not going to do that. So yes, we should be concerned that higher interest rates are going to continue to put pressure on it. And that that Liz Truss moment, will continually come closer and closer. The problem with the Liz Truss moment is you don't know when or how it's really going to manifest itself. The Liz Truss moment kind of came out of the blue. You know, she put out the budget after the entire Conservative government, all the Tories looked it over and said yes, yes, yes, we should do that, good idea, I agree. She puts it out, the bond market blows up and then all the Tories turned it said, I don't know who this Liz person is, I don't know what this budget is. It's all her fault. And that's kind of the way that I think we're going to wind up seeing it up in here, we're all going to agree that this is what we should do. And then in the minute we start doing it, the bond market doesn't like it, it just drives yields up, it wreaks havoc in financial markets. And it forces us to stop doing it. But I just don't know when or what the exact catalyst will be to cause that. But most likely, that's what's ahead. Unless I'm wrong and we do find the reincarnation of Jefferson and Hamilton to kind of pull us back from the precipice, before we get to that crisis.

***Erik:*** Jim, let's talk about energy prices, subject that we've discussed before at times where there were crises going on. Right now, it seems like it's pretty much a relaxed situation in the oil market. We're finally just barely over $80, as we're speaking, after having retreated down into the 70s for a while. Do you think this energy market's going to come back and recover? Or where do you think we're headed?

***Jim:*** Well, I think, when you look at the energy market, you have to look at it from two perspectives, the supply side and the demand side. We're all worried about the supply side because of the unrest in the Middle East, especially around Iran, and Saudi Arabia, and being the big oil producers that they are, but for the moment, the supply situation seems to be under control. And I'll emphasize that word, for the moment. You know, I always like to joke, for the moment last as long as till I get the next big screaming red headline come across my

Bloomberg. And you look at it and go, and I'll use the French language, oh, shit, everything just changed at that point. But that hasn't happened yet. So, the supply seems to be okay. The demand side is driven, I still think by China. The US has a decent economy, and it is consuming a lot of oil. Europe is kind of so-so, its oil consumption is really not changing. But the big wildcard here is China, China has been down in the dumps. And their economy has really been struggling for a while now. But there might be some signs that there's a little bit of a rebound coming in the Chinese economy, the financial markets seem to be recovering a little bit. There are some indications that their economic numbers are recovering some. Now, I'm not suggesting that China's going to go back to 7% or 8% growth like they had pre COVID, or be the economic powerhouse that they were pre COVID. But if they do recover, remember they buy more cars in China every year than we buy in the United States, and there's that excess demand coming from China. You can really see oil price prices go up and go up quite a bit. Other than that, I think that the only reason you would see, from this $80 level in oil, that you would see oil prices really fall off the map is if we had a recession. But again, that would be cyclical, as long as we had the recession, they would fall off, because demand would be down, because that's what a recession does. And then when the recession ended, then you would see them recover.

So at least at that point, I think that energy prices, I would say, we're probably at some kind of a stasis level, intermediate level, and maybe start to move a little bit higher from here. Now, that plays back into my inflation forecast, when I was talking about year over year CPI being in that three handle. Well, what could get it down? A collapse in energy prices could get it down, a collapse in gasoline prices could get it down. And I just don't really see a collapse in energy prices, really on the offering. As a quick tangent, could there be another release of SPR or something else along those lines that could push depressed gasoline prices into the election? Sure. But that has got a lagged lead time to it. From the day that the President announces, release the SPR, to the day it gets released till it gets filtered into the system to it increases enough supply that it would actually depress prices, is weeks, if not a couple of months. And we're already about six months or five months away from the election. So if they don't pull the trigger on that maybe in the next four or five weeks, even if they were to announce in July or August, we're going to release the SPR, it might not be enough, it might not be soon enough to see that really reverberate through into gasoline prices by the election. It will push front month futures WTI futures lower. But front month futures lower by themselves, won't actually filter through into lower gas prices for several months. And by that point, the would be over. So I don't think that even the politics could really depress the oil prices from here. Although, you know, the administration would love to see that happen.

***Erik:*** Let's move on to precious metals. What is driving all the strength that we've seen? Is it geopolitics? Is it monetary policy? Is it something else? And where are precious metals prices headed from here?

