Bill Blain: Will Higher For Longer, Lead To Market Mayhem?

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Erik: Joining me now is Bill Blain, editor of [Blain's Morning Porridge](). Bill, it's great to get you back on the show. Let's start with the usual suspects, boy, S&P 500, so many smart people on this program have made so many great arguments for why it shouldn't be just melting straight up. But boy, that's what it keeps doing.

Bill: Well, there is no stock market anymore, is there. All there is Nvidia and all the other stuff and Nvidia goes up 3% a day after falling 17% in the days before, it's moments like this, when I'm always reminded that global markets are not clever, they are not intelligent. They are just voting machines, reflecting all the participants think, and if the participants don't have anything else to think about, and they make big mistakes, and they've got all the wrong things in their minds, then you get strange behaviors. Of course, the markets are never completely wrong. So you've got to wonder what's behind it. And I rather suspect that it's a triumph of hope over reality. But you know, I believe in bonds, I've spent my whole career being a bond trader watching bonds and bond markets, there is truth, I always consider that stock markets just kind of go off in the back of them. If interest rates are too low, then stock markets get too enthusiastic. And I think stock markets have missed the fact that global interest rates are now normalized at much higher levels, and are not going to go back to the kind of nonsense 0% and 2% rates that we saw during the QE era. And I'm not sure stock markets realize that.

Erik: I think you're onto something there, Bill, because something I've noticed is, first of all, real estate investors are all waiting, because they're sure that mortgage rates are going down to 4% again, and that's when they're going to buy this time. And the same story repeats over in every asset class, you know, it's going to be different this time. Well, here's what I want to ask you specifically about, because I was thinking about this the other day, if you've got the whole stock market that's elevated itself, if the indices have been elevated just on two or three stocks, somebody who doesn't understand human psychology might say, oh, well, then we've got nothing to worry about for the rest of the broader market. Because if that bubble bursts, it'll just be those three or four stocks that have led the way up, nothing else is going to collapse, because they didn't participate in the upside on the way up. I don't think it goes that way. I think that if we get a major air pocket here, or hiccup in the stock market, that it brings on an emotional panic where everybody's selling everything, is there any historical reference that we can look at to figure out what happens when just a few stocks have led a big ramp up? And then what happens on the way down?

Bill: Well, of course, I mean, I am old enough to remember 1929. I remember it very well, having to dodge falling bankers coming out of windows. That's exactly the same thing, where you do have a market just continuing to propel itself higher and higher. That said, I don't think we're going to get that kind of follow. I think the sort of theme that we've sort of hit on already for today's chat, is that the market is basing its expectations over what it's seen since the last big event, which of course, was 2008. And the collapse of Lehman, what we now call the Global Financial Crisis. Now, I've been writing for years about the global financial crisis, 2008 to 2027, because I don't think it's over yet. And what we saw as a response to the Lehman event was the rescue and the bailout of banks, but most importantly, interest rates being slashed down to effectively zero through quantitative easing and rate cuts. So keeping interest rates low. Now, that had an effect that pushed up the volume of all financial assets. Everyone warned, all the big economists warned that we had QE, we'd end up with Monster inflation. Well, you know what, we didn't have inflation in the real economy, because all that cash that was generated by QE was invested into the stock markets. And we told ourselves, that's fantastic, stock markets are rising, but all it was was financial assets, asset inflation. If you think back to that whole period, 2010 and 2022, in fact, growth in all the Western nations that were tinkering with QE ultra low interest rates was not high. It was effectively stall speed in many economies. Just because money was not being invested in productivity gains, which is the only thing that creates growth, but invested in the internal upside of the stock markets, the number I looked, I wish I could remember the exact number is something like between 2010 and 2022, the US economy's GDP grew about 60%, from 15 trillion to 25 trillion, yet during that same period, the S&P 500 rallied 250%. Now, you explain to me how it is the economy only grew 60%, but the stock market grew 250%, that tells me that we had a period of massive financial asset inflation. And also, I think, if you think about it, if we look at the markets, you know, nobody under the age of 45, working in the markets really remembers what happened in 2008. And they all now assume that interest rates are going to go back to what they think is normal. Whereas anyone that spent a longer time in the market, me and myself included, we remember when interest rates were much higher, normalized interest rates are 5%. That's where they're going to stake. And that's going to have real economic effects, which is why the economy is getting nervous now, by the potential of a recession slowdown.