***Jim:*** Well, when I was out with you last, one of the brilliant things I said was I just don't see precious metals doing anything. And almost five minutes after the conversation was over, gold took off and went up $500 as well. So there's my last call on it. But if I was to look at what's

happening with precious metals, especially with gold, let me start with investment demand in the US. If you look at the flows into the ETFs, like GLD, IAU, those are the big gold ETFs. And like, there isn't any, there isn't a lot of real interest in the western investor, meaning the European, Canadian, American investor to really plough headlong into precious metals. Now, I'm again on stating that in looking at the investment flow data, so where's the investment flows coming from to push this higher? It's coming from Asia. And it's coming from physical demand. And it's coming from more physical demand, I think out of China than in out of anywhere else. Now, there are some signs that, you know, you've seen some record volumes on the Shanghai exchange where they trade gold and some other metrics like that. That suggests some real interest out of China. Why are they interested in precious metals? Again, the Chinese economy has really been struggling quite a bit since they entered zero COVID about 18 months ago. And I think a lot of wealthy Chinese people are looking around going, maybe I don't want to keep my money in the bank in Chinese Yuan. I'd like to own dollars, but the government frowns on that. But gold is an acceptable alternative. And that's what we've been seeing. So, a lot of what I think we're seeing out of gold is a push out of Asia. Now eventually, if it keeps up, we get $2,500, $2,600, $2,700, you'll get the momentum players in the West start to really start to plough in a big way into GLD, IAU, these, again are the ETFs that buy gold. But those ETFs, they're cumulative flow numbers. Those peaked back in 2021, three years ago, and they've been three years of sideways to down and the price now, like you said it's $2,400 an ounce or at least it was recently $2,400 an ounce. So we're doing it without Western investors and Western investors are notorious momentum driven. So, If the Asian demand continues, even if their economy recovers, it's not like the Chinese wealthy are going to say, oh, well, the retail sales numbers are getting better, I'll leave my money in a Chinese bank, they'll still be committed to getting their money into some alternative like gold, and maybe continuing to push the demand for gold higher. And eventually, they might see the momentum come from American investors, Canadian investors, European investors through investment vehicles like ETFs, to continue to push it up. So it definitely broke out, gold has, and it's definitely looking better.

***Erik:*** I agree with you. The participation just isn't there from the west. But what's puzzling to me is it doesn't seem to match previous examples in the precious metals markets. Usually, if anything, everybody's in too much of a hurry to pile in, we usually see maybe artificial exuberance that ends up just petering out. It seems like it's a different game, this time around that gold prices are moving. It's being driven by central banks and by Asian demand. And as you said, Western investors are just shrugging it off. Nobody seems to be piling in. Any thoughts on why?

***Jim:*** You know, I think that for Western investors right now, they're in a different ballgame. They're playing, they're looking at the US stock market as something as safe as precious metals. They're looking at indexation as being kind of the holy grail. Look, if you ask a lot of Western investors, what's the safest thing I put my money in, and they would say an S&P 500 index fund. I don't think it's the most, it's the safest thing you put your money in. But it's hard to argue what the chart looks like over the last several years. And it's hard to argue, the incentive structure that 2020 gave them. So finally, we had the closest thing to a crash in the stock market in 2020, because of COVID, that we had since 1987. And the Fed dropped interest rates to

zero, was buying $100 billion a day of bonds in March of 2020. And actually then started buying corporate bonds, high yield ETFs was willing to do whatever it took. And we did something we've never seen in the stock market before, it fell 30% a month. And within five months, it was back to its all-time high. That usually takes five to seven years after a move like that, to get back to the all-time high. And it left people with the impression, because right after that in 2021, what did we get? We got the meme stock craze, and we got all that other stuff, that the stock market's invincible, it only always goes up. And now you've got 3x and now there's a new 4x levered S&P 500. Now, you asked me about precious metals, and I'm answering about the stock market and the reason why I'm answering about the stock market is why would I get myself all worked up about $2,400 in gold, when I can buy this thing that only goes up, and that the guy with the unlimited printing press will make it go up when it doesn't go up. So why would I think about anything else? And that's where I think we're stuck with domestic investors right now. They're so mesmerized in the stock market. And if I was to take us one step further back, that's why I think we need one more move up in interest rates, as well just to tie a bow on that idea. Because without that move up in interest rates, if I see a lot of people on CNBC or Bloomberg say the bond market peaked at 4.35%, it's going to rally, these are bond fund managers saying and therefore you should put your money in a bond fund. No, if you think it peaked at 4.75% and the bond rally is going to continue, you should be putting your money in the S&P 500, or the Mag seven ETF or buy Nvidia, because they're going to be a roof shot, if we've already seen the high in yields. But if we get one more push up in yields, and push the doubt back into the idea that the stock market is invincible. Now, it doesn't benefit the bond market, but it would benefit the gold market as well too, because then people would start searching alternatives. Right now, the alternatives are hardware or software companies. That's what most people think are alternatives right now.

***Erik:*** Jim, we're down to less than six months before the presidential election. What do the various outcomes mean? And this year, we need to think about at least three possibilities. What does a Trump win look like? What does a Biden win look like for markets? And what does a hung election look like, and that is very possible. If RFK Jr. gets only a few votes, you end up with a hung election where the House of Representatives has to decide who's president. I can't believe that's going to go over to well politically if it happens, but what would that mean for markets?

***Jim:*** So, let's go with the hung election. First of all, that would also imply, remember that RFK is polling around 15% of the electorate. But he would have to get 50% of a state to get any kind of electoral college votes in order to prevent either one from getting to 70. And then putting in a 100 election, that would be a disaster, a hung election, because you're right, in a hung election, we haven't had one since the 19 century, the House would vote the president, the house is Republican, they'll vote Trump. The Senate picks the vice president, they're Democrat, they would vote Harris. So, we would walk down with a Trump-Harris administration, which would not go over well, in terms of trying to govern the country, with having that kind of a situation, especially if we had a 50/50 Senate and the President, Vice President would have to break ties, and they wouldn't break ties in their interest, as well. So that one would be a real disaster. But again, it's not so much that RFK gets 15% of the vote nationwide, he needs to get 50% in any

particular state, or 50 plus one in any particular state to win those Electoral College votes and that he's not pulling anywhere near that in any election.

Now, as far as the other scenarios go, let me give you where I see the election standing. And I do look at the betting markets. I do look at the polls. And this is what we see at this point, and 2020 was the same to candidates. And Biden was running around six to seven points ahead of Trump in 2020. Today, Trump is running 1% to 2% ahead of Biden, in the polling, in a rolling aggregate of the polls, like Real Clear Politics does or like 538 does. Biden has not led in a rolling aggregate of the polls since Labor Day. So it's been almost nine months now. So there's already been an 8% or 9% swing in the electorate, and that is held for about nine months. The betting markets are now moving solidly in Trump's favor, as well. And I would argue the betting markets, I view them as like a real time poll. All I think they are, and it's important that they're this, is that they are the aggregate of all opinion into one probability. And they have the ability to react quicker to information than a poll, when an event happens. You need to pay a pollster to go out and ask some questions, ask the questions, compile the poll, release it, it takes two to three weeks. But when an event happens, the betting markets can almost instantaneously react to it, and continue to react to it to give you a move as to where they are. Now, the reason I brought that up, is the day we're recording is the day the closing arguments in the Trump trial. Now, I don't have any idea how the Trump trial is going to play out. But I'll give you two betting markets statistics. There is a betting market and whether or not Trump is going to be found guilty, and it's running it around 70%. 65% to 70% believe in that betting market and Polymarket, that's where it is that Trump will be found guilty. But if you also look at the betting markets for who's going to win the election, Trump is in a bull market. So, it's almost like he's going to be found guilty, and it doesn't matter. Or it helps him that he's been found guilty, as well. So the argument here is that, it is a Trump train that is moving along. And there's really only two events, or maybe three events, if you want out there that we know of, that can change the course of this, the debates, the first one is on June 27. Either way, most people don't think Biden's going to do well, but if he does better than expected, that could change it. And the Republican and Democrat conventions, and the big one will be the Democratic Convention in Chicago in mid-August and the potential that it looks a lot like 1968 with a lot of violence and a lot of protesting that gives for bad images on the screen. Some of the protest groups have claimed that they will have up to 30,000 protesters in Chicago for that convention. And to put that in perspective, during the 1968 Convention, which was in Chicago, they had 5,000 protesters. So we'll see if that claim of 30,000 comes through. But after watching months of campus riots and campus protests, there's no reason not to doubt them, at least right now, as well. So, Trump seems to be leading in the poll. I think that the big thing for Trump is going to be does he have enough coattails in order to push through and get in a House and a Senate that is Republican. Interestingly, there is a poll thing called the generic ballot, which they basically asked people, okay, we know you said you're going to vote for president, but after that, do you tend to vote Republican or Democrat, not a specific race, but do you tend to vote this way. And on that one, the Democrats still lead by a small margin, even though Trump leads in presidential voting, Democrats still lead in that now, if we get a divided government out of this, that Trump becomes president, and maybe the Democrats hold the Senate or take back the House, that is a very different outcome, because Trump is already talking about cutting taxes. And the problem