Erik: I want to come back, though, to some of your comments about financial asset price inflation. Because, as I look at, you know, so many people are perplexing with what's going on with the stock market. Why does it keep melting up? It seems to, well, wait a minute, isn't it normal, if this is the beginning of a secular inflation, late 1960s, early 1970s kind of environment? Before all of the horrible experience of the 1970s, once the inflation had fully taken effect, wasn't the beginning of that story, basically massive run ups in the stock market that nobody could understand. And it was all because of inflation.

Bill: The one thing everybody listening to this podcast has to do is going to make sure they reread or that they buy, J.K. Galbraith's *The Great Crash 1929*. And just remind themselves what happened there, where a market got used to the fact that land prices and stock prices could only ever go up. I mean, that's the way that markets think. And in a period of ultra-low interest rates, people learn, and this is the period of QE that we're talking about. People learn that it was okay to speculate because money didn't cost anything. So they went and speculated and they bought into stuff that they felt was going to do well. And that's why we had, the markets have always rallied on new things, good new tech, that is going to change the way things work. You know, we saw that with the dotcom bubble in 2000. But we saw it particularly pronounced during the QE era where, because money was so cheap, it was okay to invest in what looked to be great ideas. And because money was so cheap, it didn't matter that they weren't making any profits. And that mood is still there. And we very much see it in, here's a great thing, AI, the only people who can make AI chips at Nvidia, brilliant, let's invest in them. But the reality is that other people are going to be in building and making and designing the chips, just like Tesla discovered with electric vehicles. And speculation gets ahead of it. And that's when you suddenly realize the bottom of all these really exciting tech things that you bought has fallen out. But there hasn't been a single bubble that should reset everybody's investment parameters. And I'm not, again, I'm not sure that it's going to come in the same way that we saw in 1929 and 1987, in 2000, in 2008. I suspect when one thing goes down, other things immediately go up because there is still so much money looking to invest in the markets. One of the things you mentioned there was commercial real estate property, yeah, everyone is terrified about the losses that are going to occur in commercial property and how that's going to impact banks, maybe even create another banking crisis. But at the same time, there are lots of funds out there who are watching really carefully for the cheap opportunities to buy. And already we're beginning to see that happen. I'm seeing stuff here in the UK that is beginning to look really really attractive maybe because people have been getting out of these assets quicker.

Erik: Bill, let's just talk about the inflation cycle and where we stand because so many of our guests have given us different perspectives on this. Jim Bianco tells us he thinks inflation has already bottomed and this is just headed higher from here, what's your take?

Bill: Well, I've been saying repeatedly since inflation kicked off, this was not going to be short term. And we would find that it would get very sticky, it would hit a high quickly, it would come down, but then it would become increasingly sticky. And I think that remains my view. Now there is the possibility of a deflationary trend, as well as inflationary trend. Let me try and explain these conflicting things. If we look at global supply chains, because you got to remember that everything is not about demand, it's about supply, it's about what's available for you to buy, not where you want to buy. global supply chains are still in a state of crisis. All you need to do to understand that is, look at the latest announcement from Airbus. I mean, they don't have the massive cost or problems that Boeing has in delivering aircraft in terms of labor relationships, but they are struggling with supply chains. They're also struggling with the shortage of engineers, which means they're pushing up the price of labor, you've also still got across the western economies, workers who are effectively earning less than they were in 2008. So there's a wage spiral kick that’s still to come in. So I think that still broken supply chains, the fact that they're likely to get more complex because of busted geopolitics, the wage inflationary spiral that is still developing are all inflationary aspects of the economy. But at the same time, we're seeing economies like China desperate to explore everything and anything. And one of the things that hid a lot of the underperformance during the QE era was, we had massive deflation exported from China, across the whole of the Western economy. You know, that's quite an important thing that I think a lot of people miss, and some goods may get cheaper, some may get more expensive. However, the key thing I'm watching at the moment with inflation, is agriculture. And this kind of goes to climate change, I mean, it is getting warmer. In some places, it's getting whiter. In the UK, we've lost much of this year's crops already, because we've had one of the wettest springs on record. There is going to be a potato famine later this year, you know, potato famine for a Scotsman or an Irishman that's pretty close to the end of the world. But you're going to see prices of agricultural commodities starting to rise, and that's going to kick in yet another inflationary trend. I don't see inflation going down significantly, but I'm not sure that's going to change the way that central banks are going to operate. I don't think central banks have any real intention of cutting interest rates dramatically. They want to keep them normalized around about the current levels.

Erik: Bill, I want you to imagine meeting a 35 year old discretionary macro fund manager this coming weekend. And she tells you, Bill, I heard you on MacroVoices, I loved your interview, I really think you're onto something with people like me, who are less than 45 years old, have never really experienced what you and I both know is coming on these markets. I want to get up to speed. I know my generation is a little bit out of it. There's got to be some good reading. You've been around a long time. What should I be reading? What book should I read? What do I do to tune myself up to get ready, not as a retail investor but as a professional investor? I really want to be on top of this secular inflation and know how to trade it as a macro fund manager. What do I read? What do I do to upskill myself to get ready for what's coming?

Bill: That's a dead easy answer isn't it, the first thing you..

Erik: Go read something written by you, obviously.

Bill: Obviously, and the thing to read written by, ideally, Morning Porridge Coventry, www.morningporridge.com, the Scottish healthy breakfast for financial professionals. I scribble down my thoughts. They're pretty random. They cover politics, inflation. And one of my key things look to the bond market in the bond markets, there is truth. I would follow that but I'm not even sure there is truth in the bond market. The bond markets have been telling us for months or for years with the inverted curve that we've got recession. I'm not entirely convinced that's going to be occurring in the way that the bond markets are reading it, so that’s the first thing, read the Morning Porridge. Second thing is, I've already mentioned read *The Great Crash 1929*. I don't think it would be a bad idea for anyone to pick up some of the history books, I'm looking at my shelves here, on the crash of 2008 fall of Lehman, there's a lot of good stuff. But I think the main thing to do is just make sure you're informed about what's actually happening. I get up early every morning to write the Porridge. But I make sure I scan through the Financial Times, The Wall Street Journal, I read a lot during the day, I find that makes me think, do I understand? I sometimes surprise myself in my lack of understanding, and then suddenly a light bulb will come in and say, yeah, that kind of makes sense.

Erik: You mentioned the bond market is the place to look that doesn't lie, so to speak. What is the bond market telling you now? And where do you see yields headed from here?

Bill: My main focus in the bond markets at the moment, is really in looking at Europe. And I have this very simple financial theory that I want to sort of share with everybody. I call it Blain's Virtuous Sovereign Trinity. And that's a very simple rule that says, any nation where you have a stable currency, a sustainable bond market, and political competency, will tend to do well. And when people ask, well, how does that work? And I just bring up the case of the UK Prime Minister Liz Truss, that was the lady who lasted slightly less time than the shelf life from the supermarket lettuce when she took over. When Boris Johnson resigned a couple of years ago, and she went into parliament, and she announced her budget for growth, which was full of unfunded tax cuts and spending plans. And everyone says, oh, you can't do that. And the bond market, the UK gilt market, the oldest sovereign bond market on the planet promptly went into freefall, triggering a whole series of crisis. In terms of liability driven investments, these were leveraged trades, which suddenly were out the money, and it was going to create absolute mayhem. Fortunately, the Bank of England and the UK superb Debt Management Office stepped in and saved the day. But the Liz Truss moment, we actually call it something that I'm not allowed to pronounce on the air because it's quite rude, the thruster something or other. That kind of demonstrated that if a nation loses financial credibility through political competency evaporating, everything else goes wrong. Now, the reason I think that's very significant for Europe is, you have to understand that France, Germany, Italy, do not control their own bond markets, their currency is the Euro, which they do not control. And at the moment, you have this situation where President Macron of France has called a snap election, which his party is going to lose, he's going to be replaced, by the far right, or the far right is going to do very well, even in the worst best-case scenario. And it's putting the fear of God into bond investors in Europe, because they can foresee this escalating into a repeat of the 2010 European sovereign debt crisis. Now, the only solution there was for the then ECB President Mario Draghi, to promise to do whatever it took to stop the collapse of Greece, Portugal, Spain, Ireland, and some of the other nations, the peripheral states. And that could very much happen again. So that's the key thing I'm watching and bond markets just know that the potential of serious eruptions in the Euro market.