with cutting taxes at this point with all this government spending is, if he doesn't cut government spending, and he cuts taxes, you do one without the other, you just bought the deficit. And you further push the bond market towards that Liz Truss moment, where he puts his foot down and says enough, but if you have a divided government, then the likelihood of that happening is very, very low, if not nonexistent.

To give you a quick tangent on that, two months ago, a lot of people made a lot of noise that Biden put out the budget for 2024, 2025. And in his budget, he put in that the capital gains tax should be raised to 44%. And a bunch of people say, oh, my God, he's going to raise the capital gains tax to 44%. In New York and California, where they also charged capital gains and state taxes, that'd be half of your capital gains would go to the government. Well, the President doesn't get to decide the tax rate, Congress has to pass a bill to get the president to sign to change tax rates. And with a Republican House, the probability that they will pass a bill changing the tax capital gains tax rate to 44% is 0.000%. So if we get a divided government under Trump, and all of his talk about tax cuts, they're not going to happen. If we get a unified government, that could happen. And if the Republicans are not careful, they could wind up pushing us ever closer to the Liz Truss moment. Consequently, on the other side, if the polls are wrong, like they were in 2016, in the opposite direction, or Biden finds a way to have a resurgence in wins, most likely, there would be some Democrat coattails on that. And you could see, look, you could see them hold the Senate, the House is like a two vote margin from becoming Democrat. And if you wind up with a double Democrat all the way down the line, I think you'd be a lot closer to the Liz Truss moment, because the Democrats would be at least more willing to want to increase spending, and then that roadblock of a Republican House would be removed. And then it would only be up to the bond market to basically stop them if they wind up going too far. And that's a nice way of saying just a lot of pain and angst in the financial markets. So as we get closer to November, I think that you're going to see more volatility driven by the election. Notice what I didn't say about the election, which is what a lot of people say, well, you know, defense stocks are going to be doing better and healthcare stocks will be doing better under Republicans and, you know, consumer product stocks and the like will be doing better under Democrats, I've looked at that, and it never works that way. It really is more about just the general level of government spending deficits and how the markets perceive them as to whether or not they're inflationary, over stimulative. Or, in this case, maybe too much. And then it's up to the markets to rein them in. So that's really the way that you'd have to look at it is whether or not they'd have to be reined in all Democrats, the reining in would have to be in spending. All Republicans, the reining in would have to be on a, look, I'm all in favor of tax cuts like anybody else, that would be in favor of tax cuts, but you have to match them with spending cuts. You just can't cut taxes, and keep that same level of spending. That won't work in the long term.

***Erik:*** Well, Jim, as always, I can't thank you enough for a terrific interview. Before I let you go, please tell our listeners a little bit more about what you do at Bianco Research and what services are on offer for our institutional listeners.

***Jim:*** So, Bianco Research is two businesses now. Business one, is our institutional research business. You can find me at biancoresearch.com, you can request a free trial through that website. It is a daily institutional service, which means that for the retail investors, a little bit pricey but I am very active on social media at @biancoresearch on X or Twitter and at Jim Bianco on LinkedIn and at Bianco Research on YouTube. Our second business we do, as I mentioned earlier, we do run an ETF. It is benchmark to the Bianco Research total return index, is a fancy way of saying we do kind of like the way that S&P runs the S&P index and then an ETF tracks the index. WTBN is a Wisdom Tree ETF that tracks our index, its total return index so you can find out more about that. If you're interested in fixed income investing, and I think later this year that's going to probably rotate into favor, at least I hope it will at Bianco Advisors, that's the ETFs website and the index website. Or WTBN is the ticker symbol, which is our ETF.

***Erik:*** Patrick Ceresna, Nick Galarnyk and I will be back as MacroVoices continues right here at macrovoices.com.