Now at the same time, that then raises a very interesting question about the UK, we're about to have an election. And after 14 years, we're going to kick the Conservative government out. They've had 14 years to run the economy, but it kind of got pushed off path by Brexit. And since Brexit, the Conservative Party has been, it's been at war with itself, they've had five different prime ministers, none of them have done particularly well. And the nation has completely fed up with the whole thing. So it's likely that Labour will get a very large majority in the House of Commons. And that's great because it will give political stability back to the UK, to be honest, policies differences between Labour and Conservatives are too thin to cut with, isn't even a single molecule knife. But the idea that the UK is going to be having political stability at a time when Europe faces a potential debt meltdown, and of course everyone is watching for what happens in the States. Since November with the election, it could well be that almost by default, the UK becomes a very attractive place for inwards investments. And the gilt market is a safe haven investment.

Erik: Does the US dollar realistically face a risk of loss of reserve currency status? And if so, who's the heir apparent? And what would it mean for other major currencies?

Bill: Now, my stock answer to that question is, of course, no, nothing's going to replace the dollar because everything is transacted in dollars until the moment it isn't. And that moment probably began earlier this week when the Saudis did not renew their dollar pact. And they are now free to go off and transact Saudi oil in whatever currency they wish to do. Now, that has consequences because the agreement was, as long as Saudi transact in dollars, the USA will defend them. I suspect that the USA will continue to defend solely against their key enemy, which is Iran. But Saudi is now free to go off and deal in whatever currency it cares to. With any other nation, which, let's face it, it's going to be China and India. So that begins to change the dollarized economy, how deep that goes, is going to be really interesting. I certainly don't see assets like Bitcoin, which I remain completely unconvinced by ever replacing the dollar. And there isn't really another global currency that has any prospect of competing with the dollar, especially, if I'm right, and we have another wobble in European sovereign bond markets, that will put the Euro out of play as well.

Erik: Bill, let's talk a little bit more about politics and their implications on markets in the United States. We definitely have a situation where I'd say this election is going to be one of the most contentious and heated public debate events of my lifetime. Anyway, I think that Europe in general, in the UK in particular, are also similarly lined up. So, as we look at an increasing focus on populism candidates, both left and right, whether it's Donald Trump or Bernie Sanders or RFK, Jr, these populist candidates that the political elites thought could never participate, suddenly are ruling. What does that mean for society? And what does it mean for markets?

Bill: Yeah, that's an absolutely fantastic question. I mean, I'm constantly criticized by readers in the Morning Porridge for talking a lot about politics. But politics matters. It's politicians that set taxes and politicians that decide on subsidies that are going to create new industries and its politicians that set tariffs that trigger trade wars. So politics is highly significant. But I think, when we look at why politics is becoming so polarized and fractured, again, we have to go back to the era of quantitative easing, because I think that changed the fundamentals of society. And you know, there are times when I may begin to sound a little bit Marxist in the rest of this, because one of the things that quantitative easing created, or increased, is massive inequality across the economies of the West, the capitalist economies. What we saw during the period of QE was very little gains in productivity, wages effectively stagnating for the bulk of the economy. Yeah, a very small number of people who owned financial assets getting increasingly rich, on the back of the way that their businesses and their stock options and their investment portfolios performs. They were the guys who saw that 250% gain in the S&P, whereas most people sitting back find themselves working in businesses that were increasingly under pressure from China exporting deflation by being the cheapest to deliver manufacture of everything, and also found themselves increasingly treated as disposable assets in what became a gig economy for many employees.

As a result, across Europe, and especially in the States, well, let's talk about why Donald Trump has been so successful. When you look at US workers, they find themselves under pressure as a result out of their jobs under pressure, their stagnating income. And Donald Trump comes in and says he cares about them, he's going to right it. That makes it very easy for people to support the MAGA rhetoric. Today, that's become even more important because we just had this big in period inflation. No matter what we say, inflation is a tax on the poor, it matters far more to someone earning 50 quid a year, or $50 a year. If prices double, it matters, someone earning $50,000 a year, simply because the relative cost of that increase is much higher. And so, we have a situation where the poorest in the states are seeing the money they're spending on food going up from 8% of their income to something like 30% of their income, they're seeing their credit card bills rocketing because the interest rate has risen. They're using their credit cards to make daily food purchases, because they're running out of cash, because their mortgages or their rent has gone up, their gas prices went up. You know, everything is against these people, it hits hard. They're the ones who feel they are left out. They're the ones who've been left behind. And I had a fantastic report by one of the US hedge funds, Orchard called the Great Divide, that really went into this in detail and explained exactly why so many people in the US feel left behind.

Now, some of them will support the left. And will say it's time for a complete redistribution of wealth within the economy. But many of them are going to go for that MAGA approach, which is, let's find somebody else to blame, immigrants stealing our jobs, immigrants coming here to steal from us, or China as the great enemy. Now we're seeing much the same thing occurring across Europe as well, where we've had this incredible rise of the hard right, in Eastern Europe, Central Europe, and now in France. And it's likely to happen elsewhere as well. There's definitely been a rise in anti-immigration, news push, I suppose you could call it, and people really latch on to the problems on society can be blamed on immigration. In fact, in the case of the UK, it's a great example, it’s immigration into the UK that is creating most of the wealth that the UK has seen for centuries, not just today. It's people coming in and bringing new ideas and new talents. Yeah, at the moment we are seeing in France, the likelihood that he far right will do very well in this election, largely on the basis of immigration and anti Islamophobia. I mean, it really is quite extraordinary how successful the far-right messages have been. I mean, I fear the far-right, far more in creating instability across markets than I fear the hard left, which in Europe is a very, very small threat. And when I read what's going on in the States, it almost seems it's their demon defied by the Trumpian's, but it doesn't really create the same kind of threat to the global order that we see. Now, one of the really interesting things in the UK election is the right wing party, the Conservatives are going to be absolutely hammered. But an awful lot of their support has gone to the hard right, a new party called Reform, led by Nigel Farage beloved of Donald Trump as he is now, Farage is in the papers saying that it's our fault that Ukraine was invaded by Russia. And that's exactly the kind of rhetoric that people on the hard right and by the hard right argument are beginning to buy into. And that's going to create great polarization within society, to the extent you would almost think that it was manufactured out of Moscow.

Erik: Bill, in the winter of ’22-’23, Europe was put under serious threat because of energy prices. I would say it created an existential risk to a lot of companies and to a lot of individuals and families in Europe. ’23-‘24 was a much easier winter. What's ’24-‘25 going to look like?

Bill: Well, it does look like our winters are getting warmer and wetter, but that may not necessarily always remain the case. The bottom line is that the supply chains are looking much stronger. And Europe would be able to avoid having to crawl back to Russia looking for gas supplies. But one of the things we really don't understand here in Europe is, why President Biden seems to want to switch off gas supplies to Europe. It's one of the key aspects of the Western alliance, such as it is that we've been able to use the availability of US gas to keep our economies online. And that's something I don't really understand. I mean, everyone in Europe is waking up to the reality that if Donald Trump gets in, that is likely to change the current relationship with the US, will have big implications on defense, which is why European nations are now scrambling around and quite rightly scrambling around to defend themselves and spend more money on their defense, and basically getting ready for the protection of the US to become something much less. But at the same time, we need to look, where do we get our energy supplies from? If they’re not going to come from the US, then we need to be talking to the Middle East. And this is where it gets really interesting because the Middle East understands Saudi and the Emirates are no longer there, simply taking US defense, in return for pushing the US line, they are now going their own way. They're beginning to exercise their own form of power through their fossil fuel industries, which are going to remain very, very important for a very long time, no matter how quickly we try and change to renewables. I mean, let's just think that any change to renewables has to involve nuclear power. Here in the UK, it's taking us 30 years to build a nuclear power station. It doesn't take a genius to figure out that we're going to have to go cap in hand at some stage to Saudi to ask for oil.

Erik: Yeah, it seems like we want to spend 30,000 years before we persuade ourselves of what should have been obvious in 1970. With respect to where the most opportune energy opportunities are, what is your expectation about how that's going to play out? Because I think it is entirely about human emotion. It's not about technology, anybody who's got half a brain understands, and has understood that for more than 50 years, we've known that nuclear energy was the right solution. It's just got too much emotion attached to it. How's that going to play out?

Bill: It's fascinating. I mean, personally, I'm a great believer that we should be investing in all kinds of nuclear power. I love the idea of Rolls Royce, effectively redesigning and repurposing submarine nuclear reactors, so they can be installed cheaply and easily across nations to provide power. But that brilliant idea seems to have stalled, it's falling into the black hole of planning in the UK, the idea of replacing I think, at one stage, we had eight nuclear power stations, providing significant amount of the UK is power. Two of these are now past, two of them are still in operation, they're well past their operating dates. And it's going to be a long time before we get the next ones in line. Yet, if you look at what the Chinese are doing, they are building nuclear power stations at the same speed. They were building coal fired stations a few years ago, I think the Chinese understand that the future is about energy. Because, if we go back to our original comments on tech, you look at how much energy you need to power AI, we're going to be struggling here in the UK. We think we're doing very well with wind power, yes, we built lots of wind power out in the oceans and covering our hills. But we don't have the national grid to actually deliver it, where it's needed. And trying to actually rebuild the grid just runs into planning problems the whole time. The Chinese are getting on with building nuclear power stations and making sure the power is available wherever required, across the economy. We just seem to be failing in that regard.

Erik: I think this story is the biggest one of our lifetimes, Bill. I really do. And I think that what's going to happen, unfortunately, is we're not paying attention here. China is not only ,as you say, in the lead on the nuclear renaissance with respect to conventional nuclear technology, but they're also in the lead on advanced nuclear technology. They're doing more with molten salt reactors, they're doing more with thorium, they're doing more with high temperature gas cooled reactors than anybody else is. And the concern that I have is, we're headed toward this situation where China, which has historically always had kind of an advantage that they're pretty darnn good at, you know, making good stuff, cheap, lots of stuff cheap, and exporting it to the rest of the world, they're going to have an energy advantage and energy cost advantage over the rest of the world that nobody's going to be able to compete with. And it's just so obvious. And you know, we see it happening, they're doing all of the best nuclear technology, they got the mostly American technology that they're building, they got the ideas from us, but they're doing it and we're not. I think this sets us up to, eventually an outcome where China displaces and replaces the United States as the strongest economy in the world, just because of its energy advantages. And it will be because China did nothing more than to take American technology that has been understood for 50 years, and actually do something useful with it, as opposed to sitting on it as we've done in the United States.

Bill: I think there's truth in that. I think the Chinese have understood that the global economy is about supply chains and supply chains are about energy. So yeah, they get it. And I think the West has become, you know, trying to get anything done is like swimming in a sea of treacle because the planning processes and all the ancillary stuff that has to go along with building anything nowadays makes it very difficult. But I think there is technology that is going to change. I mean, if you take a look at some of the recent stuff that's been going on in nuclear fusion, and before you jump on me and say, nuclear fusion? We've been promised that tomorrow for the last 50 years. I mean, it does seem to be getting closer, there is stuff going on in the UK and in the US, that would hint that we may only be a decade away from commercialization of fusion energy. If that happens, that will be a real paradigm shift. If it doesn't, then I think you're absolutely right, we start to lose the, you know, if we don't have the energy resources the Chinese have, then that a geopolitical problem. But if we turn to China, I mean, maybe I might align here by suggesting that it's very convenient, because of the polarization in the US to make China the enemy. We talk about tariffs on both sides of the political divide. Trump has made it absolutely clear what he wishes to happen when he gets back, if he gets back into power. China is certainly in a position where it's been painted as the villain. Now, that may or may not be true. Personally, I knew China, while many years ago, when I worked for HSBC, I haven't visited since before the pandemic, but I do not think that China is on the verge of destroying its own economy by destroying its external markets, which would happen if it went to war, I think they will much rather try and dominate the global economy through trade influence. And as you pointed out, being the leading supplier of energy in whatever form it is. For that reason, China is one of the places I'm thinking that we really should be thinking about in terms of investment possibilities. You don't want to be handing them absolutely everything. Because yes, they are competing in those areas. But if you look at the Chinese demographics, we all know that China is getting old before it gets rich. They have an enormous amount of work to do in terms of welfare provision, in terms of health care. At the moment, individuals need to plan that for themselves and for their parents, which remains very important in China. That means there's a massive market for China to buy Western med tech and healthcare innovations. Now, how do you prevent the Chinese simply stealing the IP and copying as well? That's one issue. But there are opportunities for the West to get into the Chinese market, as China adjusts to its new reality, which is an older society are going to have to invest in automation. They're going to have to invest much more in care and I don't think they have the capability nor the desire to risk their current incomes by declaring war on the west, which effectively would happen. That said, I think it's also very clear that it's in China's interest to see the West, in a situation like it is today, destabilized by events in the Middle East and in Ukraine.

Erik: Bill, what would a Taiwan conflict with the United States mean for China? And do you see that coming?

Bill: I don't. I mean, I am warned all the time by people who know these things better than me. I mean, I've got a chum who lectures at Sandhurst, who is very much in the opinion that World War Three has already set started. But I just don't buy it because it would, first of all, I think Ukraine has exposed to the Chinese just how badly prepared the Russian military was, and just how corrupt it turned out to be, you know, the stories of trucks turning up with cardboard wheels. They were unprepared. The Russians were not the steamroller everybody thought. And the Chinese, I think had a long, serious, hard look at themselves and said, how much better are our own armed forces, because they operate effectively on the same basis as the Russians did very much. Top down control, no real allowance for people to make their own decisions on the battlefield. So I think the Chinese are thinking about that, they're thinking about the way their weapons work. Now, they certainly do have the ship killer missiles that if they actually work, would make a conflict extremely costly for the US, in terms of carrier task force and things like that. But if China was to go to war over Taiwan, that would immediately close all Western markets down and close down Europe, that would close down the US. You can see Japan, effectively becoming almost a fortress state, Australia under enormous pressures, well, that would create all kinds of implications economically elsewhere, the rest of the world would pick sides quite quickly. And I think it was interesting to see how nations like in the Middle East and in South Africa, picked sides after Ukraine, would that be enough for China to continue its manufacturing base and export base? I suspect, not. What China wants is for their economy continuing to get rich, because that's important for the iron rice bowl concept, whereby the party gets to rule the country, as long as people are becoming more prosperous. And that won't happen if China decides to close down its markets by invading Taiwan, much better that they play the long game and wait. And the answer to that is, the problem for China is their long game is now a rapidly ageing population, that in a few decades will not have the capability to maintaining effective invasion of places like Taiwan. So it's certainly out there, is a threat. I think it's over exaggerated the markets.

Erik: Bill, I can't thank you enough for a terrific interview. But before I let you go, I want to talk a little bit about Wind Shift Capital, a firm that you have launched since the last time we talked to you, you were with a different firm. What is Wind Shift Capital all about? What are the services on offer? Who does it appeal to? And how can people find out more about it?

Bill: I've spent nearly 40 years in the financial markets, I started off in the bond markets. And then in 2008, I left HSBC with the intention of setting up a hedge fund to invest in credit markets. As we all know, the market went horribly, horribly wrong in 2007, 2008. And I found myself becoming a broker, which was great fun. We did very, very well, buying back and selling financial institutions, stocks and shares and bonds. And then we saw the rise of the private capital markets, private equity, and particularly private credit. And I've really spent the last 15 years in the private credit markets, as well as private equity. And what I decided to do last year when my then employer Shard Capital was becoming far more focused on investment management, was to go and do my own thing and I thought about it, spoke to a number of my clients. And what I do is I advise my clients on how to access private capital markets. Now my clients will be things like credit funds or family offices or private equity, venture capital managers in areas like med tech and prop tech, biotech, property, shipping aircraft. And rather than trying to cover absolutely everything, I just work alongside my clients, and if anyone wants to learn more about it, visit the website and we'll tell you everything.

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